BUSINESS INTEGRITY AND BUSINESS MODEL

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Abstract

Sustenance of any business in the long run depends on the entrepreneurial integrity of the business model. Customers respect the integrity of a business model as their first priority, because they perceive that business integrity guarantees good quality, timely delivery and reasonable price of a product. A big ethical brand is a natural outcome of perpetual business integrity.

Asian Resorts Limited (ARL) is a very reputed "property sharing company", which owns more than hundred resorts in and outside India. It offers a 'thirty-year membership' with an entrance fee of Rs. Six lakhs. A member with his family of four can stay at any resort for five days per annum, based on 'room availability'. The member is offered one-bedroom, small kitchen and a small sitting hall. He has to pay annual maintenance fees of Rs. twenty-seven thousand, irrespective of he avails the stay or not. The food served at each resort is quite costly. It is Rs. 2500 per day per person for morning breakfast, lunch and dinner. As each resort property is located far away from the main city, it is almost impossible to visit the city every day for cheaper meals. The transport facility provided by the resort is very expensive.

Recently ARL has started losing business to its rivals. The public perception of this business loss is very serious. ARL as per its policy, originally reserved around 15% of the rooms for "non-members" who can avail any resort at a price equal to the market rate in a respective locality. Obviously, this price was 50% higher than the cost paid by a regular member. During the last couple of years, ARL has been allotting more rooms to the non-members because this cash revenue was substantially more than the members' fees. Unofficial reports are now quoting about the manipulative behaviour of the managers of ARL. There is no transparency in their communication with the members. Despite the members attempt to book a room much in advance than the stipulated time period, they often get a message of 'non availability' of the room. Even the members of the highest category are now being denied the facility. This manipulative trade behaviour has caused serious amount of agitation among all the members. Different member - groups are differently protesting against this unprofessional business practice of the ARL. Even the domestic and international media is seriously reporting about this unethical practice of ARL.

A few members who wanted to exit from this scheme, could not do so because there was no official exit route available. ARL was of the opinion that a member should bring his replacement, get paid by the new entrant and exit. This was very difficult because most of the probable customers were aware of ARL's present business practice. They would do a simple comparison between the total direct and indirect cost per annum payable to ARL for a stay of five days versus a rent payable to a decent hotel for a similar stay. What was more annoying was the non - availability of rooms at ARL's resorts and its manipulation of entertaining the non - members. ARL's Income Statement of the latest year revealed an extraordinary rise in its subsidiary income, i.e. the income from non - members. The ratio between operating income and non - operating income was clear evidence of ARL's manipulative business practice. A small group of its members supported by a CMA carried out a CBA (Cost Benefit Analysis) of its room, food and allied business of entertainment. This group benchmarked ARL's costs and benefits against the competitors in the market. Quite a few astonishing facts came out as a result of this thorough inquiry. A non - refundable entrance fees of Rs. six lakhs was assessed with the technique of DCF (Discounted Cash Flow i.e. Time Value of Money) for a reasonable annual rate of ROI of 12%. This assessment proved that ARL's pricing model was exorbitantly high. An ultimate truth that came out from this analysis was, the innocent customers (members) were taken for granted.

A deeper CBA and Strategic Analysis exhibited that ARL was planning to convert some of its regular resorts into hotels, so that it could entertain the regular customers (i.e. non - members). It was a deliberate attempt to show to the shareholders and other stakeholders that the "membership business" was not very rewarding. To further prove this conclusion, ARL manipulated the apportionment of common cost between member and non - member businesses. It also accounted disproportionately higher assets for the membership business, to scale down its ROI. Now that ARL was almost completely exposed for its immoral business practices, the promoters started distancing themselves from the operating managers. The attempt now was to blame the managers for the total mess that was done. Of course, it was simply difficult to believe that the managers altered the business model without the knowledge of and approval from the promoters! MA