SECTION ONE – COMPULSORY QUESTION

Naurus National Airline

Naurus Island attracts thousands of tourists every year, who come to enjoy its beaches and climate, as well as to explore the architectural and historical heritage of this ancient island. Naurus Island is also an important commercial nation in the region and enjoys close economic relations with neighboring countries.

Naurus has four main airports. Until ten years ago, it had two airlines: one based in the west (Naurus Air) and another based in the east of the island (Naurus Transport). However, ten years ago, these two companies were merged to form a single airline, Naurus National Airline, with the aim of benefiting from the growing demand for both business and leisure travel to and from Naurus.

Market Segments:

Naurus National serves two main segments:

1. Regional Segment:

This is a network of flights to major cities in neighboring countries. Management refers to this as the "regional sector." The average flight time in this segment is one and a half hours, and most flights are scheduled to allow business travelers to arrive in time for meetings and return home in the evening.
Twenty-five major cities are served in this segment, with an average of three return flights per day. There is also significant leisure travel, as many families visit relatives within the region.

2. International Segment:

This is a network of flights to continental capital cities. The average flight time in this segment is four hours. These flights attract both business travelers and tourists, with tourists mainly arriving from the continent for holidays. Twenty cities are served in this segment, with an average of one return flight per day per city.

Reputation, Service, and Employment:

Naurus National is considered the preferred airline for most citizens of Naurus Island. A recent study showed that 90% of people prefer to travel with Naurus National on regional flights, and 70% prefer it for international travel. Additionally, 85% of respondents expressed pride in their airline and believed it reflects a positive image of the island.

The company also has an excellent safety record, with no fatal accidents recorded since the merger ten years ago. Its customer service has been recognized by the aviation industry. In 2015, it was named “Regional Airline of the Year” by the International Passenger Group (IPG), and the following year, IPG awarded its catering division the prestigious “Golden Bowl” award for the best in-flight food service in the world.

Its employees (most of whom are residents of Naurus Island) are widely recognized for their friendliness and motivation across the region. 95% of employees belong to recognized unions. Naurus National is considered an excellent employer, offering above-industry-average salaries, excellent benefits (such as free healthcare), and a generous non-contributory pension scheme.
In 2014, the company employed 5,400 staff, increasing to 5,600 in 2015 and 5,800 in 2016.

Fleet:

Fleet details are shown in Table 1. Nineteen Boeing 737 aircraft were originally part of the Naurus Air fleet and are primarily used in the international sector. Twenty-three Airbus A320 aircraft were part of the Naurus Transport fleet and are mainly used in the regional sector. Naurus National also operates three Embraer RJ145 aircraft in the regional sector.

Table 1: Fleet Details

Item	Boeing 737	Airbus A320	Embraer RJ145
Total aircraft in service (2016)	21	27	3
Total aircraft in service (2015)	21	27	3
Total aircraft in service (2014)	20	26	2
Capacity (passengers)	147	149	50
Entry into service	October 1991	November 1988	January 1999

Item	Boeing 737	Airbus A320	Embraer RJ145
Average age	12.1 years	12.9 years	6.5 years
Utilization rate (hours/day)	8.70	7.41	7.50

Performance:

Since 2014, Naurus National has faced strong competition from low-cost ("no-frills") airlines, particularly in the international sector. Established continental operators now offer, on average, three low-cost flights per day to Naurus Island.

Low-cost airlines have also begun to impact the regional sector. Several very small airlines (some operating only one aircraft) have been established in regional capitals, offering low-cost flights to Naurus.

A recent study showed that the average international fare of Naurus National is double that of its low-cost competitors.

Key operating statistics for 2016 are summarized in Table 2.

Table 2: Key Operating Statistics for Naurus National (2016)

Item	Regional	International	Average Low-Cost Airlines
Revenue contribution ($m):			
Passengers	400	280	N/A
Cargo	35	15	N/A
Passenger load factor:			
Economy class	73%	67%	87%
Business class	90%	74%	75%
Average pilot salary	$106,700	$112,500	$96,500
Revenue source:			
Online sales	40%	60%	84%
Direct sales	10%	5%	12%

Item	Regional	International	Average Low-Cost Airlines
Commission sales	50%	35%	4%
Average aircraft age	See Table 1	See Table 1	4.5 years
Utilization rate (hours/day)	See Table 1	See Table 1	9.10

Naurus National has implemented several operational changes in recent years. For example, its website now allows passengers to book tickets online, with options for delivery by post or collection at the airport before travel. Special promotional fares are also available for online bookings.

However, the website currently does not offer online check-in, a service provided by some competitors.

Additionally, as shown in Table 2, a large proportion of sales still occurs through travel agents on a commission basis. Direct sales are those made via telephone or at the airport.

