

### **Bright Lights and Services Co. (B)**

In 2010, a tsunami devastated BigBright. The tsunami substantially damaged BIEGO's electrical distribution system, resulting in prolonged power outages for several parts of the island for weeks. The maximum impact of the tsunami was on PICO as it wiped out about 45% of the properties on the island. PICO faced a claim of \$145 million from policy holders, leaving PICO with negative net worth of \$21 million. Unlike large national insurance companies, PICO's customer base was small and lacked diversity. PICO also did not have reinsurance to cover its losses. PICO declared bankruptcy and BLSC abandoned the company. Since PICO policies were sold based on the reputation of the century-old BIEGO, many policy holders and public officials condemned BLSC in the press and brought lawsuits for misrepresentation and breach of contract. Many people saw it as a blemish on BLSC's reputation as a trusted local business and blamed the firm's diversification efforts for all the problems.

BOATS' performance was lackluster and barely met income targets. In addition to the decreased tourist business, slumps in the local economy and higher operating costs were having a major impact. Often scheduled ferries were cancelled or combined to increase the load factor, which upset both the locals and tourists. Fortunately, damage to the port on BigBright was minimal and BOATS is hoping to benefit from the increased inflow of appliances and construction materials needed for the reconstruction effort in the coming years.

Except for the MM bank, Smith's diversification strategy is not looking like a success. MoneyMarket (MM) Bank is performing well and is one of the bright spots of acquisition. As one of the four local banks that operated on the islands, it provides banking services to both businesses such as hotels, hospitals, and department stores, as well as consumers. Competition was intense among the local banks. There is also the news of Bank of America (BOFA) entering the business on the islands within a year, followed by Wells Fargo and other national banks. **However, senior executives of the local banks feel that they can convince the island residents to continue business with them based on their local history.**

MM mortgage services customer base is primarily families with single family units and town houses. MM wanted to broaden its customer base and has been targeting younger generation professionals who are buying units in condominiums. MM realized that the younger generation will upgrade to single family homes in a few years as their incomes rise and they start having families. MM wants to acquire and retain this customer segment. MM recently updated its system to offer mobile banking services and has been actively using social media to market its products and services to the younger generation. It has successfully differentiated itself from the

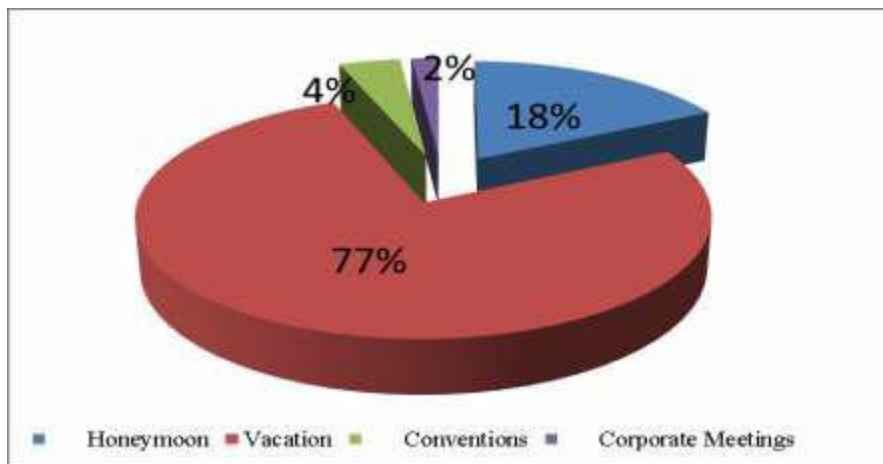
other 3 local banks, which were seen as reliable but stodgy. MM Bank wants to modernize its database and information systems, which will help it effectively segment customers and afterward offer customized products.

Since the technology is new, MM Bank wants to make sure that it performs well and is looking for service guarantees from its suppliers for the first 5 years. The new system segments customers based on their risk profiles and thus enables MM to structure loan rates to fit customer profiles. The system uses traditional credit worthiness and income, and combines it with an applicant's job type, industry classification, and economic outlook for the specific industry in order to group customers as high, medium, and low-risk. High-risk customers will be required to have a higher percentage of down payment and will be charged higher rates. MM hopes that this will allow them to further lower their loss ratio, customize their offering to their customers and thus increase profits. MM believed that impact on the bottom line with this new system could be as high as 15%. MM estimated a capital outlay of \$35 million for the system renovation and is in discussions with two major providers of this technology in Boston.

### **Brightland Chamber of Commerce (BCC)**

The Brightland Chamber of Commerce was formed in 1985 to promote Brightland as a preferred vacation destination to U.S. mainland residents. Given the interest from Europe during the summer, Europe was added as another target market within the first 10 years of operation. In 2011, there were a total of 2.1 million visitors to BrightIslands who spent about \$4 billion in goods and services. U.S. visitors accounted for 65% and international visitors were 35% of the total. As the following chart shows, the majority of the tourists stated vacation as the reason for their island visit.

