



## 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 in the Service Industry**  
Semester & Year : September – December 2016  
Lecturer/Examiner : Joseph Choe Kin Hwa  
Duration : 3 Hours

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### INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:  
PART A (40 marks) : TWO (2) essay questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.  
PART B (60 marks) : THREE (3) case study questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. 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.
4. 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 : ESSAY QUESTIONS (40 MARKS)**

**INSTRUCTION(S)** : **TWO (2)** essay questions. Answer **ALL** questions in the Answer Booklet(s) provided.

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**Question 1**

Critically analyse the impact of having highly structured formal strategic planning systems on innovation in an organisation.

(20 marks)

**Question 2**

An important aspect of developing innovative strategies is the analysis and understanding of an organisation's strategic capabilities.

Using examples, explain the relevance to the development of innovative strategies of the following:

a. Unique resources (10 marks)

b. Core competencies (10 marks)

(Total: 20 marks)

**END OF PART A**

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

**INSTRUCTION(S)** : **THREE (3)** case study questions. Answer **ALL** questions in the Answer Booklet(s) provided.

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**Web Reservations International: Challenging Industry Norms**

The world of independent travelling offers great expectations, new life experiences and opportunities to make new friends. For the independent traveller 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, internal 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 contracted Ray Nolan, an IT specialist, a self-taught computer programmer and owner of Raven Computing, to develop a software program which would allow his hostel to manage the check-in and checkout process. Following the successful installation of the software at Avalon House Hostel Nolan resold the reservations management system as *Backpack* to a number of hostels.

In 1999 Ray Nolan and Tom Kennedy founded privately owned 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 80 countries. WRI provides online confirmed reservations to over 24,000 accommodation providers, directly and through more than 3,500 global affiliate partners.

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

Increasingly, the trend among travellers is to bypass traditional channels to organize holidays and business travel. According to the UNWTO worldwide receipts from international tourism reached \$944 billion in 2008 up \$87 billion on 2007 receipts. The first four months of 2009 showed a decline of 22 million tourist arrivals (247 million) in comparison to the same time period in 2008. This decline in tourism arrivals lead to revised forecasts ranging from -6 percent to -4 per cent for 2009. However, long-term forecasts suggest that international arrivals will reach 1.6 billion by 2020, with the three most prominent receiving regions being Europe, East Asia and the Pacific and the Americas. Over 51 per cent of visits in 2007 were for leisure, recreation and holidays, the purpose of 27 visits was for visiting friends and family and 15 per cent of travel was for business and professional reasons. Within the independent

accommodation category, a new segment has opened up, termed 'flashpackers', who are travellers in their thirties who previously backpacked and have caught the 'travel bug' again.

Online travel companies, because of the low prices, low commission and margins and the high cost of traditional booking systems, had neglected the BYIT sector. These traditional booking systems, called Global Distribution System (GDS), provide pre-internet travel booking systems. However, the high cost of installing and using GDS systems makes them unsuitable for both BYIT product providers and travel companies. In comparison, WRI's online booking system provides a web only, low-cost booking system, effectively becoming the GDS of the BYIT sector.

The entire market has changed in many ways, making the internet an obvious tool for reaching this global market. No long does the BYIT market consist of poor students checking out the cheapest possible holidays. Nowadays, hostellers and budget travellers are often older people or families, with hostels now offering single and family rooms to cater to this market, in addition to multi-bed dormitories. Hostellers and backpackers carry credit cards and typically go online daily in internet cafes, avail themselves of WIFI facilities or use their mobile phones, making online booking easy. Moreover, they demand a more structured travel experience, seeking outdoor adventure or cultural activities and tours. WRI's online reservation system and websites cater for this demand.

The changes in the BYIT market coupled with the successful redevelopment of the *Backpack Online* software and the *hostelworld.com* and other related websites afforded WRI a dominant position in this market. In the early 1990s hostels generally ran their own individual websites, with no credit card booking facilities. By 2003, WRI had built relationships with 5,000 hostels and was selling rooms on their behalf through an integrated internet reservation system. This grew to over 12,000 hostels by 2006 and to 24,000 hostels and budget hotels, guest houses, apartments and campsites by 2010.

## **Competition**

The competition for WRI breaks into two segments: competitors that compete in the accommodations booking market and online reservation competitors that offer hostel and budget accommodation.

Expedia, Travelocity and Orbitz were the three top ranked online travel agencies by US visitors in April 2005 and continue to be the leading players in the US market. Expedia continues to develop its Expert Searching and Pricing (ESP) technology which provides one of the most comprehensive flight options available online. ESP also allows customers to dynamically build complete trips that combine flights, special rate accommodation, transportation, and destination activities. Expedia operates Classic Custom Vacations, a leading distributor of premier vocational packages to destinations such as Hawaii, Mexico, Europe and the Caribbean.

In addition, it operates a corporate travel agency and, through other subsidiaries such as Travelscape, it cross-sells to third parties on a private label basis. Its other well-known

international brands include Hotels.com, Hotwire.com, TripAdvisor and Egencia. Expedia's directory has more than 80,000 hotel properties and 4 million rooms, in addition to discounted fares on over 450 airlines.

Websites that compete directly with WRI include hostelbookers, hostelsclub and hostelmania.com. Hostelbookers is privately owned and based in the UK. Hostelmania founded by three backpackers in 2004, operates from offices in Spain, Gibraltar and the UK. Its marketing focus is centred on making worldwide hostel reservations easy. It operates a revenue model similar to WRI's. The core of hostelmania is to provide a simple way to book decent quality, inexpensive accommodation online, to minimize the hassles of travelling and leave customer with more time to enjoy when arrive at the destination.

### **Market expansion and growth**

In a bold strategic move WRI acquired hostels.com in January 2003. It was a key player in the BYIT market and was a good fit with WRI in relation to market and product fit. Further acquisitions followed, which included WRI acquiring Hostels of Europe which provided marketing support and operated a website featuring 450 hostels throughout Europe in early 2004. In March 2005 it acquired WorldRes, a US hotel booking business which provided the company with access to independent and chain hotel contacts. In tandem with the acquisitions, Summit Partners, a leading private equity and venture capital firm, bought an equity stake in WRI for an undisclosed figure.

In February 2008 WRI announced that its COO Feargal Mooney was taking over from Ray Nolan. Later, the company divested WorldRes to focus its efforts on the independent, budget accommodation segment of the market. In November 2009, the company announced that it had been acquired by the private equity firm Hellman and Friedman LLC for an undisclosed amount.

### **Future challenge**

The main challenge is how can WRI maintain its dominant position in the BYIT market and broaden its global footprint while maintaining its unparalleled level of operating efficiency. The economic global crisis has impacted on the global travel industry and has put pressure on operating margins within the industry.

Adopted from: Cunningham, JA & Golden, W (2010) in Johnson, G., Scholes, K., & Whittington, R. (2011), Exploring Corporate Strategy: Text and Cases, 9<sup>th</sup> Edition, Prentice Hall. Pp. 595-600.

**Question 1**

Critically evaluate WRI's critical success factors based on innovative use of technology.

(20 marks)

**Question 2**

Using Porter's five forces model, assess the extent to which WRI has been competing in the BYIT market.

(20 marks)

**Question 3**

Discuss WRI corporate strategic directions in between the year 2003 to 2010.

(20 marks)

**END OF QUESTION PAPER**