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Big spaceship:

Ready to go big?

MBA 625 – Strategy in Action

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# Synopsis

Big Space Ship (“**BSS**”) is a small boutique firm with proven success in digital advertising for high profile brands and movies. The firm’s success has been generated by its focus on understanding customer’s needs rather than wants, and quickly adapting to the fast evolving digital space. With the eventual commoditization of the digital advertising space, BSS is questioning how it can grow in order to be better positioned to compete against established larger add agencies in the near future, while maintaining its culture, processes and flexibility which currently provides them with significant competitive advantage.

# Analysis

## Market Trends

The invention of digital media significantly transformed the relationship between consumers and their brands. Historically, companies had limited ways to communicate brand messages with their existing and potential customers; there were only a few major broadcasters, newspaper and billboards, and every brand competed for the same space. With digital media, the scarcity of contact opportunities has been lifted leaving endless possibilities; anyone can publish anything anywhere at any time. Brands no longer just compete with other brands for space in traditional media; they are now also competing against people’s lives for attention. This shifts marketing focus towards not only crafting a compelling brand message, but also to find innovative ways to engage customers.

The messages being conveyed also changed; with the ease of creation of videos with smartphones and publication via YouTube or Facebook, their popularity have significantly increased. Videos are a much more powerful communication media to convey ideas and emotions than static print.

This shift in paradigm happened (and is still happening) so rapidly those large corporations have yet to adapt to the new digital age. This left market gap, currently being filled by smaller but extremely agile companies such as BSS, which can rapidly assimilate new digital trends and leverage all available media to reach customers and convey brand messages that trigger conversations.

## Competitive Landscape

Advertising landscape is dominated by large agencies on Madison Avenue. Those agencies have clear division of roles and operate via well-defined waterfall processes. Large agencies have many capabilities spanning from strategy to production, and will typically try to collect all advertising dollars (“Big Money”) from their clients.

The digital advertising space, because of how recent it is and lack of clearly defined work product and processes is dominated by much smaller companies. There has been some level of consolidation, but because creative firms tend to be more effective at quickly reacting to rapidly evolving environment when they are small, consolidation has been happening in the form of holding companies. Such holding companies will tend to grow via acquisition and manage a portfolio of 10 to 100 smaller firms operating in niche markets. The major holding companies are: Interpublic, Omnicom, Publicis Group, WPP.

Digital advertising is still not yet a properly defined industry. It will eventually reach standardization and when this happens, larger firms will most likely figure out how to be competitive in the digital space. BSS needs to properly position itself to maintain its leadership.

## Business Model

### Structure

Originally people were grouped by functions: Strategists, Producers, Designers and Engineers. Teams were formed ad-hoc based on incoming projects. This was a great model to ensure maximizing use of resource and ease of scale, but such a model was not scalable. It also generates communication breakdowns and a lack of management visibility into resources availability. It could also lead to territorialism if many projects in various stages were ongoing at one point in time.

The structure was recently changed to create inter-disciplinary teams who stay together and sat in the same area. Encouraging teams to create an identity helped reinforce work satisfaction by creating a sense of pride and belonging to local community for employees.

Some of the drawbacks of such a structure are potential inefficient use of resources, a more rigid structure, and less cross-learning.

With 10M$ in revenues, BSS still falls into small business as compared to large Madison Avenue firms. Although in stable financial situation, should BSS require capital to finance growth, it could do so in 3 manners:

* Secure financing from investors, either investors or seek out acquisition from a PE
* IPO, but this approach would be more suited for businesses with clearly defined products and processes in order to be able to meet shareholder’s need for predictability of earnings
* Sell out to holding company: This seems to be the standard model for companies such as BSS; they have already spoken to WPP, Omnicom and Interpublic Group. The problem with Holding companies is the focus on maintaining targets at the potential expense of culture
* BSS grow organically, which would require a lot more time than an acquisition scenario

### People

The company is composed of a small senior leadership team and 45-50 staff, with no layer of middle management in between, leaving workers as front line staff interacting with clients. This ensures that executives get a non-distorted vision of the business and staff fell like they are not overburdened by a heavy administrative hierarchy.

