

Minority Business Case Study Series: Zones, Inc.

The Consulting and Business Development Center and the Global Business Center at the University of Washington's Foster School of Business are collaborating with faculty from Historically Black Colleges and Universities and Minority Serving Institutions to publish a series of case studies focused on minority-owned businesses. These cases are meant to be used in business school classes and are available from the Foster School of Business. Funding support for these case studies also comes from the Minority Business Hall of Fame and Museum and the US Department of Education.



Expanding Global Reach of Hardware and Software Solutions

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Zones, Inc., whose slogan is “Connecting Business and Technology,” is a direct reseller of hardware and software solutions (including but not limited to: Cisco, HP, Microsoft, Lenovo, Dell, IBM, Intel, Apple and Adobe) to corporate clients. Zones, Inc. aims to be a global and single-source provider for information technology needs for small- to medium-sized businesses.

As a business-to-business (B2B) product and service provider located in just outside of Seattle Auburn, Washington, Zones, Inc. sells hardware and software products along with customized services for Information Technology (IT) projects, including: “data center builds, custom desktop, notebook and tablet configurations, point-of-sale devices and mobile carts, asset tagging, image loads and warranty services.”ⁱ

Zones, Inc. is a Seattle-based national (and global) provider of IT hardware and software solutions. In 1999 Zones, Inc. began to focus its strategic initiatives on corporate versus individual clients. By 2013 Zones was the fifth largest private company headquartered in the state of Washington and on September 1, 2013, Zones appointed new CEO and President Murray Wright to lead the national organization into global markets.

The main focus of the case questions address the role that globalization and international trade have on the way in which companies do business. One assumption that many organizations make is the belief that simply “picking up” operations and geographically moving to another location throughout the state, nation or world will result in increased revenues; however, various factors including the role of government and cultural implications may have either negative or positive impacts on a business’s desire to expand.

Background

Zones, Inc. has ranked among one of the fastest-growing private companies in America. Multiple Zones International, Inc. (later renamed Zones, Inc.) traces its history back to the late 1980s at which time Sadrudin Kabani served in the top leadership position for six years (1988-1994) selling hardware and software via mail-order – competing against retail stores that primarily sold at higher prices than catalog (and later online) providers like Zones, Inc. The growth of the computer industry, particularly the personal computer industry, accelerated Zones’ growth as a direct marketer generating \$11M in sales in 1989, \$22M in 1990, and \$48M in 1991.

In the early 1990s, Zones saw growth from sales that focused on software designed for Apple Computer, Inc.'s Macintosh (Mac) computers. Both the growth of computer users choosing Macs over IBM-based personal computers, coupled with Zones' strategy of advertising in consumer magazines including *Macworld*, *MacUser* and *MacWeek*, created much-needed momentum that caught the attention of entrepreneur Firoz Lalji. Lalji became president and CEO of Zones in 1998.

Lalji's initial challenge was to keep pace with the growing customer volume while expanding Zones' market. He accomplished this, going from revenues of \$78M in 1992, \$113M in 1994, \$243M in 1995 to over \$1B in 2015 – 20 years later. The growth of the national market has energized the leadership to expand into global markets by leveraging Zones' strong relationships with noted hardware and software providers.

Firoz Lalji's Background

Firoz Lalji graduated with a B.Sc. in Economics from the London School of Economics in 1969. He met and married Najma Lalji in their native Uganda, but was forced out of the country in 1972 when Dictator Idi Amin expelled many of its Asian citizens.

He moved his family to Canada where he built a successful chain of more than 200 Kits Camera retail chain stores in Canada and the US, which he later sold in 1997. As Zones' president and CEO from 1998 to 2013, Lalji now serves as Chairman of the Zones board and supporter of the Programme for African Leadership (PfAL) at the London School of Economics and Political Science (LSE) – a public charity that supports the development of the next generation of African leaders in the likes of LSE alumni such as Jomo Kenyatta and Dr. Kwame Nkrumah.

Relationship Building and Expanded Globalization

For more than 20 years, Zones, Inc. has been a partner with Microsoft and the recipient of the *Microsoft Excellence in Operations Gold Level Award* – their highest partner award, recognizing Zones, Inc. for “superior operational excellence, meeting or exceeding specific requirements for valid contracts, elevating the number of on-time and valid order submissions, and maintaining 100% Operations certification.”ⁱⁱⁱ

Zones' B2B model involves dedicated account executives who oversee accounts and build relationships with hardware and software manufacturers and that of corporate clients (both domestic and abroad) to which they directly sell. Account executives serve as the conduit between the IT manufacturers and the customer and pride themselves on Zones having a reputation as a best quality, lowest price provider.

Zones currently has operations in Canada, UK and India with an eye on expanding operations to Brazil, Singapore, Dubai, Hong Kong and Australia. One Zones executive made the statement that “selling hardware and software is a beast; selling software globally is a real beast,” which best describes challenges they foresee as they move into global markets.