Most leisure travelers pay economy fares and travel in economy class. While many business travelers also travel in economy class, some choose business class at a higher price.

Over the past three years, the financial performance of Naurus National has not matched its operational success. Key financial indicators are presented in Table 3.

During the period (2014–2016), which saw a global increase in air passenger revenue of 12% (and a 15% increase for travel to Naurus Island) and a 10% increase in cargo revenue, Naurus National achieved only a 4.6% increase in passenger revenue.

Table 3: Financial Information (All figures in $ million)

Statement of Financial Position

Item	2016	2015	2014
Non-current assets:			
Property, plant and equipment	788	785	775
Other non-current assets	60	56	64

Item	2016	2015	2014
Total	848	841	839
Current assets:			
Inventory	8	7	7
Receivables	68	71	69
Cash and equivalents	289	291	299
Total	365	369	375
Total assets	**1,213**	**1,210**	**1,214**
Equity:			
Total shareholders’ equity	250	259	264
Non-current liabilities:			
Long-term loans	310	325	335
Employee benefit obligations	180	178	170
Other provisions	126	145	143
Total	616	648	648
Current liabilities:			
Payables	282	265	255
Tax payable	9	12	12
Other current liabilities	56	26	35
Total	347	303	302
Total equity and liabilities	**1,213**	**1,210**	**1,214**

Extract from Income Statement ($ million)

Item	2016	2015	2014

Item	2016	2015	2014
Revenue:			
Passenger revenue	680	675	650
Cargo revenue	50	48	45
Other revenue	119	112	115
Total revenue	849	835	810
Cost of sales:			
Purchases	535	525	510
Gross profit	314	310	300
Operating expenses:			
Wages and salaries	215	198	187
Executive salaries	17	16	15
Finance costs	22	21	18
Total expenses	254	235	220
Profit before tax	60	75	80
Tax expense	18	23	24
Profit after tax	42	52	56

Future Strategy:

The management team at Naurus National aims to develop a strategy to address the airline's financial and operational weaknesses. A proposal was made to reposition the company as a low-cost ("no-frills") airline.

However, this proposal was strongly rejected by the CEO, who considered it could lead to "an unnecessary bloodbath that might destroy the airline itself."

Requirements:

(A)

Using the information provided in the case, evaluate the strengths and weaknesses of Naurus National and their impact on its performance.

Note: Opportunities and threats are not required in this evaluation.

(20 marks)

(B)

The CEO of Naurus National Airline rejected the idea of repositioning the company as a low-cost (“no-frills”) airline.

(i) Explain the key characteristics of a low-cost “no-frills” strategy.

(4 marks)

(ii) Analyse why adopting a low-cost “no-frills” strategy would be inappropriate for Naurus National.

Note: This part includes 3 marks for professional skills.

(16 marks)

(C)

Identify and evaluate alternative strategic options that Naurus National could consider to address its current financial and operational weaknesses.

Note: This part includes 2 marks for professional skills.

(10 marks)

Total: 50 marks

SECTION TWO – QUESTION ONE

Car Repair Club

The Car Repair Club was established fifty years ago with the aim of providing roadside assistance services to drivers in the event of vehicle breakdowns, in return for an annual membership fee. Club members can call for immediate assistance if their vehicles break down anywhere within the country. This assistance is provided by “Service Patrol Engineers” distributed across the country, who are specialists in vehicle repair and maintenance. If they are unable to fix the problem immediately, the vehicle (and its passengers) is transported by a club recovery vehicle to the member’s home address free of charge.

Over the past fifteen years, the club has rapidly expanded its services. It now offers vehicle insurance, vehicle history checks (to verify previous accidents or theft), as well as a comprehensive advisory center where trained staff respond to a wide range of vehicle-related inquiries. It also provides road maps, assigns hotel star ratings under the club’s scheme, and lobbies the government on issues such as taxation, vehicle emissions, and road charges.

All these services are delivered by permanent employees of the club, and the growth has been entirely internal (organic), which eventually led to the club being listed as a company on the stock exchange three years ago (the Club Company).

However, since the listing, the company has reported disappointing results, and the decline in share price has led management to review internal operations and functions.

A Business Process Reengineering Committee, composed of senior managers, was formed and tasked with reviewing the scope of the company’s activities. The committee was asked to assess the importance of certain activities and provide recommendations on how these activities should be delivered (in-house or outsourced). It was also asked to identify the technological implications or opportunities for the activities it recommends to retain internally.

First Review

The committee’s first review included evaluating the procurement and maintenance of the company’s vehicles. Traditionally, the club purchased its own fleet and maintained it in a central workshop. When maintenance or repair was required, vehicles were returned to this workshop.

