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ZARR TECH: NEXT STEPS FOR A GROWING BUSINESS

Martin Eidenberg wrote this case under the supervision of Julie Gosse solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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As Matthew Zarrillo, founder and president of Zarr Tech Canada Inc. (Zarr Tech), stared onto the parking lot from his cozy rented office space on a frigid morning, he thought about how to further increase his young and growing company’s revenue base. In the three years he had operated the company full-time, Zarr Tech had grown rapidly. However, in order to ensure the continued sustainability and viability of the business, further growth was necessary. With a wide variety of potential opportunities to pursue, Zarrillo wanted to ensure that he chose the option(s) that would provide the fastest and most sustainable growth.

THE Canadian Information technology CONSULTING SERVICES INDUSTRY[[1]](#footnote-1)

With the ever-increasing implementation of technology across all major sectors of Canadian industry, the information technology (IT) consulting sector had enjoyed considerable growth. In fact, industry-wide revenues had grown from CA$34 billion[[2]](#footnote-2) to almost $50 billion over the past ten years, and analysts expected the industry to continue on its growth trajectory. With such strong growth and relatively low barriers to entry, it was no wonder that the number of businesses operating within the IT consulting industry in Canada had increased by approximately 35 per cent in the last ten years.

Other trends in the industry were also largely positive. The Canadian economy had seen a considerable upswing in the last year, with real gross domestic product growth hitting three per cent (up from less than two per cent during each of the previous two years).[[3]](#footnote-3) Continuous technological change and progress meant that the need for outside advice and services continued to increase, especially among small businesses. Some emerging technology trends were an increasing use of and need for cloud computing, an improved capability to analyze big data sets to gain useful insights, the need for enhanced cybersecurity mechanisms, and compliance with an increasingly complex regulatory environment.[[4]](#footnote-4)

ZARR TECH CANADA INC.

Founded by Zarrillo while he was still in high school, Zarr Tech was a banner under which he could perform the various IT-related services that he had become well known for among his circle of family, friends, and acquaintances in Oakville, Ontario. Zarrillo continued to operate the business in this part-time manner for several years after graduating from high school and while completing an advanced diploma in Information Technology as a Computer Systems Analyst at Sheridan College. During this time, Zarrillo worked in a variety of IT-based co-op jobs to gain additional experience in the field. After this, Zarrillo decided to pursue Zarr Tech on a full-time basis and incorporate his business.

Following Zarrillo’s decision to pursue his venture full-time, Zarr Tech began to experience impressive growth. Revenues grew from approximately $20,000 while the business was being operated part-time to being projected to surpass $300,000 in the coming year. In order to help meet the growing demand for Zarr Tech’s services, two additional IT specialists were hired. Zarrillo was recognized as the Entrepreneur of the Year by both the Milton and Oakville chambers of commerce. A news article about the Oakville award stated, “While Zarr Tech supports small to medium businesses with their IT needs, Zarrillo is an integral part of the Oakville community supporting clubs, events and charities.”[[5]](#footnote-5)

OAKVILLE and SURROUNDING AREAS

Zarr Tech’s office was in Oakville, Ontario. Home to a growing population of 193,832 residents, Oakville was located in the broader Greater Toronto Area (GTA).[[6]](#footnote-6) Milton, Burlington, Mississauga, Brampton, Hamilton, and Toronto were all large urban centres in the GTA that were located within Zarr Tech’s serviceable area. The average household income in Oakville was $163,752.[[7]](#footnote-7) This was approximately 58 per cent above the provincial average. Halton Region, which encompassed the municipalities of Oakville, Burlington, Milton, and Halton Hills, had a total population of 569,787, and 13,413 businesses operated within it.[[8]](#footnote-8) In recent history, Halton Region had experienced very positive economic trends including significant business and infrastructure investment, low unemployment, low crime rates, and a growing, diverse, and well-educated labour force.