Management and account executives deem their greatest challenge as the ability to gain authorization from international governments to sell globally; though another big challenge is that their domestic competition includes Worldwide Technologies, a \$4B revenue-generating, African-American owned business headquartered in Chicago, Illinois and Software House International (SHI), a \$6B revenue-generator located in the Seattle, Washington area.

While Zones prides itself on maintaining long-term relationships with its providers, such relationships on a global scale are not without challenges. In order for Zones to be successful, it must be authorized to sell its products in all countries.

Strategic Challenges and Competition

Among the challenges that the leadership of Zones faces, the top are 1) the ability to provide hardware and software solutions to a growing mobile workforce, 2) the ability to ensure that mobile devices are secure in approximating the economics of information and determining the value of private, company and consumer data, 3) the ability to leverage national relationships in global markets while recognizing governmental regulations that impede growth in the marketplace, and 4) the ability to construct an organizational team comprising female leaders across various cultures and nations.

Leveraging national relationships and recognizing government regulations

Zones currently operates domestically with customers ranging from Starbucks, Nordstrom, CSX, Discover, Koch Industries, Fluor, eBay, and Microsoft to name a few. With a global supply chain capability that reaches 180 countriesⁱⁱⁱ via the arteries of eight major country hubs (Canada, UK, India – existing and Brazil, Singapore, Dubai, Hong Kong, Australia – anticipated), Zones is poised to provide access to account executives, sales support, and global order management globally.

Zones strategy is to capitalize on their reseller partner network in the five aspirant countries. One would wonder if Zones is entering certain markets because they are “pushed” to do so by the demands of existing hardware and software companies that are eager to get their products into the hands of customers worldwide or are “pulled” by the demands of their own customers on the ground who value the service Zones provides.

Management agrees that “within the global perspectives, international business penetration is hard;” thus, recognizing key lessons. For example, Brazil’s import taxes are hideous. The government saps funds from US businesses via excessive taxes on products coming into the country from American companies.

If “pulled,” the motivating factor is based on input received from their customers via specific needs requests. The existing presence of hardware and software providers makes the possibility of being “pushed” into global markets less likely, but of major concern to the management team. For example, if Zones’ strategic initiatives are solely based on demand by customers and not based on demand by hardware and software manufacturers, how might a misalignment between Zones strategy and the strategy of its partners impact the bottom line?

Zones’ global reseller partnerships have advantages and disadvantages. Such resellers increase Zones’ global presence with partner companies that have a reputation in-country for quality, resellers can take advantage of reduced import tariffs, and resellers help to relieve the burden of having to physically deploy a small employee workforce. Key disadvantages are the absence of the Zones brand and the potential of mismanagement of funds or botched customer relationships by resell partners.

Relationship building with global reseller partners is crucial to the success of Zones abroad. Zones recognizes that a worldwide team of only 1,400 members makes global expansion unlikely at the speed at which management hopes, without the presence of resellers who are committed, trustworthy, peer-partners with principled entrepreneurship as central to their mission. In the absence of reseller partners, Zones would incur insurmountable costs to cover foreign tariffs on hardware and software shipments to

countries. Yet, the presence of global reseller partners that have the business acumen to handle the day-to-day operations, fulfillment requests, and provide superior customer support, could help to expand both Zones' and their partners' bottom line to create a win-win situation.

While most reseller partnerships have proven advantageous, Zones has recently encountered an unexpected accounting error in the processing of payments by one reseller – Trinity, Inc.^{iv} located in Brazil – a location where Zones utilizes a reseller partner to service their customers. Management overlooked the potential for unethical business practices. Such practices have only now surfaced after more than 25 years in business. Apparently, the new CIO of Trinity, Inc. recognized Zones potential to profit and has crafted a software application that generates mirror images of customer invoices, but reflecting inconsistent amounts, with differences being embezzled from Zones customers.

One thing for sure, Zones' reporting system is germane to finding out if there is illegal activity going on and they are confident they will get to the bottom of this scandal.

Economic Freedom Considerations

According to online statistics portal, Statista, revenue of the personal computer market is predicted to rise from 233.2B in 2007 to 295.7B in 2015. In addition, spending on enterprise software, in 2010, was averaging around 245B in US dollars worldwide. The good news – Zones has great market potential. The challenge is to understand the level of economic freedom that exists (or not) in these global markets.

Economic freedom indices have long been studied to measure the pulse of economic activity in countries and the level of entrepreneurial engagement that is present as measured by several factors. If Zones is to expand globally, gaining a better understanding of those countries that are least or most free is an important ingredient that could lead to their success (or demise) in these global markets.

Two separate reports of economic freedom have been developed – one by the Fraser Institute – *Economic Freedom Index of the World* (under the leadership of Dr. James Gwartney at Florida State University) and the other by the Heritage Foundation – the *Index of Economic Freedom* (under the leadership of Terry Miller, Anthony B. Kim, and Kim R. Holmes).

