

Business management Case study: Afghan Sun

For use in May 2018

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

Afghan Sun (AS)

Suchenlin has made her fortune from the success of her business, *High-end Holidays (HH)*, which sells individually designed holidays to luxury destinations in Africa, Asia and the Pacific islands. Suchenlin no longer takes part in the day-to-day running of *HH*. Instead, she has an input into strategic decision making and she provides the inspiration for the business.

- 5 Su, as her friends know her, has made more than enough money to keep her comfortable for the rest of her life, but she still wants new challenges. She is looking for a completely new project that will allow her to give back to society.

10 On a recent trip to Bangladesh, Su discovered the work of Arif Koomar. He founded a for-profit microfinance provider, which trades under the name *AK Bank*. Very successful, *AK Bank* serves much of Bangladesh and has provided finance to over three million households to buy solar power systems specifically commissioned by *AK Bank*. Each solar power system generates enough electricity for a household.

15 Su made an immediate decision. She would find somewhere else in the world in which a similar scheme would bring great benefits to communities. She eventually identified Afghanistan, a country with around 34 million people. After years of war, many areas of Afghanistan lack a reliable supply of electricity. Su saw an opportunity to manufacture a household-based solar power systems similar to those used in Bangladesh and aimed at poor and often remote families. She set up a social enterprise called *Afghan Sun (AS)*, which operates as a private limited company. Su recruited a team of volunteers from *HH* employees who are keen to work
20 on the project.

After more detailed research, the team had:

- decided the product to be made – solar power systems. These will be produced using cellular manufacturing. The team wish to purchase cheap raw materials, using resources efficiently to cut waste to enable a very low price to be charged for the units
- 25 • identified suppliers who share Su's vision
- encouraged Arif Koomar to work with *AS* and expand the microfinance activities of *AK Bank* into Afghanistan.

30 Su thinks it very important that she maintains a leadership role for both *HH* and *AS*. However, she empowers her managers at *HH* to make day-to-day decisions, including organizing resources, directing staff, coordinating, and taking tactical decisions. As well as empowering managers, Su thinks that it is important to empower employees and encourage teamwork by creating opportunities for employees to discuss working practice, quality issues and matters concerning employees. Su's intention is to empower managers similarly at *AS* while retaining responsibility for strategic decisions. She believes that her managers are so well motivated and
35 committed to their work that she feels little need to interfere. There is seldom conflict between managers, but when there is, Su will provide advice and guidance. Managers, both at *HH* and *AS*, say that they are inspired by Su and have a clear understanding of her mission and share it. As part of her leadership role, Su also enjoys some aspects of organizing, particularly when fundraising events for *AS* are needed and meetings have to be arranged with governments
40 and non-governmental organizations (NGOs). She usually represents the businesses at such meetings and conferences.

To help begin the project to make and sell solar power systems, Su appointed David, who, before asking to work on the AS project, worked in HH's marketing department. He is an Afghan. She also appointed Salima, also an Afghan, who has experience with a large manufacturing business as a production director. Two more senior managers will be needed, and Su needs to decide between selecting experienced HH managers or promoting junior employees from within HH.

Salima does not want to outsource the main production facility of the solar power systems but does wish to outsource the production of certain components. Ideally, this would be in nearby countries.

An important decision to be made is the location of the main production facility for the solar power systems. Su is considering two locations, as shown in Table 1.

Table 1: Location factors of the two countries Su is considering for the main production facility

	Country A	Country B
Nature of the economy	Developed economy	Developing economy
Unemployment	Low but rising	High
Skills level	High	Shortage of skills
Government assistance	Limited, free market economy	Encourages investment from overseas with grants available
Local wage costs	High	Low
Currency	Stable	Falling
Facilities	New facilities would be required, high rents	Suitable facilities available at a low rent
Transport links to Afghanistan	Complex	Straightforward
Political environment	Stable, but election may lead to a change in government	One party state
International trade	Part of a major trading agreement	No major trading agreements

David believes that commercial marketing would have more of an impact than social marketing because he sees the solar power systems as being product orientated rather than market orientated. Customers would need to know not only about the solar power systems and the benefits they will bring to households but also the means to provide finance to buy them. However, David is unsure about which pricing and promotion methods would be appropriate for the solar power systems. Customers may not have much money to spend and may have other priorities.

Distribution will also be a problem, as the likely customers will be in remote locations with poor infrastructure. David is investigating the possibility of using local agents and local transport businesses to provide the link with customers.

65 Su had already decided that most of the finance for the production facilities would come from share capital provided by herself and loans from *HH*. She wondered whether other stakeholders in *HH*, both internal and external, might want to support the project through some kind of financial assistance. The microfinance to *AS*'s customers would be under completely separate arrangements with *AK Bank* or other microfinance providers.

Su prepared a six-monthly cash-flow forecast for the first three years of operation.

Table 2: Six-monthly cash-flow forecast for *AS* for the first three years of operation (figures in \$000s)

	2018	2019		2020		2021
	Second half	First half	Second half	First half	Second half	First half
Opening balance	0	30	-25	-20	-5	15
Su's share capital	200					
Loans from <i>HH</i>	50					
Sales	0	20	80	120	120	160
Capital expenditure	200	50	25	25	10	10
Sales costs	0	15	40	60	60	70
Other costs	20	10	10	20	30	40
Closing balance	30	-25	-20	-5	15	55

70 Su is aware that the project carries significant risks. Afghanistan is emerging from a long and damaging war, and in some parts of the country it remains politically unstable. Not all areas of the country are peaceful. International forces remain in the country to help rebuild its infrastructure and help the Afghan government restore peace and reinforce democracy.

75 The management of *AS* need to make the decisions on production and distribution as soon as possible to get the project into action. Su is also aware that she may have to create a plan to help out when things go wrong and to prepare for possible changes in the external environment. *AS* will have to carry out very careful marketing planning and human resource planning, as well as ensure it is prepared for uncertainties.

[Source: © International Baccalaureate Organization 2018]

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