COMPETITION

With the industry experiencing strong growth, Zarr Tech was faced with a competitive landscape, making it increasingly challenging to attract and retain new and profitable clients. Zarrillo identified two of Zarr Tech’s primary competitors: Networth and Digital Fire. In addition to these direct competitors, Zarr Tech faced competition from other IT service providers, such as Geek Squad Inc. (Geek Squad) and Nerds on Site, direct manufacturer support services (such as support provided by Apple Inc. [Apple] or Microsoft Corporation [Microsoft]), and larger IT service corporations.

Networth

One of Zarr Tech’s main competitors was NETWORTH, a similar business run out of neighbouring Mississauga, with a secondary office in Montreal, Quebec.[[9]](#footnote-9) Networth was a larger, more established business than Zarr Tech, with a lengthy list of small, medium, and large business clients. Networth advertised itself as a one-stop shop for a business’s technology needs and promoted that it was a Microsoft Certified Partner.[[10]](#footnote-10) Zarrillo noted that Networth’s services were typically priced above Zarr Tech’s and that Networth’s service offerings were similar but broader.

Digital Fire

With an office located in Oakville, close to Zarr Tech’s, and approximately 10 staff members, Digital Fire operated in a similar manner to Zarr Tech, albeit on a somewhat larger scale. Zarrillo, again, noted that Digital Fire’s services were at a higher price point than Zarr Tech’s. Digital Fire advertised that it provided retroactive support when needed, proactive work to monitor systems and prevent downtime, alongside strategizing and making improvements to IT infrastructure to provide businesses with a fully managed technology platform.[[11]](#footnote-11)

Other Competitors

Zarr Tech also faced significant competition from several other channels. Geek Squad, a subsidiary of Best Buy Co. Inc., a major electronics retail chain, was a widely recognized brand name and a competing business that provided computer and other technological support, primarily to residential customers. Nerds on Site provided IT support to both business and residential customers. Zarrillo noted that such service providers often operated using a fixed-fee per issue pricing model. This meant, for instance, that removing malware from a computer or transferring data from an old device would have a specific associated price rather than an hourly or prepaid price.

Original equipment manufacturers (OEMs) and vendors also often operated their own support and service business lines. These included major global players such as Dell, Microsoft, and Apple. OEMs would only provide customer support for their own products and, once the warranty period had expired, they charged for their service and any required parts. These companies provided the vast majority of their customer support remotely, either by phone or Internet.

There were also several larger corporations that provided IT-managed services and support for customers in Canada. Typically, the larger the support provider, the larger the clients it serviced. CGI Group Inc. (CGI) was the largest such company in Canada. With over 10,000 professional staff members across Canada, CGI boasted that 20 of the 25 largest companies in Canada, as well as a host of government agencies, had chosen CGI as their preferred IT partner of choice.[[12]](#footnote-12) A variety of other players, including those from other countries looking to establish a presence in Canada, were present in this space as well.

CUSTOMERS

Zarrillo noted that Zarr Tech had a customer base of approximately 100 clients. While some of his customers were residential, the majority were businesses that could be classified as either small, medium, or large. Moving forward, Zarrillo was unsure which customer group provided the best growth potential.

Residential

Residential customers accounted for approximately 10 per cent of Zarr Tech’s customer base. Many of these customers were friends and family of Zarrillo. For these customers, Zarr Tech provided general IT support on an as-needed basis.

Small Businesses

Small and micro-size businesses, defined by the Government of Canada as having 1 to 99 employees,[[13]](#footnote-13) accounted for about half of Zarr Tech’s business. For these businesses, Zarr Tech usually acted as their IT department. This included providing regular IT servicing, backup solutions, network maintenance, and much more.

Medium-Sized Businesses

Medium-sized businesses were classified as having 100 to 499 employees. For Zarr Tech, this group accounted for approximately 35 per cent of customers. Zarr Tech provided similar services to this group as it did for small businesses, but this was usually in co-operation with the client’s internal IT personnel.

