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INFORMATION

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- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Urban Bee Hive (UBH)

Co-working

After Amit Menda graduated from university, he started work for a business in the US. The business specialised in designing workplace environments that aim to improve productivity. Whilst working in the US, Amit observed the growth of co-working. Co-working provides office space and support services for businesses. It offers a flexible solution for businesses which need an alternative to traditional long-term leasing or ownership of office space.

In 2018, using his knowledge and experience, Amit founded UBH, a private limited company. It is based in country W, where co-working is still a relatively new idea. UBH focuses on providing office space to entrepreneurs and small businesses as and when they demand it. UBH calls its co-working centres 'beehives'.

There are three shareholders in UBH, all of whom are directors. Amit owns 50% of the shares while the other two shareholders own 25% each.

A difficult economic climate

Until 2020, UBH's expansion was rapid. This internal growth was mainly financed by bank loans. However, in 2020 UBH came close to failing. There was a recession in country W when economic output fell by 10%. Many of UBH's small business customers became insolvent during the recession. UBH was left with significant unused capacity and almost no working capital.

The government responded quickly to the recession and made the following changes to its economic policies:

- increased investment in infrastructure including road and rail transport
- reduced income tax
- reduced central bank interest rates
- delayed payment of business and property taxes.

Amit believes that without these changes to economic policies UBH would have failed.

Marketing strategy

UBH's marketing strategy has targeted entrepreneurs starting new businesses and small, established businesses.

Each UBH co-working centre (beehive) provides customers with shared kitchen facilities and snack vending machines. Customers are offered flexible contracts from 1 day to 1 year. They can either lease a hot desk (any desk available that day), a dedicated desk (the same desk for the duration of the contract) or a private office. Customers can also rent meeting rooms of various sizes by the hour. All customers benefit from unlimited internet access and printing facilities.

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The Marketing Director has produced a situational analysis for the Board of Directors to consider. Selected details are given below.

- In 2020, capacity utilisation fell to a low of 50%.
- During 2021, following the recession, UBH opened 3 new beehives. UBH now has 10 beehives in country W.
- In 2021, two international corporations entered the market in direct competition with UBH.
- Customer feedback shows a high level of satisfaction with UBH's facilities.
- Customer feedback rates price, flexible contracts and distance from key transport hubs as the three most important factors in choosing a co-working centre.
- Price elasticity of demand for leasing desks is estimated to be –0.5.
- Most new business start-ups are unaware of the benefits of co-working.
- Social media advertising has been the most cost-effective method of attracting customers.
- Some larger businesses, including multinationals, make use of co-working centres in country W. However, they demand premium facilities and more space per desk than UBH currently provide.
- Forecast market growth for co-working in country W in 2023 is 10%.

Table 1: Price per month for leasing desks at UBH and market leader

	UBH ($)	Market leader ($)
Hot desk	150	140
Dedicated desk	300	280
Private office	2500	2300

Amit is concerned that capacity utilisation across UBH's 10 beehives averages 80% compared to the target of 100%. He has asked the marketing department to propose changes to the marketing strategy to increase sales and reach target capacity.

Managing co-working centres and Human Resource Management (HRM)

Amit has delegated authority to centre managers to make decisions about local advertising, day-to-day operational issues and hiring of employees such as cleaners, IT technicians and security.

Each UBH beehive also has a customer relationship manager. UBH encourages its beehives to hold special events to promote their facilities and increase customer interaction. Recent events include educational talks and business advice sessions.

UBH employees have flexible employment contracts. Employees can spend 5% of their time working on individual projects of interest. All new recruits receive extensive training. UBH's vision includes 'Our people are our greatest strength and we are committed to providing opportunities for each individual to fulfil their potential. Our team is energetic with an entrepreneurial spirit, ready to face challenges.'

