Diploma Programme
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Business management
Case study: Utopia

For use in May 2017

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

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Utopia

John Ariki is an entrepreneur who owns 100 % of the shares of the private limited company *Utopia*, a holiday resort located on the island of Ratu, in the Pacific Islands. *Utopia* offers a once-in-a-lifetime tourist experience. Frequent visitors are film stars. *Utopia* is positioned as a unique experience in the Pacific Islands and offers exceptional levels of comfort and service. When guests rent a villa, *Utopia* provides a private boat and crew to transport them around the island at any time, day or night. *Utopia* relies heavily on word of mouth for promotion. On several occasions, video clips of *Utopia* have gone viral on the internet.

The original business plan for *Utopia* in 2000 included twelve villas, the first of which John built himself. Local craftsmen built the remainder using traditional materials. John has revised the business plan and the resort now has 24 villas. He believes that a major factor in the success of *Utopia* is local craftsmanship. John insists that the villas reflect the culture of the Pacific Islands. For example, he deliberately resists pressure from external stakeholders to expand *Utopia*'s capacity.

Utopia obtains ingredients for meals (served at the villas) on a just-in-time (JIT) basis from neighbouring islands and award-winning coffee from the island of Aora. Even though coffee growers from Indonesia and Papua New Guinea have offered to supply *Utopia* with their finest coffee at much lower prices, John's passion for ethically produced fair trade Aora coffee has caused him to refuse all alternatives. John is willing to pay his coffee suppliers in Aora prices well above those determined on the commodity markets. He believes that the beautiful location, the local craftsmen and materials, and the local food and coffee together form the basis for the *Utopia* brand. John has a paternalistic approach to leadership.

The success of Aora coffee served at *Utopia* inspired John to open a café in 2006 in the nearest main town on Ratu. He called the café *JAC* and owns it as a sole trader. *JAC* is product oriented. It offers espresso and high-quality food, and roasts its coffee beans on site, which enhances the coffee drinking experience. John would like to educate coffee drinkers about the coffee. At the café, *JAC* has tastings, brochures, interactive displays and other attractions. Visiting *JAC* has become an important tourist activity in the region and *JAC* is now a famous brand. Using coffee beans from Aora, *JAC* began to win awards as a roaster and to distribute ground coffee in a number of neighbouring Pacific Islands.

The growth of *JAC* took John by surprise. In order to concentrate on *Utopia,* in 2011 he handed over the day-to-day operation of *JAC* to his twin children, Paul and Liza.

Paul graduated from an IB school in Australia in 2008. He travelled worldwide to develop his business and life skills. He spent time in Seattle working in a youth hostel and became fascinated with Seattle's coffee culture. Paul's business thinking was inspired by a small chain of coffee roasters and retailers that make significant donations to charities with the aim of eradicating human trafficking. Paul was not interested in a multinational coffee chain headquartered in Seattle. At *JAC*, Paul is in charge of marketing and operations. He has a special interest in product development and is constantly looking for ways to contribute to the local community.

Liza is *JAC*'s human resource manager and is in charge of finance. She is entrepreneurial and a visionary, and is frequently looking for new ways to expand the business. Unlike her father and brother, Liza imagines business opportunities on more than a local level. Liza argues that, given *JAC*'s considerable capacity for growth and brand loyalty, the business is not reaching its full potential and not following its original business plan. She argues that *JAC* could enter many coffee markets around the world.

In 2016, a natural disaster occurred on Ratu, damaging seven villas and destroying the remaining seventeen. Although John's customers could continue to rent the seven remaining villas, *Utopia* experienced a sudden and substantial decrease in bookings. Later in that financial year, *Utopia* recorded its first financial loss in sixteen years. John decided to create a crisis management plan and carry out contingency planning for cost, time, risks and safety. Believing that businesses should finance internal growth from internal sources, John refused offers of help to rebuild *Utopia* from external investors. Only internal sources of finance were used. John believed that outside investors would interfere with his vision for *Utopia* and *JAC*.

Thinking of all his business interests (*Utopia* and *JAC*), John realized that he has to consider new revenue streams. The natural disaster damaged *Utopia*'s positioning and threatened its long-term viability. He has asked Liza and Paul for advice on future options for growth. However, it was made clear that John would still decide on which option would be chosen and that the vision and social responsibility of *Utopia* and *JAC* would not be compromised.

Paul is considering developing the brand of *Utopia* by selling customized souvenirs produced by a three-dimensional (3D) printer. Improved internet connections and technology make the expensive 3D printing process a possibility. The gross profit margins on these customized souvenirs would be high, despite the fixed costs of the equipment. In addition, gaining experience with 3D printing might enable them to recognise and think about more opportunities for its use throughout John's businesses. Capital expenditure of \$10 000 would be required to set up this untested printing service. Liza, however, is concerned that some people will perceive the souvenirs as inauthentic or cheap, which would devalue the *Utopia* brand.

Liza favours expansion through the sale of *JAC* coffee to other markets, initially the Pacific islands of Fiji, Samoa and New Zealand. Her market research includes stratified sampling of these three markets. The market research has indicated some profit potential in Fiji and Samoa and considerable profits in New Zealand. A concern for Liza is the challenge of delivering coffee beans from Aora to the three markets in a timely fashion so that the beans remain fresh (were cafés to serve coffee brewed from unfresh beans, the reputation of *JAC*'s coffee could suffer). *JAC* would also face many external factors in creating new distribution channels. Possible approaches to selling in these new markets could be through a strategic alliance, a joint venture or franchising.

John met with Liza and Paul to discuss their growth options. The rebuilding of *Utopia* in 2016 cost more and took longer than originally anticipated. John knows that changes in the organizational structure and legal ownership of *Utopia* and *JAC* are inevitable regardless of which option(s) he chooses. Alternative suitable sources of finance should also be considered. While talking with Liza and Paul, John sketched out new possible organizational charts.

Additional terms not in the guide

Commodity market
Fair trade

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.