ZARIS Security

A case study described by its CEO.

This case was prepared by Dr Diana Woodburn as a basis for discussion.

"Zaris is a well-established company supplying security solutions to all kinds of companies through three UK-based SBUs (strategic business units). We have an excellent reputation and business is good at the moment, but our traditional UK markets are largely mature, and are under threat from competitors from other countries and/or with new developments in technology.

We have offices in the biggest countries in Europe, and a few distributors in some of the others, but about two-thirds of our sales are still in the UK. I believe we need to develop more in Europe, and faster than we have done to date. We can invest to develop the business, but the shareholders still want their profits, so we are looking for evolution rather than a high-risk revolution."

The Company

Zaris Security Systems

This is the historical core of our business, where we started in 1890. We are very well known as a provider of security systems: indeed, some of our customers still don't seem to realise that we do anything else. Quality was a common issue in the past, but I can't honestly say it is now, among the top ten European companies at least. As a result, prices have been falling for the last few years, and although we have managed to keep our margins up, I am sure they are higher than the industry average and I doubt that we can keep them there.

Zaris Technology

Our original products involve low/medium engineering skills, not hi-tech by any means. However, about five years ago we saw that there were some exciting and innovative ideas based on IT rather than engineering, that would eventually compete with our traditional business, so we set up our SecureTech SBU. It's a different culture from the rest of the business: different people, different skills. They've had some great successes, and made some mistakes as well, but we are on the way to solving the early problems. It still seems rather separate from the rest of the business, though the customers are potentially the same.

Zaris Security Services

This SBU grew from our original business. Initially, we just supplied security systems, but often our customers couldn't provide even the few security staff still required on-site, so we supplied the people as well, as a service. It has become good business for us. We offer properly trained staff, but competition ranges from individuals who are just nightwatchmen to small agencies and national companies. The number and nature of competitors makes for intense pressure on prices, and margins are poor.

We have held a leading position in our UK markets for quite a long time, but we don't have anything like the same strength in Europe. Even our UK position is under threat unless we move forward quite rapidly now. The market is changing: our biggest customers are European operators themselves, and competitors are aggressively expanding their reach into our UK market.

Our strategy is to leverage the combined strength of our size, reputation and competence in the UK security market to develop our business in Europe. We see most of our competitors as more limited than us in their range of activity, though not necessarily in their geographical coverage: two or three are cover more of Europe than we do. We also see that the way to drive the development of our strategy is through our most important customers, who account for a major share of current sales. We suspect expansion into Europe will stretch our resources to the limit, so we need to move carefully, but with speed.

About 60% of our current business, in total, goes through 25 customers, including distributors. Our top five customers account for about 22% of total revenue overall. Sales volume and gross margin vary widely across these five, and we suspect the net contribution to profits does too. However, as we allocate overheads in proportion to revenue, that is, at 30% of sales, we don't really know which of them is actually our best customer.

Zaris Sales & Margin, Top 5 Customers

	SecureTech		Security Systems		Security Services		Total	
	Sales £m	GM%	Sales £m	GM%	Sales £m	GM%	Sales £m	GM%
SBU Total	85	59%	150	45%	100	25%	335	43%
Asterbridge	3	54%	4	41%	3	20%	10	39%
Burlington	0		10	51%	0		10	51%
Costsafe	7	45%	16	37%	0		23	39%
Dostralis	6	75%	6	57%	3	35%	15	60%
European	5	65%	8	47%	4	25%	17	47%
Top 5 total	21	60%	44	45%	10	27%	75	47%

Customer profiles

Asterbridge Water

We have an excellent relationship with Asterbridge Water, going back over 15 years. Most of our senior managers have worked on the account at some stage during their career, so everyone knows their people, and the way they work, and vice versa. We have used them as a reference, and they recommend us to anyone they come across.

They are a medium-sized UK water company, one of those who have been content to do the best job possible in managing their own area rather than looking outside for growth. But as they've taken a rather unimaginative, traditional approach, they are falling behind other water and multi-utility companies.

So Asterbridge has a couple of ambitious utility companies looking at them, and they could be absorbed by them. They are trying to tighten up their act financially to defend themselves against a take-over, but we really don't know at the moment if they will be successful or not. We have some relationship with one of the two likely take-over candidates, the French company, but none at all with the other.

There have been ups and downs with Asterbridge over the years, of course, but they've been successfully resolved one way or another. Their business with us is very stable, but not growing, because we already have a major share of what they spend on our product groups. However, our margins are very low, averaging 39%, because we have allowed various discounts over the years which we haven't been able to recover. In truth, if we costed all the interaction time as well, we probably don't make a profit at all, so we are reluctant to cut prices any further.

Burlington International

We have just won a hard-fought battle against the competition for the Burlington International business. This company is in a new market segment for us, private healthcare (diagnostic and day-surgery centres), and we suspect we will have a good deal of learning to do to manage it successfully. They are part of a fairly new but fast-expanding European group of companies. Once established, we think that they will expand into other kinds of healthcare services, although they haven't told us that directly.

They have already set up about 100 centres, and we believe that the plan is to add to those over the next three years to a total of 300. Whether they will achieve that rate of expansion is not clear. Not surprisingly, they have got some start-up problems, and the centres in this country aren't operating at forecast capacity yet. However, this could be an important segment in the future. We all know the NHS is overloaded, but what isn't clear is how the government plans to deal with the overload. The private sector could play a far more important role, as it already does in some of the other countries in which they operate.