Because of its business model, the greatest asset of the company is its human capital. Therefore, there is a big focus on finding and nurturing talent, and BSS refrains from outsourcing work to freelancers. With smaller margins resulting for extreme customer focus, BSS is not able to offer competitive salaries, therefore can sometimes have difficulties recruiting.

BSS prides itself in hiring high quality/high performance individuals and providing them with an environment that generates satisfaction from work. Since the company can’t afford competitive salaries, tremendous focus is put towards ensuring that staff feels empowered and comfortable so that people are motivated to work hard simply because they love the challenges they are faced with. Everyone is constantly challenged to excel and driven to success, where success is measured by quality of the final product and customer engagements to the brands they represent.

Such a focus on staff is further reinforced by one of the key drivers why Lebowitz is seeking growth: “create a ladder of opportunity for talented employees without chance of advancement might want to eventually quit”.

### Processes

The traditional approach to work process is cascading / waterfall, where projects are worked into stages then moved onto next stages:

1. Strategy/Design: defines project scope
2. Project Management/Production: scope the work and make it actionable
3. Creative: Design art and visuals
4. Engineering: link / animate elements of design

|  |  |
| --- | --- |
| Benefits | Drawbacks |
| Simple and easy to understand the state of various projects, which can be beneficial for senior executives tracking a large project portfolio | Working prototype which can be shared with client only appears late into the project. By that time, alterations can be extremely problematic |
| Easy to manage since every phase has clearly defined deliverables and review process | It can take time to discover errors and correct them, therefore every change request have the potential to generate lots of re-work |
| More predictable start/scope/end of a project, therefore facilitation to estimate internal costs and quote clients |  |

Rather than using traditional cascading work process, BSS operates using a “Flex approach”, with no clear upfront requirements similar to agile software development. In this approach:

* All team members are involved at all stages of the project and interact directly with the client to ensure clear understanding of requirements
* Prototypes are quickly build and undergo many iterations until they finally meet client satisfaction

|  |  |
| --- | --- |
| Benefits | Drawbacks |
| Direct client contact can generate a sense of empowerment in employees | Impossible to accurately define project scope, timeline and budget upfront (therefore difficult to participate in RFPs or create pitches and proposals |
| Rapid iterations minimizes ‘throw away’ work whenever changes are required | Staff need to be committed throughout the duration of the project, resources are not interchangeable |
| Close contact with the client ensures actual “*needs*” are met rather than “*wants*” | Outsourcing to freelancers is not feasible |

### Strategy

BSS has the advantage of benefiting from the reach of their clients. The very nature of their business is to create conversations about their work. As such, instead on investing in advertising, BSS focuses on ensuring to always produce original high quality work which is showcase worthy. This created alignment with clients, who benefit from a successful campaign while BSS benefits from having people seeing and talking about their creative work product. As such, most of BSS business comes from word of mouth.

Unlike traditional advertising firms that try to collect all add budget from a client, BSS invests significant effort in remaining focused and only takes on mandates aligned with its core values. Clearly communicating their nonstandard approach to prospect business provides a first sense as to whether a potential client will be open to let BSS drive strategy as opposed to simply being an order taker. A side effect is efforts required to evaluate potential new work; 80% of which is turned down.

BSS executes 2 types of engagements (50%/50%): direct client engagement where it collaborates directly with the brands, and work in collaboration with agencies, where BSS executes digital strategy and production for a much broader as campaign. This model has caused some issues in the past.

The company also shuns projects that involve competitive bidding and preparation to elaborate proposals. The problem with the bidding process is that bidding process involves a specific ask and a detailed answer, which does not fit the iterative creative process where BSS excels.

BSS stands somewhere between a productions company (less strategy driven) and add agency, with the ability to compete in both spaces by having the agility of a small boutique firm, but the ability to generate the creative output of large agency. Its core competencies are its ability to constantly innovate in order to generate creative solutions for its clients. BSS is positioned as a solution provider, not an order taker, and is not afraid to drop work that does not fit the nature of how it operates.

