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INFORMATION

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Inolla

After graduating from university with a degree in product design Li-chun worked for a leading manufacturer of electric cars. However, Li-chun had always wanted her own business. Li-chun found her journey to work by bus and foot time consuming and wondered if there was a better way for people to commute in busy cities. She researched various options before deciding that there was a gap in the market for lightweight foldable scooters with an electric motor. In 2011 Li-chun set up Inolla as a private limited company in country Q to manufacture electric scooters.

A market opportunity

Inolla's sales have grown rapidly in country Q, a country in Asia with a large urban population. Inolla targets commuters with advertising on buses and trains. It also uses social media and viral marketing campaigns.

Inolla's range of electric scooters are of high quality and are premium priced. Battery technology is constantly improving so each model is updated frequently. Over 60% of sales are through the internet but Inolla also distributes its scooters through bicycle shops and three of its own retail units. Inolla also exports to 10 countries in Asia using agents based in those countries.

Market research conducted by Li-chun in 2018 found that millions of dollars had been invested globally in shared micromobility businesses. In the shared micromobility market, customers rent scooters or bicycles to make short journeys. Inolla now wants to supply to businesses that operate in the shared micromobility market.

Li-chun has designed a new electric scooter to sell to businesses in the shared micromobility market. She has set a corporate objective to achieve a market share of 5% in Asia within two years. This would require a 400% increase of Inolla's current annual sales volume. Li-chun recognises that to achieve her target, it is necessary to:

- increase production
- develop a new marketing strategy

Operations close to capacity

As sales have increased, Inolla has recruited more factory employees. However, the factory is now operating at over 90% capacity and Li-chun forecasts that full capacity will be reached by the end of 2021. The factory site has room for expansion and this would cost $10m. Li-chun believes that external finance would be available but is concerned about Inolla's high gearing. Alternatively, Inolla could convert to a public limited company to finance a much larger expansion to build a new factory in country P where labour costs are much lower than country Q. This would enable Inolla to meet its sales target for the shared micromobility market.

Without a new factory, Li-chun believes that Inolla will need to subcontract some production in 2022. She has identified a manufacturer in country P with a factory that has the capacity to fulfil Inolla's demands. The manufacturer has a good reputation for quality and already supplies one of Inolla's competitors. However, there has been recent negative publicity regarding the poor working conditions at this factory.

A change to human resource management?

Li-chun is concerned that there is declining workforce performance in Inolla's own factory. Labour turnover has increased and productivity has decreased from a high of 2000 scooters per employee per year in 2019. Quality control inspectors ensure that the finished electric scooters meet the high quality standards set by Inolla. However, inspectors are identifying more faults that need correcting before the scooters meet the required quality standard. Further data is provided in Table 1.

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Table 1: Performance data

	2019	2020
Average number of factory employees	30	40
Number of employees leaving during the year	6	12
Number of days lost through absenteeism per employee	6	8
Monthly output of scooters	5000	6000
Percentage of units requiring fault correction	2%	2.5%

Neten has been the Operations Manager since 2017 and uses a 'hard' approach to human resource management. Employees are given training in the specific skill they require. Neten sets weekly production targets and tells employees a week in advance which shift they will work. Employees have demanded the right to join a trade union. However, Inolla has refused to give permission. Production line employees are paid country Q's minimum wage to keep costs low.

Li-chun is convinced that Neten's approach to managing employees has contributed to the declining workforce performance.

Product recall

In April 2021, there were reports that the batteries of two Inolla scooters had caught fire. Fortunately, there were no serious injuries but many customers have been phoning Inolla's customer services department concerned about the safety of their scooters. Li-chun was surprised by the problem as she was certain that quality control at the factory was effective. She contacted her battery supplier to check how this could have happened. At the start of May, Inolla issued a product recall for all scooters produced since the start of 2021.

Improving efficiency

Inolla holds inventory of components to ensure that production is not disrupted. Components are imported from a number of other countries. Batteries are the most expensive part of the scooter and these are imported from country P. Li-chun is considering investment in an enterprise resource planning (ERP) system to improve the efficiency of operations. She has approached a specialist ERP supplier which estimated an investment cost of $1m and projected net cost savings shown in Table 2. The specialist advised Li-chun that the ERP system would need replacing after approximately six years.

Table 2: ERP investment appraisal extract

Year	Net cost savings ($000)	Discount factor at 6%
1	300	0.94
2	400	0.89
3	450	0.84
4	500	0.79
5	500	0.75
6	500	0.71

Economic environment

The economic environment is changing in country Q. Unemployment has decreased to 3.8% and economic growth is forecast to average 5% per year in the next three years. The government is concerned about the threat of inflation and is expected to increase interest rates before 2022. Country Q has an appreciating exchange rate and this is expected to continue over the next two years.

Li-chun has asked her finance manager to evaluate how these changes might affect Inolla.

Corporate planning

Li-chun last conducted a full strategic analysis in 2018. As a result of that strategic analysis Li-chun decided that Inolla, as part of its growth strategy, should target businesses that rent out scooters in the shared micromobility market. A summary is shown in Table 3.

Table 3: Summary of strategic analysis 2018

Strengths	**Weaknesses**
• product quality • innovative design features • excellent customer feedback • low labour turnover	• high gearing • low inventory turnover • limited capacity • high unit costs
Opportunities	**Threats**
• shared micromobility market growth • export market growth • favourable economic environment • improved battery technology	• larger global competitors • minimum wage to increase in 2019

Li-chun also commissioned a Porter's Five Forces analysis of the competitive environment in the shared micromobility market. An extract is shown in Table 4.

Table 4: Extract from Porter's Five Forces analysis 2018

Threat of new entrants	**Power of buyers**
• high economies of scale • technology is relatively cheap • some companies produce their own scooters	• market dominated by a small number of shared micromobility businesses renting scooters
Power of suppliers	**Threat of substitutes**
• a few suppliers control the market for batteries • there are multiple suppliers of other components for scooters	• shared micromobility businesses have other options for short journey rentals including bicycles and electric bicycles • ride sharing apps • public transport and taxis

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