Last year, the club owned 700 vehicles (recovery vehicles, service engineers' vans, executive cars for senior staff, etc.), which were maintained by 30 permanent employees working in the workshop. In addition, there were 3 permanent employees responsible for purchasing and disposing of vehicles.

The workshop was located in a residential area within a major city and suffered from significant parking problems, in addition to a lack of space for expansion.

The committee concluded that the workshop was of low strategic importance to the company, and that most of the associated operations were relatively simple. However, its distance from some vehicle locations made these operations unnecessarily more complex.

Accordingly, the committee recommended outsourcing the procurement, disposal, and maintenance of vehicles to a specialist company.

Two months ago, Excellence Company (a company that owns service and repair centers nationwide and currently provides 45,000 vehicles to companies) purchased the club's fleet and now leases these vehicles back to the club for a monthly fee.

Over the next ten years (the duration of the contract), all vehicles will be leased from Excellence with a full maintenance service, including replacement of tires and exhaust systems.

The club's workshop is now no longer required, and all employees working there have been made redundant, except for one employee retained to manage the relationship with Excellence Company.

Second Review

The committee has now been asked to examine the following activities and their supporting processes, all of which are currently performed in-house by club employees:

- Attendance of repair staff at breakdown incidents (currently carried out by Service Patrol Engineers located across the country).
- Membership renewal (members must renew annually using a dedicated computer system, and fees are collected upon confirmation).

- Vehicle insurance services (legally required accident insurance for all drivers).
- Member inquiries handled through a call center.
- Vehicle history checks (to verify accidents, theft, or any outstanding financial obligations on the vehicle).

Requirements:

(A)

The Business Process Reengineering Committee has been asked to provide recommendations on how activities should be delivered (in-house or outsourced), as well as to identify the technological implications or opportunities for activities that will be retained internally.

Propose and justify your recommendations to the committee regarding the following key operational areas:

1. Attendance of repair staff at breakdown incidents
2. Membership renewal
3. Vehicle insurance services
4. Member inquiries
5. Vehicle history checks **(15 marks)**

(B)

Analyse the benefits that the Club Company will achieve from its decision to outsource the procurement and maintenance of its vehicles. **(10 marks)**

Total: 25 marks

SECTION TWO – QUESTION TWO

Basmatak Furniture Company

Basmatak Furniture Company is a company specialized in producing custom-designed sofas and chairs. Its products are advertised in most high-end lifestyle magazines. The company was established ten years ago and originated from the idea of enabling customers to design their own furniture at a cost competitive with standard products available from traditional retailers.

The company sells its products directly to the end customer. Its website allows customers to choose the furniture design, the type of wood used, the type of filling used in cushions and seats, as well as the type and pattern of fabric used for covering. The website currently contains more than 60 fabric styles from which customers can choose.

After the customer completes specifying the required furniture, the price is displayed. If the customer agrees to the price, the order is placed and an estimated delivery date is provided. Delivery dates are often ten weeks from the order date. This long lead time is unacceptable to some customers, causing them to cancel the order immediately, citing the long delivery time as the reason for cancellation.

Supply Chain and Procurement

The company orders wood, upholstery materials, and fabrics from long-standing suppliers. Approximately 95% of the wood is supplied by three main suppliers who have dealt with the company since its first year.

Purchase orders are issued by the procurement department. Until last year, these orders were sent by fax, but they are now sent by email. Recently, an expected order was not delivered because the supplier claimed that the email had not been received, causing a delay in production.

Although suppliers prefer to deal with the company, they frequently criticize its payment processes. On several occasions, the accounts department has been unable to match supplier invoices with purchase orders, leading to significant delays in payments.

Production and Delivery

Sofas and chairs are manufactured in the company's factory. Despite relatively high inventory levels and flexibility in production processes, production is rarely disrupted.

However, the company fails to meet approximately 45% of its estimated delivery dates due to products not being ready on time. As a result, a sales employee must contact the customer to arrange an alternative delivery date.

Changing delivery dates by phone leads to several problems:

- Difficulty and cost of contacting customers by phone
- Customer disappointment due to failure to meet the original delivery date
- Customers often having to postpone delivery to a much later date due to short notice (less than one week)

This results in products remaining in storage for longer periods.

Delivery Issues

There is an additional issue related to the nature of the products (large in size and high in value), as the company requires someone to be present at the delivery address to receive them.

Approximately 30% of deliveries fail because no one is present to receive the order, resulting in the products being returned to the factory and stored. A sales employee then contacts the customer to arrange a new date, but again, telephone communication is difficult and costly.

Deliveries are carried out using the company's own trucks, with each truck following a fixed route daily regardless of demand levels.