The complex nature of creative work requires tight control over strategy and execution, therefore, in the absence of stringent processes like larger firms, BSS remains focused on nurturing internal talent and does not seek to outsource execution to external 3rd parties in order to scale.

### Incentives

The biggest incentives offered by BSS are delivered in the form of employment satisfaction rather than financial compensation. Employees get the change to do front line work, interacting directly with clients and pushing their creativity to the extreme. This, in a fun and friendly atmosphere generates a strong sense of satisfaction for creative minds, and serves as primary compensation.

# Problem Statement

## Motivations

Management should question what the real driver for seeking growth is. On one end, there is expression of a motivation to grow, but there is clear indication from the firm leaders that they rather see “growth as a side effect, not a goal” and large size as a definite inhibitor of the creative process. If BSS “do not measure success by how many people we are”, why would they have a target of reaching staff headcount of 75 people? The first problem will be to better define why BSS wishes to grow since there are no external pressures from investor to generate better returns, and smaller size currently provides them a competitive advantage. If that can be defined, it will also be important to determine how the success of a growth strategy would be measured.

Most likely, growth is required since eventually digital advertising will become more clearly defined, and when that happens, larger established firms will be able to start effectively competing in that space. Once this happens, BSS will need to be in a strong position in order to be able to remain competitive.

## Central issue

How to generate growth in order to be better positioned to survive the maturing of the digital advertising market, while preserving the dynamics required to maintain core competency in innovation, client focus and flexibility. BSS needs to find a way to get to the next level, without jeopardizing the foundation of its success which is its culture and people.

# Alternatives

*(Pros and cons in Exhibit 1)*

## 1. Become Less Selective & Take on More Business

With 80% of business being turned away, BSS does potentially “leave some money on the table” and has the potential to tap into some easy growth. This alternative involve being less selective with client acquisitions and taking on more work that come its way. *(Pros and cons in Exhibit 1)*

## 2. Position Itself to Tackle Larger Contracts

Start going after broader and larger contracts & repeat/retainer business. This Strategy would require significant organizational shifts and rapid expansion in order to be able to fulfill larger and broader client needs. Competing aggressively to win contracts and RFPs would require BSS to invest up-front in preparing bids and proposals, which would lock up working capital and lengthen the lead to cash cycle. *(Pros and cons in Exhibit 1)*

## 3. Spin off BSS and Become a Holding Company

For BSS, continue to focus on small incremental growth in order to preserve culture and flexibility. The existing BSS entity could be spun off under a new umbrella holding company which could be used as a vehicle for growth. This new holdco could then create/acquire other smaller companies not unlike BSS in order to build a full portfolio of services to its clients and/or increase ability to fulfill existing digital media creative demand. This type of growth allows preserving many small dynamic operating companies’ cultures. *(Pros and cons in Exhibit 1)*

# Recommendation

Since the digital advertising market is not yet defined, there is no rush for BSS to grow enough to position itself against larger ads companies; it is already succeeding in this task. Also, the nature of creative work in the digital space requires tight and flexible interaction, wherefore is not suited for larger corporations with well-defined processes and division/specialization of labor. As such, recommendation is to peruse a slower growth trajectory in order to ensure maintaining BSS’s precious culture. The recommended approach to do so is to spin off BSS and build a new Holding company. This new corporate entity can be used to host multiple other companies which will be able to execute various levels of client work. BSS will continue to server as flagship/branding firm, but instead of refusing work, it will now be able to pass on leads to sister companies such that revenues are not foregone. BSS will maintain its focus on excellence and serve as generating flagship work to generate new business for the group.

# Implementation

## Short term

### Corporate Structure

BSS will be spun off into an independent digital creative agency and a new Holding co will be created. The portfolio of services of this new entity will be built via acquisition of small boutique firms like BSS.