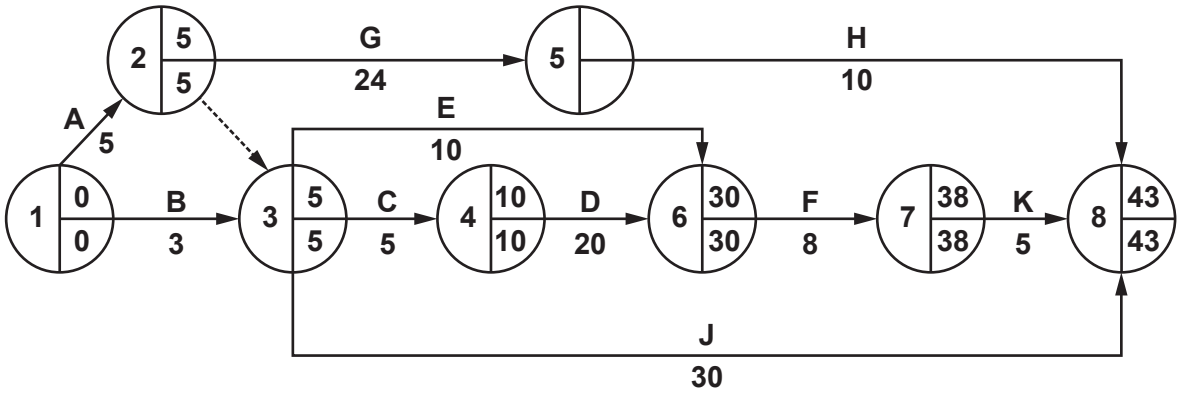
Beehive 811

UBH is scheduled to open its new centre, Beehive 811, very soon. The Operations Director prepared a network analysis at the start of this project and predicted it would finish within Amit's deadline of 45 days. Table 2 and Fig. 1 provide details of the network analysis and diagram. *75*

Table 2: Network analysis

Activity	Activity detail	Preceding activities	Duration (days)
A	Agree and sign lease with landlord	None	5
B	Draft building plans	None	3
C	Order and delivery of building materials	A & B	5
D	Building work and inspection	C	20
E	Order and delivery of office equipment	A & B	10
F	Installation of office equipment	D & E	8
G	Employee recruitment	A	24
H	Employee training	G	10
J	Initial marketing of centre	A & B	30
K	Fire inspection and certificate	F	5

80 *85*



90 *95*

Fig. 1: Network diagram

The project started 10 days ago. The delivery of office equipment is delayed by 12 days. Amit is concerned that any delay in opening will lead to a loss of income if prospective customers decide to go elsewhere. *100*

Going public?

After making a loss in 2020, UBH returned to profit in 2021. UBH has ambitious expansion plans for the next 18 months. As well as opening Beehive 811, UBH is aiming to open 3 more centres in 2022 and 10 more in 2023. Office buildings are expensive in country W so UBH uses a combination of long-term leases and joint investments with landlords to reduce cash outflows. UBH will need to invest $16m to finance this expansion.

Amit is in favour of changing UBH to a public limited company (plc). UBH could offer its shares for sale to the public by early 2023. The other two shareholders warned Amit that the cost of a stock exchange flotation is likely to be very high.

The Finance Director predicts that interest rates in country W will increase from 2% to 4% by 2023. Table 3 provides data from UBH's latest financial statements.

Table 3: Extracts from UBH's financial statements

		2021 ($m)	**2020** ($m)
Income statement	Revenue	14.4	6
	Profit/loss for the year	1.5	(3)
	Dividends paid	0.5	0.2
Statement of financial position (at end of year)	Non-current liabilities	12	9
	Share capital	2	2
	Retained earnings	3.5	2.5
	Trade receivables	1.1	0.7
	Cash and cash equivalents	0.7	0.1
	Current liabilities	3	4.5

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Strategies for the future

Amit conducted a strategic analysis of UBH to identify strategic options. A summary of Porter's Five Forces for option 2 is shown in Appendix 1.

The board has to make a decision between the following two strategic options.

Strategic option 1: Expand into country Z
Open beehives which offer the same facilities as those in country W. Economic growth in country Z is high. There are few businesses offering co-working centres in country Z.

Strategic option 2: Target large business customers in country W
Develop high specification beehives to attract multinational and other large business customers. Premium facilities will be required and centres will need to be located near international transport hubs within country W.

Table 4 contains a summary of strategic choice technique data.

Table 4: Summary of data from strategic choice techniques over 5-year period

	Strategic option 1: Expand into country Z	**Strategic option 2: Target large business customers in country W**
Driving forces	• Rapid economic growth	• Multinational investment in country W
Restraining forces	• Political instability	• High cost • Brand development required
Capital cost	$6m	$10m
Accounting rate of return (ARR)	10%	15%
Decision tree: **Expected monetary value** **Probability of success**	 $2m 60%	 $6m 70%

Appendix 1: Porter's Five Forces for option 2: Target large business customers in country W

Threat of new entrants	**Buyer power**
• High capital costs to enter market • High product differentiation	• Limited land available for expansion
Threat of substitutes	**Supplier power**
• Substitute services available from landlords, hotels and conference centres • Digital technologies offer new ways of working	• Corporate clients have financial power

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