Fitness Pedalers

Software Alternatives

It has been almost ten years since Mike and Mary started Fitness Pedalers. Since that time the company had grown to more than 20 locations throughout North Carolina and its neighboring states, mostly through acquiring small bike shops similar to their original one. Mike had limited his supply chain to U.S. based suppliers of bicycle components but was beginning to realized that to supply his growing retail and Internet business he might have to tap into foreign suppliers of quality components in France and Italy and budget components from Asia.

As a result, Mike made several trips to Europe and Asia to begin to establish relationships with some of these suppliers. As he had meetings with these suppliers, Mike realized that he had the opportunity to take Fitness Pedalers into a new business model --- distribution. Ultimately Mike negotiated an exclusive distribution agreement for North America with three of the suppliers he meet with. Mike hired a staff of sales representatives that covered bike shops throughout the U.S. They were in charge of selling those imported bike components to all of the mom and pop bike shops. Some of the reps were located at the home office in Raleigh and the others were spread out around the U.S.

The customer base of these bike shops grew into the thousands. This segment of Fitness Pedalers’s business was about $4 million per year with a profit margin of 21%. Mike knew the only way to grow the segment and improve the profit margin was to better manage the relationship between Fitness Pedalers and this growing customer base. Their CRM system had been successful for their retail stores and Mike knew that a similar 360 view of these customers would help. And while Fitness Pedalers had an ERP system to monitor purchasing, inventory, order entry, invoicing, etc., they had no effective means of managing the sales cycle to these customers, or their relationship with a customer once the sale was made. Remembering back to those college classes and fueled by what he and Mary had been talking about, Mike wanted to explore how automation would help Fitness Pedalers’s sales force(currently 150 strong, with only 10 in the home office) manage their relationships with this huge customer base.

Mike and his CIO Kathy sat down to discuss the alternatives. Kathy had already researched the alternatives and presented Mike with her thoughts. Since the sales force should be on the road and be able to access the new system from anywhere, they would need to provide their sale force with new laptops and mobile broadband cards for their laptops. She had priced laptops at $900 and the cards for $50. She continued by
indicating they would probably have to replace the laptops after three years of use. Kathy thought the broadband cards would probably have to be replaced every year.

She said that there were three ways of proceeding with the software. They were as follows:

**Alternative 1 Purchase a CRM package from CRM Solutions**

CRM Solutions had a sales force automation package that performed all of the functions that Fitness Pedalers required, however it was quite expensive. Because the software package was quite robust and far exceeded their requirements, Fitness Pedalers would be paying for functions it did not need, at least for the near future. The package required its own server farm and expensive database software from Oracle. CRM Solutions prices its package based on a formula of a fixed cost for the basic package infrastructure which includes the first 10 users and then license fees based on the number of named users in groups of 25. Based on that calculation, Kathy determined that this alternative would cost FP $300,000 for the system with ongoing maintenance (hardware and software) of $35,000 in the second year and growing at 10% a year. Kathy estimates that Fitness Pedalers could be up and running under this solution in 6 months.

**Alternative 2 SaaS – SalesForce.com**

SalesForce.com ["SF"] is a company that provides sales force automation applications over the Web, but has no other functions. Kathy explained that all of the data resides on SF’s servers and a user accesses the application and their data through the Internet. The system is robust and satisfies all of the present and future needs for sales force support for Fitness Pedalers. If Fitness Pedalers decides later that they require additional functions, SF will not satisfy those needs. The nice thing about SF is that Fitness Pedalers will just have to pay an annual fee per user of $780 for SF’s Professional Edition. There is a one-time startup cost of $5,000. Implementation time would be 30 days.

**Alternative 3 - Develop a custom solution – Outsourcing**

Kathy explained to Mike that it was possible to hire WIPRO, an outside company that has software developers in India, to develop a sales force automation package that would satisfy all of Fitness Pedaler’s current and projected needs for the next 5 years. Kathy has met with representatives of WIPRO and they estimated that the cost of developing the system would be $300,000. There would be no on-going licensing fees. Fitness Pedalers would also have to purchase $35,000 of additional hardware with $5,000 annual maintenance fee that would probably increase at 10% a year. Kathy estimates that it would take 18 months to implement this solution.
**Benefits**

Kathy has determined that the ultimate benefits of each of the three alternatives are the same. In each case, she estimates that once the system is installed it will generate 15% sales growth per year for this segment of the business.

**Assignment**

Mike has requested that you help him determine whether this investment is worthwhile and if so which of the three alternatives to take. As part of the analysis he would like you to first identify the strengths and weaknesses of each of the three alternatives, as well as to identify all the costs for each alternative. In class we will look at a Net Present Value for each of the alternatives.