

Bright Lights and Services Co. (C)

Alec Smith is looking for opportunities to salvage his reputation and future of the firm. He wanted to increase revenues and net income. He has tasked his strategic planning group to analyze business opportunities as well as ways to increase business/revenue for the existing businesses in his portfolio. His business development group identified home appliance guarantee as a potential profit-making operation.

Appliance insurance was becoming popular on BigBright as new homes were being constructed to address the housing shortage. In addition, the BEIGO program of replacing the old appliances with new energy-efficient appliances is also generating business for appliance insurance companies. There are three major providers of appliance insurance in Big Bright.

Bright Home Shield (BHS) is a subsidiary of a large national chain providing appliance warranties that covered appliances against breakdowns due to normal wear and tear. Like most other insurance providers, they have arrangements with local contractors. Their standard plan's monthly premium costs \$69 for single family homes and \$59 for condominium units and cover appliances in a typical home such as washer/dryer, dishwasher, and air conditioning systems. Their Super Standard plan provides coverage for large homes with swimming pools and spas and is customized for individual homes. The lowest monthly premium for Super Standard is \$120. BHS charges \$75 per service call.

Bears Protection Services (BPS) is another major national firm providing coverage similar to BHS but with unlimited, free service calls and a monthly premium of \$99. BPS charged the same rate for single family homes and condo owners and they also used local contractors.

Safe Appliance (SA) is a local firm started by a local entrepreneur, Jack Boulet, who built a very profitable business using low cost labor. Boulet started as a contractor providing service to BHS and BPS and found that he can run a profitable business by providing a lower-cost service directly to customers. He made special arrangements with appliance distributors, which provide him leads for a small fee. Jack is regarded as a local boy who has done well leveraging his island roots and contacts. Jack prices his service about 25% below BHS and charged \$49 for condo units and \$59 for single family homes. Safe Appliance limits its coverage to home appliances, whereas other companies included other systems such as garage doors, air conditioners, etc. His understanding of the local living style (very few people used A/C in the islands because of the temperate climate), low cost labor, and local roots helped him build a strong business. By 2008, Safe Appliance had a market share of 32% primarily with condominium customers and some

smaller single family homes. Jack's business got a boost with the BIEGO conservation program as consumers started replacing their old appliances with new energy-efficient appliances using rebates provided by BIEGO. New appliances come with one-year limited warranties, and Jack provided complete coverage with labor and parts for a fixed fee per month. Jack is open to the idea of being acquired and indicates a price tag in the range of \$50 million. It is rumored that Walmart is planning to enter the market with a low-cost appliance warranty program.

Alec Smith believes that as an electricity provider and as a major bank to the islands, BLSC subsidiary should have the edge. Plus, the conservation programs supported by BIEGO are encouraging customers to install new energy-efficient appliances and creating a market for the appliance warranty businesses. However, his decision to invest has to be weighed against \$65 million required for conversion to gas-based production that would save operating costs. It would also help BIEGO's reputation by lowering pollution and maintaining the island's image as an environmentally friendly place.

In considering the acquisition of Safe Appliance, Smith has to consider several options. One important consideration is whether to run it as a subsidiary of BLSC or as a subsidiary of BIEGO. He feels that running it as a BIEGO subsidiary will enable him to tap into the database of customers getting rebates from BIEGO and leverage the BIEGO firm. On the other hand, BIEGO labor rates are very high and may not be suitable for the low-cost business model pioneered by Boulet. There were also concerns about associating another insurance business with

BIEGO. It was clear that Safe Appliance may have to come up with a different business model.

Smith feels that Safe Appliance should be positioned as a high-quality, high-price service and differentiates itself from BHS and the others. He expects Walmart to compete on price and is worried about a price war. Smith is also considering adding services, such as home security systems to package with appliance insurance and selling it as a value bundle. A small branch office of a national security company provided home security systems on the islands but has not made much headway. Most of the island residents believe that they know each other and do not see the need for home security. However, Smith and his strategic plan team believe that this sentiment of "island community" is most likely to change in the near future. If the Chamber's efforts to increase tourism and attract new business were successful, the island population mix would change with the new influx of people from the U.S. mainland. The changed composition of the population may provide opportunity for home security business. Smith felt that with strong promotion, Safe Appliance's security and appliance guarantee bundle could garner enough market share and can be a profitable venture.

Alec Smith wanted to present his recommendations to the board. He asked his vice president of strategic planning for recommendations.

Appendix 1.

Basic Home Appliance Insurance Plan

	Bright Home	Bears Protection	Safe Appliance
Refrigerators	X	X	X
Dishwashers	X	X	X
Clothes Dryers	X	X	X
Clothes Washers	X	X	X
Water Heaters	X	X	X
Garbage Disposals	X	X	
Smoke Detectors	X	X	
Air Conditioning, including ductwork		X	
Electrical		X	
Plumbing		X	

Optional:

- Pool and Spa
- Water Softener
- Well Pump
- Septic Pumping

Income Statement

	2011	2010	2009	2008
Revenue				
BIEGO	220	210	188	175
MoneyMaker	63	55	52	45
Boats	16	16	15	14
PICO	-	-	9	7
	299	281	264	241
Expenses				
BIEGO	190	169	160	149
MoneyMaker	42	43	41	35
BOATS	16	12	12	11
PICO			7	5
	248	224	220	201
Operating Income				
BIEGO	30	41	28	26
MoneyMaker	21	12	11	10
Boats	0	4	3	3
PICO			2	2
	51	57	44	41
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	22
Loss from discontinued operations	(3)	(18)	0	0
Net Income	23	14	23	22
Capital Expenditures				
BEIGO	53	47	36	33
MoneyMaker	1	1	1	1
Boats	1	1	3	1
PICO	-			

Balance Sheet

(million \$)	2011	2010	2009	2008
Assets				
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
Total Assets	1799	1502	1318	1427
Liabilities				
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
Total Liabilities	1471	1240	1051	1118
Shareholder Equity				
Preferred Stock from Brightland	3	2	2	2
Shareholder equity	302	249	249	282
Retained earnings	23	11	16	25
Total Shareholder Equity	328	262	267	309
Total Liabilities and Shareholder Equity	1799	1502	1318	1427