Large Businesses

Large businesses, defined as having more than 500 employees, accounted for a mere five per cent of Zarr Tech’s clients. As mentioned, there was significant competition in this market segment. For large clients, Zarr Tech provided support and consulting to the business’s internal IT team and chief information officer (CIO), help desk support, vacation support, and project rollouts of new hardware, software, or security systems.

SERVICE and PRICING

Zarr Tech provided a variety of services to its clients. Backup solutions, network maintenance, cloud solutions, business telephone systems, data recovery, IT consulting, website development, and project implementation and management were just some of the services offered by Zarrillo and his team. Zarr Tech typically priced its services either by prepaid time allocation or on a fee-per-user basis. Typically, smaller clients preferred to buy a block of time for prepaid IT support. This meant that they would purchase, for instance, 10 hours of support, at $125 per hour of service, to use when required. On the other hand, select small and medium-sized Zarr Tech customers preferred to pay on a per-user basis. This meant that these business customers would, for instance, pay $120 per-user per year for complete IT support and maintenance of network systems as required.[[14]](#footnote-14) Zarrillo noted that these prices were on the average-to-low end compared to his often more established competitors, and he wondered if this was appropriate.

PROMOTION

Considering the direct competitors in the local area and the various other competitors active in the IT service industry, Zarrillo wondered how to promote Zarr Tech to best achieve the growth his business needed. To grow, Zarrillo knew that he needed to promote Zarr Tech on a larger scale to increase awareness of his still relatively new and small company. Specifically, Zarrillo had four potential promotional opportunities in mind. He wondered which of these, if any, he should pursue.

Trade Shows

Trade shows were one promotional mechanism that Zarr Tech had used with some success. Trade shows were exhibitions organized so that companies in a particular industry or geographic area could demonstrate their products and services, meet with others in the industry or area, and explore potential future opportunities in the marketplace. Zarrillo had researched three trade shows in the area that he felt would best fit Zarr Tech’s needs. No matter which trade shows he chose to attend, he would need to spend about $400 on visually attractive banners and other items to ensure his trade show booth looked modern and appealing. An additional $100 per trade show would need to be spent on promotional materials (i.e., flyers) and prizes. Previous experience had shown that Zarr Tech could expect another $150 in miscellaneous expenses for every trade show to cover costs such as fuel and food. Finally, as each trade show also meant that Zarrillo was unavailable for what usually amounted to an entire day, he wondered if the opportunity cost of this time lost was justified by the number of new customers that might be won.

The Better Business Expo (BBE) in either Hamilton or Mississauga was a trade show where Zarrillo’s attendance had led to moderate new customer growth in the past. The BBE marketed itself as the place “where business owners show for business solutions,” and, in order to become an exhibitor, the minimum cost for the smallest table size was $500.[[15]](#footnote-15) Prices ranged up to $1,000 for the larger corner exhibits, and additional corporate sponsorship opportunities were available for purchase as well.

Local chambers of commerce in Oakville and Milton also regularly held trade shows and networking events. Zarr Tech was a member of both organizations and, as such, received a discount on becoming an exhibitor at these events. Zarrillo estimated the cost to be approximately $250 per trade show, with these events happening four times per year.

Zarrillo was also considering attending the Toronto Entrepreneurs Conference & Tradeshow in the coming year. Located in downtown Toronto, this was a much larger event boasting attendance of over 2,500 people. The larger scale of the event naturally meant that the cost to be an exhibitor was also higher at $1,195.[[16]](#footnote-16) However, Zarrillo wondered if the option to become a featured exhibitor for $1,995 was worth it. Featured exhibitors received preferred booth locations, one social media mention, and had their company logo featured on conference marketing materials.

Sales Representative

With most of Zarrillo’s time dedicated to servicing Zarr Tech’s existing clientele, he also considered the possibility of hiring a full-time sales representative. This could reduce Zarrillo’s own workload significantly and would allow him to focus even more on providing the high-quality customer service that Zarr Tech was known for. The sales representative would be responsible for lead generation, subsequently performing an account management function once these leads were converted into Zarr Tech customers. The sales representative could attend trade shows and networking events and visit potential clients to help grow the business.