Brightland Visitor Intentions



BCC felt that they had three distinct products in the tourism sector. The first was a premium product consisting of high-end resorts with golf courses with five star ratings. This attracted very wealthy individuals from the U.S. and Europe who wanted exclusivity and natural settings. Most of these wealthy customers travelled to BigBright and continued on to SmallBright by a special ferry provided by a SmallBright hotel. These premium tourists accounted for about 6% of the tourist population but are a very lucrative customer segment for BCC, contributing about \$1.5 billion of the \$4 billion in tourist spending. With the emergence of new millionaires in the emerging markets in the early 2000s, BCC felt that they should also focus on individuals from countries such as Russia, and those in the Middle East and Africa.

The second product is a package deal that consists of airfare, hotel accommodations, and guided a tour of the islands provided at reasonable rates. These tourists account for about 85% of the tourist count. This package is targeted to the middle class population of the U.S. mainland and Europe who want to visit Brightland. For example, for one of the tour packages, BCC worked with JetBlue and Marriott Courtyard to offer a package including airfare and 4 nights stay for \$999 per person for double occupancy from select cities such as New York, Boston, Atlanta, and Chicago. Similar arrangements with airlines such as United and American Airlines were becoming very attractive and are beginning to attract tourists from as far away as the U.S. West Coast and even some of the former Eastern European countries. BCC estimated that this segment generates about 2 billion of the tourist dollars. BCC wants to expand this market and is actively exploring other opportunities to compete with rival destinations such as Mexico and Jamaica for the tourism business.

The third product is aimed at conferences and trade shows organized by businesses, professionals, and academics. BCC has worked with major hotels on BigBright to keep this attractive and priced the hotel rates to the conference attendees as a loss leader. BCC's experience showed that the attendees often bring their families with them who want to tour the islands. The hotels are able to sell them daytime tour packages that include bus tours, shows, and dinner at huge margins.

BCC is also tasked with attracting new (clean) business to the islands to reduce dependence on tourism. BCC believes that the software industry will be a good target segment. In the past the BCC has used TV ads and radio promotions and has worked with airlines to attract tourists. It has also sent trade delegations to high-tech companies to entice them to locate business on the islands.

BIEGO and other businesses on the island are members of the BCC and pay a membership fee. BCC wants to develop and deploy a major marketing campaign to increase tourism following the steep drop in 2008. These initiatives required BIEGO to contribute \$500,000 every year for the next 10 years. Smith is not sure whether BIEGO should continue supporting these initiatives as he is not certain about the benefits to BIEGO. He is also aware of the negative backlash of not

supporting the initiatives. Most of the island residents believe BCC is doing a major service to the community by attracting businesses and tourists. New businesses can create better paying jobs and contribute to the economy. BCC's promotion efforts are seen as strengthening and diversifying the economy, which helps everyone in the community. A stronger economy helps businesses by increasing sales.

**Consolidated Income Statement for BLSC**  
(\$ million)

	2011	2010	2009	2008
<b>Revenue</b>				
BIEGO	220	210	188	175
MoneyMaker	63	55	52	45
Boats	16	16	15	14
PICO	-	-	9	7
	<b>299</b>	<b>281</b>	<b>264</b>	<b>241</b>
<b>Expenses</b>				
BIEGO	190	169	160	149
MoneyMaker	42	43	41	35
BOATS	16	12	12	11
PICO			7	5
	<b>248</b>	<b>224</b>	<b>220</b>	<b>200</b>
<b>Operating Income</b>				
BIEGO	30	41	28	26
MoneyMaker	21	12	11	10
Boats	0	4	3	3
PICO			2	2
	<b>51</b>	<b>57</b>	<b>44</b>	<b>41</b>
Interest expenses	(15)	(12)	(11)	(11)
Income B4 tax	36	45	33	30
Income tax	(10)	(13)	(10)	(9)
Income after tax	26	32	23	21
Loss from discontinued operations	(3)	(18)	0	0
<b>Net Income</b>	<b>23</b>	<b>14</b>	<b>23</b>	<b>22</b>
<b>Capital Expenditures</b>				
BEIGO	53	47	36	33
MoneyMaker	1	1	1	1
Boats	1	1	3	1
PICO	-			

### BSLC Consolidated Balance Sheet

( million \$)	2011	2010	2009	2008
<b>Assets</b>				
Cash	29	39	39	22
Accounts receivable	44	39	32	37
Inventories	14	13	11	15
Marketable securities	366	233	283	288
Other investments	26	26	26	17
Land	11	11	13	13
Other investment	491	378	298	345
Plant and equipment	880	780	658	650
Accumulated depreciation	-62	-52	-42	40
Assets from discontinued operations	0	35	0	0
<b>Total Assets</b>	1799	1502	1318	1427
<b>Liabilities</b>				
Accounts payable	32	29	29	60
Deposit liabilities	710	697	610	623
Short-term borrowings	112	13	8	5
Securities sold	41	1	0	0
Advances from Federal Home Loan Bank	205	156	110	145
Long-term debt, net	239	232	202	204
Deferred income taxes	67	57	57	45
Unamortized tax credits	65	55	35	36
<b>Total Liabilities</b>	1471	1240	1051	1118
<b>Shareholder Equity</b>				
Preferred stock from Brightland	3	2	2	2
Shareholder equity	302	249	249	282
Retained earnings	23	11	16	25
<b>Total Shareholder Equity</b>	328	262	267	309
<b>Total Liabilities and Shareholder Equity</b>	1799	1502	1318	1427