

Case Study: Web Informatica, El Salvador

In the early days of the internet in El Salvador, Web Informatica was founded in 1997 to provide web design services. While the company's initial customers were small and medium-sized businesses, the company shifted focus to large corporate early on after it won its first big web design contract in 1999 with Banco Agricola, one of the largest banks in the country. Thus, the company evolved to one that offers complete web design capabilities including payment systems, secure websites for e-commerce, and programs that provide secure information for banks.

Business Challenge

The company operates in a market with low barriers to entry and faces increasing pricing pressure from new start-ups in the region, global providers and offshored solutions. This has driven lower rates of revenue growth for the company. Without taking the next step in the evolution of the business, the company will no longer be able to maintain profitability.

Analysis of Alternatives

Develop proprietary and innovative products – The company has strong corporate client relationships that could enable it to innovate and create new products uniquely suited to these clients that are unavailable in the commoditized marketplace. The company has had success delivering this in the past by building the first online payment system for a popular local credit card. The next product in this vein could be an electronic marketing program called TangoMail. Funding new product development, however, may require additional funding beyond the cash flow generated by the business. In a time of low revenue growth, this may lead to a financial burden the company can not afford. In addition, by relying on specific customers to drive product innovation, there is a risk that these new products and solutions will not scale to a wider customer base.

Develop new customer segments in the SME market - The company has historically been dependent a few large customers including financial services firms and has not focused as much on small and medium sized businesses. As the firm reaches a saturation point for large, corporate customers in El Salvador, however, a change in strategy may be necessary. Since the company's founding, the number of SMEs seeking web design services has grown, driven by increasing internet penetration in the country. These customers, however, are the ones most likely to make their purchasing decision based on price and thus will be less profitable to Web Informatica.

Combine product and service offering into an end-to-end solution – Should it pursue a more full-service model, the company could risk losing customers who are only interested in a basic web design service. In addition, while the company does have significant in-house expertise, additional knowledge and focus will be required to deliver on client expectations for an end-to-end solution.

Target the SME market – In order to win SME customers who make buying decisions largely on price, the company could outsource some of the work it presently performs for clients through an auto self-service web page option where initial programming is completed using open source technology by the client. This has the advantage of lowering the overall price to the client and would thus allow the company to have a stronger offering vis a vis the competition for SMEs in El Salvador. In return for a lower price, however, the client would have to do additional work and client's may not have the technical knowledge to perform this work. In addition, Web Informatica could potentially lose some of the valuable client-facing time that has enabled it to succeed to date.

Action Taken

The company has chosen a two pronged strategy for its two customer segments to better position the company for the future. First, the company will focus on building a stronger relationship with its largest and most successful corporate clients and position itself as the vendor of choice for online strategy and implementation for these firms and use these relationships to drive product innovation. In order to position themselves as a full service provider of consulting services related to e-commerce strategy and implementation options, the company is transitioning all of their future developments to open source technology that will allow their clients to better manage their own systems and integrate these systems with other in-house platforms at a lower cost.

Second, it will introduce product and pricing initiatives that will allow it present a more compelling value proposition to the SME market. By offering customers the opportunity to pay-by-the-hour for technical service, upgrades and/or help desk it hopes to develop a pricing model that will be competitive with more commoditized offerings, but with a stronger local offering.

Results

To date, the company has been successful in holding price for its largest customers and has shown early stages of product innovation success. Through subscription based pricing for these customers, the company has a more stable revenue base that while slowing, is still producing positive growth. For the corporate market, the existing web design business has become a loss-leader and provides an entry point for clients, from which the company hopes to sell through more value added services. The company, however, is still at a critical juncture in its ability to produce new products to drive top-line growth. The company has begun to see traction in its email marketing product and anticipates doubling the revenues from this product in the next year. This new product development and shift in company strategy, however, has come with a cost. The company now has a fixed rate, 20 year debt obligation that will need to be repaid.

In the SME market, the company continues to face significant competition in a highly commoditized market. With pay per hour pricing, however, the company has a product with which to compete in this market. While offering all the basic functionality of its competition, Web Informatica is also able to allow some customization in scalable way by allowing the customer to modify its own site.

As a result of these strategies, the company expects to grow its top-line revenue by 2-5% in the next several years, despite increasing competition. The company's future will depend on its ability to sell new products while maintaining its existing customer base.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.¹ Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by Web Informatica.

Web Informatica and the COW-F Framework:

Stakeholder Community	Current Value Offering
Customers	The company understands its customers well and works with these clients to ensure they are ahead of the technology curve.
Owners	The three owners are focused on building a business that will survive them. There has already been a successful transition as one of the founders has left day-to-day responsibilities of the business while retaining a small stake after selling most of his shares to his replacement.
Workers	The company has successfully attracted young and energetic, trustworthy employees who have a desire to work hard and learn the technical aspects of the business. Its unique internship program has been instrumental to this success.
Future Generations	Future Generations: In addition to offering reduced fees to non-profit organizations, the CEO regularly participates in entrepreneurial networks and gives talks at universities and industry associations about web design and entrepreneurship.

¹ The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.