However, Zarrillo wondered whether the sales representative would be able to competently sell Zarr Tech’s service offering without significant technical knowledge and understanding. Zarrillo planned to compensate the sales representative with a $35,000 annual salary[[17]](#footnote-17) and a ten per cent commission on all self-generated sales. Zarrillo wondered whether an offer of this compensation package would enable him to recruit someone with the ability to help grow Zarr Tech. He fully expected that he might have to be amenable to attract the right candidate.

Internet Advertising

Considering that Zarr Tech was part of the technology industry, Zarrillo also wanted to explore the option to promote his company online. He wondered how well this method of promotion would fit with the clients he desired to grow his company with. Specifically, he wanted to explore the opportunities provided by Google Ads as well as advertising on LinkedIn. Zarrillo was unsure about which platform would be best at attracting the specific new clients that Zarr Tech targeted, and he was open to exploring other Internet advertising opportunities as well.

After doing some preliminary research, Zarrillo believed that the Google Search Network would best align with Zarr Tech’s needs. This would mean that Zarr Tech would appear above or below the Google Search results of interested parties within the municipalities of Halton Region.[[18]](#footnote-18) Since pricing for Google Ads was based on an auction system, Zarrillo was unsure what Zarr Tech’s exact cost per click on their advertisements would be.[[19]](#footnote-19) Based on the industry he was in, Zarrillo estimated that his cost per click could range anywhere from $1.50 to $4.00. In addition, Zarr Tech would set a daily budget in Google’s system to ensure advertising spending was controlled. Zarrillo planned to spend $10 per day, five days a week, but he wondered if this was appropriate.[[20]](#footnote-20) While Zarrillo was excited about the potential instant results from this opportunity, he had also heard that some businesses received numerous bogus calls, which limited the advertising’s effectiveness. He also understood that search engine optimization to ensure the right keywords were being used to drive the right potential customers to Zarr Tech’s ads would require significant time and experience in data analysis.

Zarrillo also believed that LinkedIn could be a useful promotional tool for Zarr Tech. He had already begun writing short technology-related articles from his personal LinkedIn profile that had generated some useful free promotion for his company. He now wondered if taking this a step further by using LinkedIn’s paid advertising services was a worthwhile opportunity for Zarr Tech. Being the largest professionally focused social network, LinkedIn boasted over 500 million users across the globe.[[21]](#footnote-21) The platform offered two different advertising alternatives that Zarr Tech could take advantage of.[[22]](#footnote-22) Under the cost-per-click (CPC) model, Zarr Tech would pay for each click on its advertisement. The other option was a cost-per-impression (CPM) model, wherein Zarr Tech would pay for each 1,000 views of its advertisement and would incentivize LinkedIn to show the advertisement. Recent data showed that the average CPC cost was $3.20, while the average CPM cost was $8.90.[[23]](#footnote-23) Zarrillo planned to spend a similar amount on LinkedIn as he would on Google. While Zarrillo was excited about the higher-quality traffic that LinkedIn provided advertisers, he was, again, worried about Zarr Tech’s inexperience at managing an effective campaign on the platform.

Email Marketing & Other Promotional Opportunities

As Zarr Tech grew over the years, Zarrillo began to use email marketing to stay in touch with his clientele, business network, and leads generated from past trade shows. To do this, he used Mailchimp, an online marketing automation platform and email subscription service. Zarr Tech subscribed to Mailchimp’s Forever Free Plan, which meant Zarrillo could send up to 12,000 emails per month to up to 2,000 subscribers at no cost.[[24]](#footnote-24) This service provided Zarrillo with much of Mailchimp’s product offerings, including email list management tools, campaign tracking and reports, email design tools, and integration with other social network advertising campaigns.[[25]](#footnote-25)

Zarrillo wondered whether it was worth investing more time into optimizing his use of this promotional tool, and he even considered the option to upgrade to Mailchimp Pro for $199 per month, which would remove email and subscriber restrictions and offer more detailed analytical tools to optimize his use of the platform. Zarrillo knew that any use of Mailchimp required outside generation of contacts to email, as well as time-consuming generation of content to include within emails. He had also personally experienced the annoyance and inbox clogging that email subscriptions were known to cause.