We were in negotiations with Burlington for nearly a year, so we already know a lot about each other. They take a very forward-looking approach to the business and although they are new to us, we are very impressed by them. They work to a five-year plan, unlike most of our customers, and they seem to have the backing to develop their plans. Burlington has a refreshing approach to suppliers. They are certainly not a push-over, but they are prepared to listen to ideas from us if they fit in with their objectives.

They wanted to work very closely with us, as they had a number of specific demands for personnel tracking, integrated warehousing and handling systems etc, beyond normal security systems. Of course, fulfilling these requirements is going to cost us money, especially where they are operating outside the countries where we have established distribution, not to mention all the staff time leading up to the deal and afterwards. The margin looks good at 51%, but that doesn't really reflect the costs of doing business with Burlington. However, the segment can potentially grow very fast, the prospects look excellent, and we have identified it as the right strategic direction for us.

Costsafe Group

Costsafe Group is effectively a huge distributor, and very price-focused. As a pure buying organisation, they aim to get the lowest price for a schedule of products, and they pick out the best prices from each of the bids they get in, never the whole package from one suplier. They know what they want – no hassle and no surprises - and they have a clear idea of how much they expect to pay for it.

As a distributor, Costsafe is one step or more away from the actual user of our products, so it is impossible to talk to them about quality in terms of technology, and certainly not in terms of customer benefits like staff welfare. They don't understand and they aren't interested. They did not want any of our hi-tech, higher-value products originally, and although we have introduced higher-value products since we won the business in the first place, they are not as interested as they should be.

Because they are not the final buyer, we don't always get the volume they promise. We took the decision that the low margins we get were acceptable when based on a large volume, but we now know that we will only achieve around 60% of their forecast volumes, normally, although that is still more than any other supplier. Although we don't make as much out of it as we should, it is still quite a lot of regular business, and we could argue that the volume is important in lowering overall costs.

It is, in its way, a well-managed business now, and almost runs itself, apart from the annual price negotiation. Costsafe's catalogue has become the standard reference for sourcing for a substantial part of the market, so we wouldn't like not to have our products in it. In addition, Costsafe is now involving itself in European markets.

Dostralis Hi-Tech Services

Dostralis is a big IT services company. They have a strong CEO with a clear strategic vision about the kind of service they want to offer, and he seems to be able to get what he needs to deliver it. Staff are all very well aligned, so they do appear to be a lot more effective than some of our other customers. They are very well-organised too, and we don't get any of the panics with them that we do with other customers. They tell us what they want, well in advance, so the business runs very smoothly. It allows us to buy in the materials at the best prices, and we can use cheaper labour as well.

Because Dostralis has a top-quality focus itself, they almost always take on ideas we suggest that look like quality improvements, even if it raises the price. For example, they subscribe to a technical support service for our equipment, for which they pay separately. Things like that have been useful learning opportunities for us, as we've been able to trial ideas with them and then offer them to the rest of the market.

With other customers, we have often had to offer extra services like that free of charge to win new business, or even to keep the contracts we already had against competition, so we haven't had a great deal of success at getting other customers to pay for it. At least with Dostralis's contributions, we don't actually lose money on the service. In fact, the business with Dostralis, including margins, is very healthy. We probably make more money out of them than any of our

other customers. They even pay promptly, in half the time we have had to concede to other major customers.

European Hotels

We do a good deal of business with European Hotels, but perhaps not as much as we should. We have had the account for about 6 years, when it was just UK Home Country, but since then they have bought Alsace & Bavaria, and expanded into the EU. Since then their turnover as a company has grown from £1bn to about £3bn. They used to have more hotels of their own, but they sold quite a few of them when they bought Alsace & Bavaria, maybe because they needed the capital to expand into Europe. Whether they are going to start buying again, or go the franchising route, and how much of their future business will be in Europe, we really don't know.

There don't seem to be any problems with the account, but we haven't really grown the business with them that much. It has fluctuated quite a lot over that time, so it is hard to tell whether the trend is up or down. Our Key Account Manager has had meetings with their British and French divisions, but it hasn't come to anything. They move people around a lot, so we always seem to be starting again with someone new. We are trying to get a meeting between their CEO and me, but we haven't had much luck so far. Obviously, the guy travels around a lot, and he seems to be rather tied up whenever he is in this country."

Discussions

Note: Make use of your own experience. You can make assumptions, but clarify what they are, and how you are applying them. Where you feel that you need more information, identify what you need to know and suggest how you might gain it.

The CEO has stated: "We see that the way to drive the development of our strategy is through our most important customers, who account for a major share of current sales. We suspect expansion into Europe will stretch our resources to the limit, so we need to move carefully, but with speed." But how? With whom? How would you advise the CEO on the following issues?

1. **Customer profitability**
   Look at the profitability of Zaris's five key customers and comment on the implications of your measurements and your findings.

2. **Selection/categorisation**
   Position the top five accounts in the key account strategy matrix according to their potential for growth in Zaris's profits over the next three years and according to your view of Zaris's relative business strength with each account.

3. **Objectives and strategies**
   Having categorised these five accounts in a matrix, make some outline suggestions to the CEO about objectives and strategies for each, taking account of likely risks and returns.

4. **Allocation of Key Account Managers**
   Make some suggestions about the profiles of the kind of people you would recruit to manage each of the five accounts.

5. **Organisation and organisational issues**
   Each of Zaris's SBUs currently has its own salesforce. How would you, as the CEO, set up an effective KAM organisation for Zaris? What issues might you encounter and how could you deal with them? How could you manage the rest of the customer base effectively?