### BSS Internal Structure & Processes

Within BSS, although teams are fixed, a new internal internship program will be created such that ‘idle’ team members can go learn and share by working with another team for a limited period of time, while remaining attached to their original team. Since the creative process is fairly similar to software development in the sense that customer requirements are difficult to capture without a long iterative discovery process, BSS should also try to implement scrum meetings and other aspects of agile software development methodology, which has solved this issue in the software development space when companies needed to scale while preserving flexibility.

Also, since one of the largest bottlenecks to growth is finding the right talent rather than generating new business, BSS should really focus its resources in client facing project. As such, development of the new IT system to track project and resources should be should be halted, and BSS should investigate COTS solutions to implement this functionality. Should BSS not be able to find an adequate solution in the market, then work should resume but using outsourced development; scares creative resources will be much better leveraged if they focus on client facing creative work.

### People & Incentives

BSS will continue to target staff motivated by passion and a fun work environment. New incentive program will be created inspired from gamming concepts, where teams will start collecting badges for achievements. Badges will be provided for various reasons such as completion of a project, media praise (like reach 1M tweets or mention in front page news), whenever a team member completes an internship on another team, or when internal lead generates a cross sale to another entity as part of the holding co. The barges will be displayed on the wall next to the team banner to generate friendly competition.

### Finance

Seek out investors in order to finance potential acquisitions from the nee holding co. With 10M$ existing revenues and 80% of business being turned down, the holding co can anticipate a potential ~40M$ in revenues if it were able to capture all business coming its way. Furthermore, since a lot of this turned down work is more ask/build, it should potentially generate higher margins. Assuming a required IRR of 10% for investors and 20% margins in the new entity, BSS could secure roughly 80M$ in capital to finance its acquisitions.

### Client Acquisitions

As far as BSS goes, the company will continue to remain extremely (if not even more) selective of business. BSS will continue to generate excellent work as flagship products, which can be used to generate incoming leads. The goal is to create a symbiosis where clients would be shared across the operating agencies. Initially, all the turned down business of BSS should suffice to kick start a few other small operating companies.

## Near term

### Corporate Structure

With adequate cash on its balance sheet, the holding company will now be able to start making acquisitions of small boutique firms to be added to its portfolio. Initially, focus will be made to acquire services that BSS typically uses from within its floater team such as copywriting, 3D imaging, sound engineering and QA, as well as commoditized services such as production.

### BSS Internal Structure & Processes

As the quantity of work scales up, three new teams can be formed up to BSS reaching a size of roughly 75 people. Scrum masters can also be hired instead of middle managers, whose roles will be more of coordination than authority over various teams.

The new IT resource and project tracking software will also be deployed.

### People & Incentives

As the number of child companies increases, and projects start happening across companies, there will be opportunities for staff to grow beyond the limits of BSS and contribute in much larger and more complex projects.

### Finance

Start making acquisition of new companies from the holding co and sending leads across business such that less business gets turned down.

### Client acquisitions

As the holding co grows, BSS should slowly look away from relying on partnerships with traditional advertising firms, and instead start collaborative work with other business form within the holding co.’s eco system. The idea is to reduce dependencies on these other agencies since the new holding company will soon be full on competing with them.

## Long Term

### Corporate Structure

With now a firm portfolio of commoditized services, the holding co can now seek to acquire more niche players in order to extend its services offering.

### BSS Internal Structure & Processes

Creation of virtual groups spanning across companies where all staff within a trade (designers, engineers, creative, etc.) will belong to a virtual social circle. Activities such as game nights will be organized, putting one trade against the other in friendly competition, where the winning trade will take home a ‘badge’.

BSS’s floater team will be dissolved and the functions originally fulfilled by this team will now be fulfilled by sister companies. In order to maintain proximity, the system company will physically ‘lend’ the resources to BSS, and a chargeback mechanism will be put in place.

### People & Incentives

The cross team internship program will be expanded across business to allow sharing of ideas.