While these two reports measure different elements, there a common finding between the two: “Countries that are gaining freedom enjoy higher economic growth, greater gains in employment, higher incomes, better health, cleaner environments, and a host of other benefits.”^v In addition, “individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. An index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions.”^{vi}

The Economic Freedom Index of the World measures five key areas: Size of Government: Expenditures, Taxes, and Enterprises; Legal Structure and Security of Property Rights; Access to Sound Money; Freedom to Trade Internationally; and Regulation of Credit, Labor, and Business. The Index of Economic Freedom measures four key areas: Rule of Law, Government Size, Regulatory Efficiency, and Market Openness.^{vii}

According to the results of both reports, of the countries where Zones currently operate and among those they anticipate doing business in, two of the eight are deemed “less free” with the “most free” countries being Singapore and Hong Kong. The “least free” countries have structural barriers that can be potential barriers for Zones in developing customers that headquartered in these countries.

Table 1: Economic Freedom Indices

	<i>2014 Economic Freedom Index of the World By Drs. James Gwartney, Robert Lawson, Joshua Hall Published by the Fraser Institute*</i>	<i>2015 Index of Economic Freedom By Drs. Terry Miller and Anthony Kim Published by the Heritage Foundation**</i>
Hong Kong	8.98	89.6
Singapore	8.54	89.4
Australia	7.87	81.4
Canada	8.00	79.1
UK	7.81	75.8
Dubai	8.05	72.4
Brazil	6.61	56.6
India	6.49	54.6

* Level of Economic Freedom (out of 10)

** Ranking of Economic Freedom (out of 100); free (100-80), mostly free (79.9 to 70), moderately free (69.9 to 60), mostly unfree (59.9 to 50), repressed (49.9 to 40)

Zones management has decided to penetrate the Dubai market in 2015, followed by the Singapore market in 2016.

Supply Chain Considerations and Other Challenges

Today, Zones has a single-currency system. They cannot bill their customers in the local currency. Zones can only involve their customers in transactions that use US dollars regardless of the country. As you can imagine, most countries support a “buy local” mantra and this too becomes a challenge for Zones management (and finance) teams.

A series of transactions are involved in the supply chain of Zones’ global operations. At a helicopter level, the following steps are taken:

1. Zones is “pulled” into a country by the demands of its customers seeking, for example, Microsoft software solutions for their small business.
2. Zones deploys its US team account executives to solidify the deal –or-
3. Zones seek in-country resellers who, like Zones, provide hardware and software solutions but lack the market share to be a major player.
4. Once the account executive has identified the market profitability, he or she establishes contacts and terms of agreement either directly with the customer or through an in-country partner.
5. The Global Order Management team is summoned to secure and deploy the resources its customers need.
6. Once the order is filled, the Sales Support Team provides ongoing technical and training support to the customers while maintaining a long-term view of leveraging this contract for future business and/or new referrals.
7. Finally, resellers help to “lighten” the tax burden by serving as the in-country conduit between Zones and its customers.

As the company grows its global footprint they are facing competition from companies including Worldwide Technologies and Software House International. Zones continues leveraging opportunities to provide quality products and top-notch customer service to its customers with particular interest in finding new ways to leverage the skills and talents of its female workforce – never relinquishing the unethical practices of its Brazilian partner, Trinity, Inc.

Of the 1,400 Zones team members, women leaders represent a dismal 2% of this population – something that Zones hopes to change.

Discussion Questions

1. Explain the challenges that exist in building relationships with reseller partners and the potential impacts of privacy and security of customer data in global markets, as well as the impact on possible theft by these global partners.
2. Given your understanding of global competition and the Economic Freedom Index of the World, what role should governments (domestic and abroad) play as US firms extend their operations globally?
3. What strategic steps should Zones take to bring legal action against Trinity, Inc. or any other global partner that usurps its profits? Should they forge such legal actions in an effort to maintain their reputation “on the ground”?
4. If Zones is to expand globally, are they at the “mercy” of hardware and software manufacturers to do so? Does their reputation and customer loyalty garner greater potential for success?
5. What government regulations impede Zones’ ability to enter new markets? Why do such regulations exist?
6. What knowledge of the economic freedom indices can be used to understand which countries Zones should/should not enter?

Assignment

Create a video addressing only one (1) of the above case questions. Your output should be in the form of a video with an accompanying PowerPoint presentation in which you will first read the case and identify which problem you are addressing, followed by a solution to the question you have chosen from the case. Your response must be should be between 10 and 15 minutes. You must be dressed in business attire on the video. Be sure to practice your responses before submitting your assignment. Feel free to use the internet to find facts about Zones its employees, leadership, etc. to address the case.

ⁱ Zones, Fall 2014, “Mobility” magazine, page 29.

ⁱⁱ Zones, Fall 2014, “Mobility” magazine, page 55.

ⁱⁱⁱ PPT presentation from Shane

^{iv} Named changed to protect the image of the reseller partner

^v DeMint, J. (2014) 2105 Index of Economic Freedom, heritage.org/index/book/preface

^{vi} Gwartney, J., Lawson, R., Hall, J. (1996), Economic Freedom of the World: 1996 Annual Report freetheworld.com

^{vii} The Heritage Foundation – 2015 Index of Economic Freedom – Methodology - heritage.org/index/book/methodology