



# Consultancy advice for X-Max Systems

Scenario and requirement

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## Background

“X-Max Systems” is an IT consultancy company that has grown rapidly in the UK, its home country, since it was established 9 years ago. X-Max Systems has been successful in winning new business from both small businesses as well as some medium sized companies.

It is an unlisted company that has 3 founders, of which one is the Managing Director (MD) and two hold other director roles in the company. The 3 directors each hold 200,000 shares in the company and there are currently a total of 600,000 shares in issue. X-Max Systems is also financed by a loan of £5 million from a private business investor, who does not own any shares in the company.

When X-Max Systems was formed the 3 directors decided that they wanted to attract the best talented young IT specialists who could be innovative and creative. To encourage this creative spirit, X-Max Systems’ offices are spacious and comfortable, with fun décor and also the company’s catering facilities are provided free of charge for all of its employees.

# What the company does

X-Max Systems is an IT consultancy company which provides IT solutions for a wide variety of clients to help them achieve their e-commerce objectives. X-Max Systems provides website design, online marketing and integrated IT solutions covering logistics and procurement systems. This ensures that its client's IT systems can process each customer's order to ensure that it can be fulfilled from available inventory and delivered to meet the customer's specific delivery requirements. X-Max Systems specialises in ensuring that the clients' IT systems are fully integrated, to ensure the minimum of disruption to customers' orders and the maximum efficiency of the software solution to minimise human intervention.

The 3 directors and all of the senior managers at X-Max Systems are continually under pressure and they all work long hours to both win new business and also to meet the deadlines for IT work in which it has been contracted to undertake. Currently X-Max Systems has a total of 70 staff, comprising of 52 skilled IT specialists, including the 3 directors, as well as 18 support staff.

X-Max Systems has recently won a prestigious award at the annual IT industry business awards and this has generated much publicity and raised the profile of X-Max Systems.



### Tender for new IT work for TN

X-Max Systems is currently finalising a tender document for a potential contract with a very large retailer, called TN, which is a global retailer of sports clothing. TN sells the majority of its products online through its website, which cannot support the current volume of business. Additionally, the company is experiencing many operational problems and often does not fulfil orders placed and paid for by customers, which is affecting its reputation. TN requires a new website and updates to its existing IT systems, which link online orders into the procurement and logistics IT systems. The proposed new IT systems will enable TN to manage the current volumes of orders with reduced number of errors and "lost orders" and also to support its planned growth in sales volumes.

X-Max Systems was recommended to the IT Director of TN as the company which could overcome its current IT problems. The tender document which is currently being reviewed by one of X-Max Systems' directors is summarised as follows:

- ▶ IT Design and development costs £7 million
- ▶ Project development duration: 9 months
- ▶ Will require a dedicated team of 25 skilled IT people for the project
- ▶ Additional cost for after-sales support and training £1.2 million

The 3 directors of X-Max Systems believe winning the TN contract could help it to further establish the company's name and reputation, but they are worried that the company often does not have enough available skilled IT staff to carry out the urgent IT work that TN will require.

### Financial data

A summary of key financial data for X-Max Systems for the last 2 years is as follows:

	Financial year ended 30 June 2017	Financial year ended 30 June 2016	Change %
	£'000	£'000	£'000
Revenue	13,700	12,100	+13.2%
Operating profit	+13.2%	1,537	+20.4%
Profit for the period (after Finance costs & tax)	910	691	+31.7%
Operating profit as % of revenue	13.5%	12.7%	+6.3%
Average number of employees	67	61	+9.8%
Average number of employees	£204.5	£189.1	+8.2%

## Future plans

The 3 directors of X-Max Systems want to grow the company with a view to becoming listed on the Alternatives Investment Market (AIM) within the next 5 years. At this point it is planned that the company will have at least 2 million shares in issue and that the 3 directors will continue to own a total of 600,000 shares and all of the remaining shares will be held by investors and possibly also by employees.

The 3 directors want to grow the company's revenue streams in several ways including trying to win business from large corporate clients and by expanding its business into other EU countries. However, the 3 Directors are worried that the current fast growth that the company is experiencing could adversely affect the quality of the company's IT development work if new employees are recruited who are not as innovative and committed to the company as X-Max Systems current employees. They are also very concerned that the company could lose some of its current key employees.

## X-Max Systems appoint "AMIC" to advise on managing business growth

The 3 directors have asked you, as a consultant at AMIC, a leading management consulting company to advise them. AMIC has a proven track record of success in helping small companies achieve their growth potential.

The 3 directors are young people with exceptional IT skills and an innovative approach to business, but they lack business management skills and are unsure as to how they can help transform X-Max Systems into a larger company.

At an initial meeting with the 3 directors it has been established that X-Max Systems are experiencing the following problems:

- ▶ Some employees are frustrated at continuously working long hours and are demoralised.
- ▶ Some employees see how successful X-Max Systems has become and the high profits it has generated, and are frustrated that they are not sharing in the financial success of the company. They are thinking of leaving.
- ▶ Most of X-Max System's employees only speak English. They could not conduct business meetings or contract negotiations in other languages which would be required if X-Max Systems were to expand outside the UK.
- ▶ The company has been slow in recruiting the required level of skilled IT employees when it wins new contracts, which often leads to employees being required to work long hours to achieve agreed deadline dates. In the last year revenues grew by 13.2% whereas the average number of employees grew by only 9.8%
- ▶ There have been occasions when X-Max Systems has not had staff available to prepare tender documents for some potential new contracts, as they have been too busy working on existing contracted work.

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## Requirement

**You are a consultant working for the management consultancy company called AMIC.**

From the information provided in the scenario about X-Max Systems, you are required to:

- 1. Recommend 4 management actions** that will be required in order for X-Max Systems to grow its revenue streams.
- 2. Recommend 3 management actions** that will be required if X-Max Systems is successful in winning the contract for IT work from TN based on its tender.
- 3. Recommend 3 ways** in which X-Max Systems' employees could be motivated to stay with the company now and in the future when the company is listed on the AIM market.

# Consultancy advice for X-Max Systems

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**Recommended 4 management actions that will be required in order for X-Max Systems to grow its revenue streams:**

- 1.
- 2.
- 3.
- 4.

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**Recommended 3 management actions that will be required if X-Max Systems is successful in winning the contract for IT work from TN based on its tender:**

- 5.
- 6.
- 7.

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**Recommended 3 ways in which X-Max Systems' employees could be motivated to stay with the company now and in the future when the company is listed on the AIM market:**

- 8.
- 9.
- 10.