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| **Activity:** | Case Study |
| **Learning Objective:** | 1. To broaden students’ exposure to different businesses through exploring the given business case
2. To consolidate students’ business knowledge learnt in the subject by identifying and synthesising ideas to solve business/management problems; and
3. To raise students’ interest in business learning
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| **Level:** | S5-6, Business Management Module |
| **Duration:** | Out-of-class – pre-study by doing information search, answer the questions after group discussion in classIn-class – Group sharing and discussion |
| **Prior Knowledge:** | Compulsory Part – 1(a) Business EnvironmentElective Part – 3(a) Financial Management; 3(b) Human Resources Management; 3(c) Marketing Management |

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1. **Pre-study**

Students are required to search the following information about mini-storages before class –

the information generally provided on the websites of mini-storage facilities (according to reference)

the reasons why people need/use mini-storage

mini-storage fire in an industrial building in June 2016

government’s response to address the fire safety issues of mini-storages

Reference:

1. Information Services Division of Legislative Council Secretariat (2019):

<https://www.legco.gov.hk/research-publications/english/1920issh01-fire-safety-of-mini-storage-facilities-20191017-e.pdf>

2. Hong Kong Government Press Release (15 June, 2017):

<https://www.info.gov.hk/gia/general/201706/15/P2017061500952.htm>

3. The news.gov.hk (13 July, 2016):

<https://www.news.gov.hk/en/categories/law_order/html/2016/07/20160713_161505.shtml>)

1. **Group discussion on case – Mini-storage facilities**

SOHO Mini-storage was founded by Mr. LEE in 2003 during the SARS outbreak which is wholly owned by him. He also undertakes all financial and operational liabilities of SOHO. The Hong Kong economy went through a sharp downturn that year and the property prices dropped severely. Mr. LEE considered it a good time to invest in properties at a rock bottom price level, and so within three months after the property market collapsed, he acquired several flats in industrial buildings in Ngau Tau Kok, Kwun Tong , Tsuen Wan and Lai Chi Kok. After ten several years of operation, Mr. LEE has owned over 50 premises providing self storage cubicles of different sizes for individuals and businesses.

This day last year, a fire broke out in an industrial building where a SOHO mini-storage was located. The industrial building was too old to install an automatic sprinkler system. The fire burned for several hours and was spread to the upper and lower floors. All the storage facilities and items stored inside the cubicles of the mini-storage were totally destroyed. After the fire, there has been a widespread discussion in the society about the irregularities and serious safety risks/issues associated with mini-storage. The existing and potential mini-storage customers requested the mini-storages be located in convenient locations, with the provision of various choices on sizes of self storage, which are also safe and clean.

The Government, of course, wanted to avoid fire hazards in mini-storages by advocating upgraded fire safety facilities of industrial buildings and strengthening statutory control over mini-storages. Hence, the Fire Services Department (FSD) inspected over 700 mini-storages and issued a large number of improvement notices to urge the mini-storage owners to take proper fire prevention measures as required. Up until now, over a hundred mini-storages in Hong Kong have closed down. Those striving for survival, including SOHO, are under tremendous pressure to raise sufficient fund in the short term to take the improvement measures in compliance with the mandatory ordinance.

Meanwhile, SOHO has received flood level of enquiries from clients about the claims for loss caused by the fire, the security issue during the renovation period, the arrangement and special offers for the relocation of their belongings. Many frontline staff could not bear the work pressure and half of them resigned. Mr. LEE is facing difficulties in retaining staff and urgently needs to fill up the vacancies to maintain the business’ daily operations.

**To think about…**

1. Identify the form of business ownership of SOHO.
2. Explain the characteristics of the form of business ownership identified in Q1.
3. Based on the case, what challenges and opportunities isSOHO facing after the fire?
4. Using each of the elements in 4Ps of marketing mix, suggest a marketing strategy for SOHO to manage and meet the expectations of existing and potential mini-storage customers.
5. In what ways can Mr. LEE raise capital to meet the financial needs of the required rectification works of the mini-storages and maintain the healthy cash flow of SOHO?
6. Identify and explain the types of risks associated with fire damage to mini-storage.
7. Suggest risk management strategy(ies) SOHO can adopt to deal with the risks identified in Q6 above.
8. Suggest ways, in terms of reward packages and flexible work arrangements, to help SOHO retain the existing frontline staff and attract job seekers.

**Suggested answer**

1. Sole proprietorship
2. Characteristics of sole proprietorship:
* Business is run by a single individual, subject to relatively few legal restrictions when compared with other forms of business ownership such as partnership and limited company
* Sole proprietor is personally entitled to all of the profits and has unlimited liability for any debts that the company incurs
* Sole proprietor has the sole management as well as full control and decision-making power over policies, profits, capital investment/utilisation of fund
* The continuity of the company depends upon the competence and life span of the sole proprietor
* (optional) Although a sole proprietorship may engage employees in daily operations, the sole proprietor still takes up different business functions.
* …

3.