Zarrillo was very open to other promotional tools that could help grow his business. For instance, he had previously considered advertising at local community events, such as Oakville’s well-known Midnight Madness event or Burlington’s RibFest.

THE VANCOUVER DECISION

While Zarrillo had enjoyed starting his business in the Oakville community, where he had grown up, he also had family ties to and a strong fondness for the city of Vancouver, British Columbia. With this in mind, Zarrillo began to consider whether he and Zarr Tech were in a position to expand to the West Coast. With a population of 2.46 million[[26]](#footnote-26) and 107,527 total businesses,[[27]](#footnote-27) the Greater Vancouver Regional District was a promising market opportunity. However, Zarrillo also understood that establishing a Zarr Tech presence in Vancouver would also mean starting with very little brand recognition in an environment that was no less competitive in the IT service industry than Oakville and the GTA.

Zarrillo considered spending three months in Vancouver during the summer to begin establishing his presence there. This would mean leaving his Oakville-based clients in the hands of his hired specialists. While he would be able to keep his costs low by staying with family in the area, there were, nevertheless, numerous costs to consider. Zarrillo figured that his flight and local travel costs could total up to $3,000. Additionally, he knew that various miscellaneous expenses could arise in addition to this. Zarrillo also expected to incur $1,000 in legal expenses to register his business in this new jurisdiction. Due to his connections in the area, Zarrillo had already lined up four small-business clients with which to begin his Vancouver operations.[[28]](#footnote-28) In order to further grow the business in Vancouver, Zarrillo knew that he needed to spend money on promotion. Many of the same advertising alternatives existed in Vancouver as they did in the Oakville area. However, Zarrillo wondered if differing market characteristics and opportunities of the two locales required different promotional approaches.

Overall, Zarrillo liked the idea of expanding to Vancouver not only for personal reasons but also because it would allow Zarr Tech to appear as a larger company with multiple locations. This could improve Zarr Tech’s ability to attract new and larger clients. However, he wondered what impact his absence could have on his Oakville operations and whether now was the right time to begin an expansion into the Vancouver area.

CONCLUSION

As Zarrillo organized his notes and research in his office and looked out onto the frosty parking lot, the temperate Vancouver climate became more appealing by the minute. But was it the right move for Zarr Tech at this juncture? Would staying put and growing his clientele in the Oakville area be a more prudent alternative? If so, how could Zarr Tech grow further in this market? At that moment, his phone rang with a client experiencing a complete system breakdown. As he got into his car, heading straight to the client site to begin fixing the problem, all of these questions remained at the back of his mind.