Competition and Customer Satisfaction

The company's early growth was based on its innovative idea of offering customized furniture at competitive prices. However, competitors are now offering similar services.

In light of this competition, the CEO has requested a comprehensive review of the supply chain, as he believes that:

- Costs and inventory levels are high

- The order-to-delivery lead time is excessively long

A recent customer satisfaction survey also revealed significant criticism regarding the lack of information about order status after placement.

One customer commented:

"Once the company received my order and my money, it seemed as though it forgot about me. I heard nothing for ten weeks. Then, just three days before the delivery date, I received a call informing me that the order was delayed. I had taken time off work for the original date and could not change it, so I had to arrange a new delivery date later."

There were also criticisms of after-sales services:

- Difficulty in obtaining guidance on cleaning the product
- Inability to easily request replacement fabrics
- Difficulty in returning defective products

Upon reviewing the survey results, the CEO understood the reason for the low customer retention rate.

Requirements:

(A)
Analyse the current value chain and use it to identify weaknesses in Basmatak Furniture Company. **(12 marks)**

(B)
Evaluate how technology can be used in:

- The upstream supply chain
- The downstream supply chain

to address the problems identified in the company. **(13 marks)**

Total: 25 marks

SECTION TWO – QUESTION THREE

Bayti Shopping Company

Bayti Shopping Company is a national company that sells small household goods to consumers. The company produces a comprehensive and attractive catalogue, which is distributed to employees known as "Catalogue Supervisors." There are 150 such supervisors in the country.

Each supervisor oversees approximately 30 part-time agents who work from their homes. These agents distribute the catalogue to consumers in their homes. The agents then collect the catalogues and completed order forms and send these forms to their supervisor. Payments are also collected at the time of order collection, either in cash or by cheque, and these payments are also sent to the supervisor.

At the end of each week, the supervisor sends the completed order forms (and payments) to Bayti Shopping Company. The order details are then entered into a computer system by order entry clerks at the company, which initiates the order fulfillment process that ends with the goods being delivered directly to the customer.

Both supervisors and agents operate independently (they are not permanent employees). The company rewards supervisors based on the number of agents they manage, while agents' incentives depend on the number of catalogues they distribute as well as a commission on the orders collected from households.

Development of the Electronic System:

In August 2016, Bayti Shopping Company decided to replace the paper-based ordering system with a new electronic system. Agents would be provided with software that enables them to enter customer orders directly into the system using their personal computers at the end of each day. Payments would also be deposited directly into the company's bank account by the agents on a daily basis.

The software supporting the new system was developed internally, based on requirements provided by current order entry clerks and managers of order fulfillment and billing operations. The software was tested internally by the same order entry clerks.

Initially, progress in requirements definition and software testing was very slow because the order entry clerks continued performing their daily operational tasks. As project delays increased, a number of these employees were released to work full-time on the project.

As a result, final acceptance testing of the software was completed by the end of July 2017, two months later than the scheduled date.

System Implementation:

In August 2017, the software was implemented for all supervisors and agents. It was claimed that the software was easy to use, so no formal training was provided. Instead, a large comprehensive manual containing colored screenshots in PDF format was emailed to all supervisors and agents, explaining in detail how to set up and use the software.

However, problems began to appear immediately when agents attempted to download and use the software. It was found to be incompatible with one of the widely used browsers, and agents using this browser were advised to use an alternative browser or device.

Agents also criticized the software functionality because it did not allow modification of orders after submission. It turned out that customers often contacted agents or supervisors to modify their orders before submission to the company, which was no longer possible with the new system.

Many agents also reported that they were unable to enter multiple orders for the same household. The company confirmed that this was possible, but it was not clear from the software or the provided instructions how to do so.

Most agents refused to print the manual (preferring to read it on screen), and a large number claimed that they had not received the email containing the manual. In addition, agents identified numerous spelling and functional errors in the manual, and in some cases, the software did not operate as described in the manual.

Internal standards at Bayti Shopping Company require a post-project review and a post-implementation review.

Requirements:

(A)

Explain the purpose of each of the following:

- Post-project review
- Post-implementation review

- Benefits realisation review **(6 marks)**

(B)

Evaluate the issues and lessons that should be learned from:

- Post-project review
- Post-implementation review

in relation to the electronic ordering system at Bayti Shopping Company.

(12 marks)

(C)

Bayti Shopping Company does not have a benefits management process, and therefore conducting a benefits realisation review is not appropriate. However, the company believes it is useful to retrospectively identify the expected benefits of the new electronic system.

Identify and discuss the potential benefits for Bayti Shopping Company from implementing the new electronic ordering system. **(7 marks)**

Total: 25 marks

The End