Potential to move up in corporate, or become a super specialized

### Finance

With many other operating companies now generating income, develop sophisticated transfer pricing methods to encourage collaboration between various businesses of the holding company, while maintaining a focus on being competitive.

### Client Acquisition

With a broad portfolio of services, the holding company will now be able to start bidding on RFPs. This will require a new dedicated team to fill the RFPs which can be created form various resources form all operating companies.

## Measuring success

Success of the strategy will be measured via implementation of a new balance scorecard. Details of the scorecard can be found in Exhibit 2.

# Exhibit 1: Pros and Cons of Alternatives

## Alternative 1: Become Less Selective & Take on More Business

|  |  |
| --- | --- |
| Pros | Cons |
| Increased margins since less upfront work on discovery/requirements gathering | Generating commoditized work will dilute BSS’s capability to auto-generate business and will drive requirement to invest in client acquisition |
| Less resources invested in analyzing potential business proposals | Fast scaling could exhaust pool of available potential staff, requiring to increase compensation which would have a negative impact on margins |
|  | Taking on less creative work could de-motivate certain staff member who are driven by challenge |

## Alternative 2: Position Itself to Tackle Larger Contracts

|  |  |
| --- | --- |
| Pros | Cons |
| Large earning potentials | Awaking a giant: With 50% of existing business coming from add agencies, shifting to direct competition with such agencies would jeopardize a significant portion of revenue streams |
| Position BSS to compete and establish itself against established add agencies | Requires significant short term increase in resources, which would create a risk to dilute the culture |
|  | Large size tends to inhibit creativity, BSS might eventually become a large add agency and start relying on smaller boutique creative firms like it currently is |
|  | Would require significant shift in operating process; most likely towards a more waterfall process |
|  | Becoming a larger add agency would alienate staff that joined and remained loyal to BSS because they disliked corporate culture |
|  | Requires lots of capital in order to be able to finance upfront work require to prepare RFPs responses |

## Alternative 3: Spin off BSS and Become a Holding Company

|  |  |
| --- | --- |
| Pros | Cons |
| Allows BSS to maintain smaller size which is currently essential for flexibility | Will require capital to acquire other boutique firms |
| Allows to expand service portfolio without impacting current services | Does not leverage BSS’s core competencies directly |
| Preserves BSS culture |  |

# Exhibit 2: Balance Score Card

|  |  |  |  |
| --- | --- | --- | --- |
| **Objective** | **Metric** | **Target** | **Action Plan** |
| Financial Perspective | | | |
| Increase market share | Market share | Become top 10 | Cross selling, increase offering of services |
| Increase market capitalization | Market capitalization | 5x then 10%/yr | Original round of financing then organic growth |
| Increase share of customer wallet | Revenue from customer / total customer add spend | 10% | Stop refusing business / cross selling |
| **Objective** | **Metric** | **Target** | **Action Plan** |
| Customer Perspective | | | |
| Increase services offering | Quantity of services offered | +2/yr | Holding company to acquire operating companies with complementary services |
| Increase brand image | Number of incoming work requests / week | 50 | Maintain BSS focus on excellence and originality |
| Increase quality of work | # social media references of campaigns | 1M | Focus on excellence |
| **Objective** | **Metric** | **Target** | **Action Plan** |
| Internal Perspective | | | |
| Minimize management overhead | # management FTE/manager | 20:1 | Continue harbor a culture of employee empowerment |
| Increase cross-selling | # external work requests / # internal leads | 0.20903 | Encourage collaboration across operating companies |
| Increase adoption of new IT system | # projects managed by new system / Total projects | 90% | Educate staff on proper usage and resort to industry standards |
| **Objective** | **Metric** | **Target** | **Action Plan** |
| Learning & Growth | | | |
| Improve cross team training | # staff cross team internships / total number of teams | 1:01 | Motivate staff with badge system and leverage their passion to learn and contribute |
| Employee satisfaction | Ranking in Forbes America's Best Employers | Top 10% | Continue to harbor a fun work culture |
| Staff retention | Staff turnover ratio | Max 5% | Continue to harbor a fun work culture |