1. The information in this section was largely obtained from IBISWorld, IT Consulting in Canada, accessed July 26, 2018, https://clients1.ibisworld.com/reports/ca/industry/default.aspx?entid=1415. [↑](#footnote-ref-1)
2. All dollar amounts are in Canadian dollars unless otherwise stated. [↑](#footnote-ref-2)
3. Global Affairs Canada, “Annual Economic Indicators,” Government of Canada, March 12, 2018, accessed July 29, 2018, www.international.gc.ca/economist-economiste/statistics-statistiques/data-indicators-indicateurs/Annual\_Ec\_Indicators.aspx?lang=eng. [↑](#footnote-ref-3)
4. Paul Sallomi, “2018 Technology Industry Outlook,” Deloitte, accessed July 29, 2018, www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/technology-industry-outlook.html. [↑](#footnote-ref-4)
5. David Lea, “Oakville Businesses Recognized during Awards Ceremony,” InsideHalton.com, March 28, 2018, accessed August 1, 2018, www.insidehalton.com/news-story/8356846-oakville-businesses-recognized-during-awards-ceremony/. [↑](#footnote-ref-5)
6. Statistics Canada, “Census Profile, 2016 Census—Oakville, Town [Census Subdivision], Ontario and Ontario [Province],” November 29, 2017, accessed July 29, 2018, www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/index.cfm?Lang=E. [↑](#footnote-ref-6)
7. “Average Household Income,” Town of Oakville, May 2018, accessed July 29, 2018, www.oakville.ca/dashboard/economic-growth-household-income.html. [↑](#footnote-ref-7)
8. Halton Region, *Halton Region Economic Review 2017*, accessed July 29, 2018, https://apps.halton.ca/staticfiles/HaltonEconomicReview2017.pdf. [↑](#footnote-ref-8)
9. Networth (website), accessed August 2, 2018, www.networth.ca/. [↑](#footnote-ref-9)
10. Microsoft Certified Partners were recognized by Microsoft as effective providers of Microsoft products, services, and support. [↑](#footnote-ref-10)
11. Digital Fire (website), accessed August 2, 2018, www.digitalfire.ca/. [↑](#footnote-ref-11)
12. CGI Inc. (website), accessed August 2, 2018, www.cgi.com/en/canada. [↑](#footnote-ref-12)
13. Government of Canada, Glossary—Canadian Industry Statistics, s.v. “employment size category,” February 14, 2017, accessed August 7, 2018, www.ic.gc.ca/eic/site/cis-sic.nsf/eng/h\_00005.html. [↑](#footnote-ref-13)
14. Zarrillo estimated that approximately 10 per cent of service prices covered costs of a variable nature. [↑](#footnote-ref-14)
15. Better Business Expo (website), accessed August 18, 2018, www.betterbusinessexpo.ca/. [↑](#footnote-ref-15)
16. Toronto Entrepreneurs Conference (website), accessed August 18, 2018, www.torontoentrepreneurs.ca/. [↑](#footnote-ref-16)
17. An additional 10 per cent of this salary would need to be allocated for the sales representative’s employee benefits. [↑](#footnote-ref-17)
18. “About the Google Search Network,” Google Ads Help, accessed August 19, 2018, https://support.google.com/google-ads/answer/1722047?co=ADWORDS.IsAWNCustomer. [↑](#footnote-ref-18)
19. “Manage Your Spend in Google Ads,” Google Ads Help, accessed August 19, 2018, https://support.google.com/google-ads/answer/1704424?hl=en. [↑](#footnote-ref-19)
20. It was typical for unspent daily budget allocations to carry over to the following day. [↑](#footnote-ref-20)
21. Barb Darrow, “LinkedIn Claims Half a Billion Users,” *Fortune*, April 24, 2017, accessed August 19, 2018, http://fortune.com/2017/04/24/linkedin-users/. [↑](#footnote-ref-21)
22. “LinkedIn Advertising Costs & Pricing,” LinkedIn Marketing Solutions, accessed August 19, 2018, https://business.linkedin.com/marketing-solutions/ads/pricing. [↑](#footnote-ref-22)
23. Abhishek Dey, “LinkedIn CPM Rates 2019,” Blognife, May 30, 2018, accessed August 19, 2018, https://blognife.com/2018/05/30/linkedin-cpm-rates-2018/. [↑](#footnote-ref-23)
24. “About the Forever Free Plan,” Mailchimp, June 18, 2018, accessed August 19, 2018, https://mailchimp.com/help/about-the-forever-free-plan/. [↑](#footnote-ref-24)
25. “Pricing,” Mailchimp, accessed August 19, 2018, https://mailchimp.com/pricing/free/. [↑](#footnote-ref-25)
26. Statistics Canada, op. cit. [↑](#footnote-ref-26)
27. Province of British Columbia, “Number of Businesses & Employment by Industry,” accessed August 19, 2018, www2.gov.bc.ca/gov/content/data/statistics/business-industry-trade/number-of-businesses-and-employment-by-industry. [↑](#footnote-ref-27)
28. Zarrillo anticipated that half of these clients would use Zarr Tech’s services on a block-of-time basis, while the other half would pay the annual user fee, with an average of 20 users. [↑](#footnote-ref-28)