



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Subject Code & Name : **BGN2304 Strategy and Innovation for the Service Industry**  
 Semester & Year : May – August 2016  
 Lecturer/Examiner : Ms Siti Intan Nurdiana Wong Bt Abdullah  
 Duration : 3 Hours

#### INSTRUCTIONS TO CANDIDATES

- This question paper consists of 2 parts:
  - PART A (40 marks) : TWO (2) structure-type questions. Answers are to be written in the Answer Booklet provided.
  - PART B (60 marks) : Case study. Answer ALL questions based on the case. Answers are to be written in the Answer Booklet provided.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
- Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College of Hospitality regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College of Hospitality.

**Total Number of pages = 6 (Including the cover page)**

**PART A : STRUCTURE-TYPE QUESTIONS (40 MARKS)**

**INSTRUCTION(S)** : **TWO (2)** structure-type questions. Answer ALL the questions. Answers are to be written in the Answer Booklet provided.

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1. What is the purpose of a mission statement? List and explain the **NINE (9)** elements of an effective mission statement using appropriate examples.

(20 marks)

- 2 a. Describe **FOUR (4)** importance of protecting intellectual property (IP) rights.

(8 marks)

- 2 b. Using appropriate examples, explain **THREE (3)** intellectual property rights that organisations can use to protect their inventions.

(12 marks)

(Total: 20 marks)

**END OF PART A**

**PART B : CASE STUDY (60 MARKS)**

**INSTRUCTION(S)** : Read the case carefully, answer **ALL** questions based on the case. Write your answers in the Answer Booklet(s) provided.

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**WEB RESERVATIONS INTERNATIONAL**

The world of independent travelling offers great expectations, new life experiences and opportunities to make new friends. For the independent traveler hostels provide low cost accommodation and are used as key staging bases to explore new countries and continents. In addition to accommodation hostels can provide a range of services including bar, bike hire, common room, free airport pick-up, guest kitchens, internet access, luggage storage and travel information desk.

Tom Kennedy, owned the Avalon House Hostel in Dublin, Ireland. In the mid-1990s, in an effort to make the business more efficient, he hired Ray Nolan, an IT specialist and owner of Raven Computing to develop a software programme which would allow his hostel to manage the check-in and check-out process. In 1999, Ray Nolan and Tom Kennedy founded Web Reservations International (WRI) and created an online reservation site for hostel bookings – [www.hostelworld.com](http://www.hostelworld.com). By 2010, WRI employed over 100 people and was the biggest global provider of confirmed online reservations for the budget accommodation sector. Through its [hostelworld.com](http://hostelworld.com) division, WRI offers confirmed online reservations for over 24,000 hostels and budget hotels in over 180 countries directly and through more than 3500 global affiliate partners.

Turnover in 2003 was €7 million with profit of €1.8 million. By 2005, turnover reached €28.5 million and pre-tax profit increased to €12.5million. WRI's decision on a concentric diversification has helped the company to spread its risk and achieve economies of scale.

**Budget youth and independent travel (BYIT) market**

Increasingly, the trend among travelers is to bypass traditional channels to organise holiday and business travel. According to the UNWTO worldwide receipts from international tourism reached \$944 billion in 2008. The first four months of 2009 showed a decline of 22 million tourist arrivals however, long term forecasts suggest that international arrivals will reach 1.6 billion by 2020. The three most prominent regions to receive the most international arrivals are Europe, East Asia and America. Over 51% of visits in 2007 were for leisure, recreation and holidays. The purpose of 27% visits was for visiting friends and family and 15% of travel was for business.

The proportion of international tourists who are young travelers (15-24 year olds) recently represents over 20% of all international visitors. The BYIT market consists of students, youths, backpackers and independent travelers. They are typically web savvy, value conscious and tend to take extended vacations. About 80% of them use internet to search for information before travelling and online bookings have increased.

Despite the worsening of international economic crisis, majority of them did not change their travel plans. User ratings and online reviews were deemed the most important factors in choosing their accommodation. The entire market has changed in many ways, making the internet an obvious tool to reach the global market. No longer does the BYIT market consist of poor students. Nowadays, hostellers and budget travelers are often older people or families, with hostels now offering single and family rooms to cater to this market. Hostellers and backpackers carry credit cards and typically go online daily in internet cafes or using their mobile phones to make online bookings. They demand a more structure travel experience, seeking outdoor adventure or cultural activities and tours.