Challenges SOHO is facing:

* Financial management –
* short of cash to cope with the claims for loss and the rectification works for different locations as required by the FSD within a short period of time
* costs of raising capital by debt and/or equity financing in order to meet urgent financial needs, e.g. increasing interest burden and reducing the profit margins if raiseing capital through bankloans; reducing Mr. Lee’s returns due to an increase in the total number of owners if raising capital by admitting one or more partners
* …
* Human resources management –
* short of manpower to sustain the daily operation caused by high staff turnover rate and vacancy rate
* negative halo effect in public perception that staff working at SOHO have negative experience. People tend not to apply the vacancies in such a work environment
* need tactics to retain existing staff and attract new recruits
* …

Opportunities for SOHO :

* As the statutory control over mini-storage business has tightened, many mini-storages closed. This may be an opportunity for SOHO to expand its market share in the mini-storage market by providing clients with flexible, secure and clean locations/storage units as well as quality services
* Repositioning the services provided by SOHO and improving its management and operational practice to better serve clients’ interests
* …
1. 4Ps strategies to meet the expectations of existing and potential mini-storage users:

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| Product | * improving the fire safety facilities
* improving the safety of using mini-storages to ensure the provision of a secure and clean environment, e.g. 24-hour air-conditioning, thermostat control, security locks, video surveillance, security monitoring, security gates/doors, etc.
* offering more choices on sizes of storage units, e.g. including specific sizes or types of units
* providing clients with a more convenient channel for making reservations such as online booking system or mobile application
* …
 |
| Price | * adopting the price quality approach of positioning, i.e. setting a price according to the quality of the product/services
* online payment with special offers and/or online discounts
* charging by different rental periods (for both short-term and long-term rental), e.g. 1 week, 1 month, 2 months, 3 months, 6 months, 12 months, and even long-term contracts/payment options…
* …
 |
| Place | * scattered locations in 18 districts if having sufficient funds?? (no fund now)
* convenient locations
* situated at commercial/industrial flats near the lift lobby or on the ground floor
* …
 |
| Promotion  | * being certified in compliance with the laws and regulations applicable to mini-storages
* providing theft reports, where possible, to prove that SOHO mini-storages are in safe condition
* producing virtual tour guides for the renovated mini-storages in order to visualise the fire safety facilities and other equipment
* engaging current and former clients to dissemintate positive comments on the services provided by SOHO through the official website of SOHO or social media, etc.
* developing an app to increase SOHO’s accessibility to the widest possible users
* …
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5.

Classification of funds Mr. LEE needs:

* Mr. LEE needs funds to deal with urgent rectification works and daily operations expenditure within a short period of time, saying a few months or a period less than a year. Based on the time period of his financial needs, he needs short-term financing to raise working capital to meet the cash flow challenge during this period.

Financing options:

* Collateral loan – use the existing property of SOHO as collateral for a loan from bank

Other possible options:

* Bank overdraft – using personal/bank overdraft to extend the cash resources
* Short-term instalment loan – a personal loan with a fixed number of payments for repaying both the loan principal and the interest
* Credit card – financing with the credit limit, i.e.Mr. LEE can borrow money in the form of cash advances within a pre-set borrowing limits, i.e. cash withdrawal, repayment and resetting of credit limit

6.

* Pure risk - Fire damage to mini-storage is a pure risk as it causes direct losses (fire burnt down the whole premises where the mini-storage was located, including all the storage facilities and items stored in cubicles) and indirect losses incurred (loss of space to continue the mini-storage business for a period of time)
* Insurable risk – Fire occurs purely accidental (not man-made damage). The loss is measurable and in large amount but not devastating. Besides, probability of fire and its possible loss can be forecasted by applying the law of large numbers

7.

Combination of risk management strategies should be adopted to deal with the risk of fire damage:

* Risk reduction – reducing the chance of fire and the loss incurred by upgrading fire prevention facilities for the mini-storages and strengthening the consciousness of firefighting among staff
* Risk transfer – shifting the losses caused by fire damage to another party through insurance. SOHO needs to consider the costs of insurance against the potential loss from the fire risk before taking insurance. Once the fire happens and loss occurs, SOHO can get the compensation from the insurance company
* Risk assumption – the government has already amended or enforced laws and ordinances related to fire control of mini-storages. Any losses owing to the changes in government policies are difficult to avoid, prevent/reduce or transfer. SOHO has to bear these losses. Hence, SOHO could set aside some funds for any potential losses that may occur in its mini-storages

Remarks:

* Risk avoidance may consider practical for a business only after all other possible options have been exhausted. Based on the case of SOHO, risk avoidance is not feasible as SOHO mini-storage is already in operation and fire damage/loss can only be reduced, transferred and borne by SOHO.

8.

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|  | Retain staff | Attract job applicants |
| **Reward package – Compensation:**  |
| * increase the salary of existing staff
 | ✓ |  |
| * provide competitive and equitable salary – offer a salary higher than the market average due to high work pressure in SOHO
 |  | ✓ |
| * monthly bonus –which is tied to the staff attendance and client satisfaction
 | ✓ | ✓ |
| * yearly bonus – if applicable, share with staff part of the profit earned at the year end to recognise their efforts and support to SOHO during difficult times
 | ✓ | ✓ |
| **Reward package – Benefits:** |
| * offer annual leave above the statutory minimum
 | ✓ | ✓ |
| * more generous scheme for MPF – offer 5-15% of monthly salary for the staff of SOHO according to the length of services
 | ✓ | ✓ |
| * offer education sponsorship for staff to further their studies
 | ✓ | ✓ |
| * offer overtime payment for working beyond working hours
 | ✓ | ✓ |
| * offer higher salary for late shift and overnight shift
 | ✓ | ✓ |
| * Others/Non-monetary rewards:
 |
| * improve the working environment, e.g. a pantry with refreshment for staff, personal lockers
 | ✓ | ✓ |
| * ‘staff of the month reward’ to increase self-esteem and job satisfaction of staff
 | ✓ | ✓ |
| **Flexible work arrangement:** |
| * Select duty shift
 | ✓ | ✓ |
| * Select work location
 | ✓ | ✓ |
| * Job rotation to share the workload, especially answering enquiries and complaints
 | ✓ | ✓ |