WRI's online reservation system and website cater for this demand. In addition, they spend plenty of money in restaurants. Both Nolan and Kennedy realized that, while it was time-consuming and labor-intensive for an individual hostel to deal with e-mails and booking software, an automated booking service for hundreds and thousands of hostels could be the innovative solution. By 2003, WRI had built strong and good relationships with its suppliers and this grew to 24,000 accommodations by 2010, selling the rooms on their behalf through an integrated internet reservation system.

### **The Product and Websites**

A core product offered to hostels is Backpack Online (BPO) – a management system for youth hostels and budget accommodation. WRI's main website allows visitors to choose a destination or hostel, select an arrival date and duration of their stay, quotes prices in whichever currency and making the booking process straightforward. Once a hostel has been selected by the guest, detailed information is given on the hostel's location, photographs, currency converter, room reviews and other relevant information. Besides the booking facilities, WRI also provides downloadable map guides, and videos on the various cities or countries the hostel is located in.

The website is aimed at the backpacker and students market. Backpackers and students can purchase activities, transport tickets, tours and travel insurance as well. The company's website promise is no hidden taxes or service charges, guaranteed low prices that are not available on other websites. WRI also provides the facility for tour providers which allow them to advertise their offerings and the company has extended its travel services by developing partnerships with other service providers such as travel insurance companies, airline companies and tour operators to offer exclusive promotions and special deals to their customers.

### **Competition**

Nolan said, "We see Travelocity and Expedia as our closest competitors but we are not afraid of them. They are huge billion dollar companies but our technology is better and probably simpler". The competition for WRI exists in two segments – competitors that compete in the accommodation booking market and online reservation competitors that offer hostel and budget accommodation.

Expedia, Travelocity and Orbitz were the ranked as the top three online travel agencies by US visitors in 2005. Expedia's vision is to be one of the world's leading online travel companies and with the mission of becoming the largest and most profitable seller of travel in the world, , by helping everyone everywhere plan and purchase everything in travel. Expedia's brands and businesses work together to share best practices and leverage geographic reach. Expedia

operates Classic Custom Vacations, a leading distributor of premier vacation packages to destinations such as Hawaii, Mexico, Europe and the Caribbean. Expedia's directory has more than 80,000 hotel properties and 4 million rooms, in addition to discounted fares on over 450 airlines. The company has won many industry awards for its quality and user experience.

Websites that compete directly with WRI include hostelbookers, hostelsclub and hostelmania.com. Hostelmania was founded by three backpackers in 2004, operates from Spain and UK. The core of hostelmania is to provide a simple way to book decent quality, inexpensive accommodation online and to minimize the hassle of travelling.

### **Market expansion and growth**

Since the beginning of the business, WRI was keen to become a dominant player in the BYIT market through organic growth and acquisitions. In a bold diversification strategic move, WRI acquired hostels.com in 2003 as it was a good fit with WRI. In 2004, WRI acquired Hostels of Europe and March 2005, acquired Worldres, a US hotel booking business. Then, Summit Partners, a leading private equity and venture capital firm, bought an equity stake in WRI. In 2008, WRI announced that its Chief Operations Officer, Mooney was taking over from Nolan. In addition, the company announced the appointment of Drury as the new non-executive Chairman. The new top management decided to divest Worldres to focus its efforts on the BYIT segment. In 2009, WRI was then acquired by another private equity firm – Hellman.

### **Future Challenge**

The main challenge is how can WRI maintain its dominant position in the BYIT market and broaden its global market through diversification while maintaining high level of operating efficiency. The economic global crisis has impacted on the global travel industry and has put pressure on operating profits within the industry. On the technology part, backpackers are more technologically savvy. Newcomers were entering the market relatively fast due to the everchanging technological environment that required little investment except on a stable and safe internet access. WRI going live on the Apple iPhone in 2008 indicates the need for continual investment in technology to satisfy customers' needs. Travellers are demanding for more information about hostels before making bookings and social networking sites has become a significant factor in driving the branding of WRI.

[Adapted from: Johnson, G. et.al., (2011) *Exploring Strategy*, Prentice Hall]

1. Conduct a five forces analysis on WRI's competitive positioning in the online reservation market.

(17 marks)

2. Briefly explain **THREE (3)** types of diversification strategies. Assess the advantages and disadvantages of WRI's market expansion and growth strategies.

(15 marks)

3. Develop **ONE (1)** potential strategy for WRI to overcome its challenges and analyse **FIVE (5)** factors that WRI needs to consider before implementing that strategy.

(13 marks)

4. One of the key drivers to sustain WRI's success is continuous investment in technology. Describe **FIVE (5)** methods that WRI can undertake to remain innovative using suitable examples.

(15 marks)

**END OF EXAM PAPER**