



UNIVERSITY
OF WOLLONGONG
AUSTRALIA

BUSINESS CASE

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1 Executive Summary

Fly Dream Air is a low cost Australian based airline that operates flights in the Asia Pacific region. The company commenced services on 17th October 2010, with three aircraft flying between Australia and Bali. The company has been steadily increasing the routes available to customers following demand and now services 45 destinations domestically and abroad.

The company's board of directors are planning to float the company on the Australian stock exchange in approximately 18 months' time. In preparation for the IPO it is important that the company continues to grow and increase revenue to maximise the airline's list price. The board believes there is creditable demand in the market for its services which will require some investment to capture.

One of the problems the airline is experiencing is not being able to report on the spending habits of its customers. The board would like to understand these habits to help formulate a sales strategy that considers customer demographics including age, gender, location, and number of times flown with Fly Dream Air.

The airline also has no loyalty programs and is unable to incentivise returning customers by offering deals, discounts, and upgrades through a customer reward program. The board believes they will secure additional market share by attracting new and repeat business through a customer loyalty program. This will increase the demand for services and increase revenue.

There is a general agreement between board members that a customer loyalty program will help prevent losing customers to competing airlines and secure more return business.

The board believes it is essential to have a customer loyalty program to resolve these current problems. The airline's compliance policies require the company to have a business case for any expenditure above \$100,000. The board has received indicative costing for a rewards program that ranges between \$300,000 - \$500,000.

2 Existing Business Analysis

The airlines annual revenue for the last three years has been remained consistently at \$5 billion. During this time, the airline has been working hard to keep over heads to a minimum and service existing business loans that the company owed for the purchase of aircraft. The finance director recently delivered the company's annual finance report which confirmed a cash positive position. This report has encouraged the discussion about investing in new areas of business to continue growing the business including a customer loyalty program.

The airline has an internal IT team that services the infrastructure and IT systems for the company. This team consists of a manager, three system administrators and five developers who are in the Wollongong Head Office. The IT team has experience amongst themselves that could assist with the development of a customer loyalty program system, however the IT team are busy working on an upgrade to the booking system which is due for delivery at the end of the year.

The marketing team currently use a range of tools for managing customer data for promotions and offers. These tools and process are manually intensive and time consuming. Frequently there are reports of promotions being sent through email campaigns which breach Australian data privacy laws. The marketing team do their best to work with the tools they have available to use.

The marketing team have been petitioning for a customer loyalty program for some time. They believe the data the system will capture will assist them to manage the airline's promotions and offers. It will also allow them to make sure customers have opted-in to communications sent by the airline.

The proposed customer loyalty program should integrate with the new booking system. There is no reason why the company cannot run these two projects in parallel with one another. However, the new booking system would need to be live prior to launching the loyalty program.

3 Cost Analysis

The airline has completed some an NPV analysis to determine the estimated costs and benefits for the life of the project and the customer loyalty program system. The estimates provided by these

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calculations demonstrate that although there is an initial investment required to develop and design the system, the benefits for the business increase year on year.

There has been some discussion around utilising the resource from the IT team to complete the project, however the IT Manager indicated they did not have any availability to commence the work until quarter two in 2021. The airline published a “Request for Tender” and received a large volume of initial expressions for interest that were then later shortlisted to a few before a provider was selected.

The figures below represent the costs of the selected third-party provider to complete the work in year one. The costs were calculated over a five-year period and will produce a NPV of \$757K. The initial development of the project would be completed by the selected third-party and then the responsibility for support and maintenance of the system would be handed over to the internal IT team in a number of agreed phases over years one to three.

The planned phased approach for the handover of support and maintenance to the airline’s internal IT team will help to reduce costs increasing the benefits to the company.

The new customer loyalty system will be used to attract and promote the airline services through offers, discounts, and upgrades. The airline expects the membership of this program to increase over time creating a bigger audience for generating revenue and growing the business. These benefits are illustrated below.

	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Benefits	\$0	\$350,000	\$500,000	\$650,000	\$800,000	\$2,300,000
Costs	\$375,000	\$300,000	\$225,000	\$150,000	\$100,000	\$1,150,000
Cash flow	-\$375,000	\$50,000	\$275,000	\$500,000	\$700,000	\$1,150,000
NPV	\$757,872					

** Discount Rate 8%*

4 Feasibility Study

4.1 Technology Feasibility

The Fly Dream Air Loyalty Program will use a custom-built system developed and designed in Python using a SQL database for storing customer data. The architecture of the system will follow the Australian Privacy Principles framework to embed good privacy practices in the design specifications of the system. The privacy of customer's personal data is critical for the airline's brand and image.

The programming language being used to develop the system (Python) is commonly known and resource for the support and maintenance of this programming language is readily available should there be future resource requirements internally or externally. The internal IT team is also skilled and equipped to support and maintain the proposed system.

There will be two portals developed for the system

1. Customer Portal
2. Administrator Portal

The portal designed for the customer will promote the airline's loyalty program. The system will perform the following:

- Capture customer personal information through program membership
- Enable customers to manage communication preferences for "Opt-In" subscriptions
- Record and track loyalty program points earned
- Deliver to the customers current promotions and offers
- Provide customers the ability to request class upgrades for booked flights using points
- Provide customers the ability to provide feedback to the airline

The portal designed for the administrators will be used by the airline's marketing team to perform the following

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- Track customer spending habits including returned business
- Report purchases on available airline routes and the utilisation by customers
- Report on relationship between customers and their flying habits
- Create promotions and offers for the loyalty program customers
- Report on sales from promotions and offers for the loyalty program
- Report on how customers are earning loyalty program points
- Create contact lists for marketing campaigns
- Report on customer feedback

The system will be available to via a desktop web browser or mobile application. The mobile application will provide better messaging and instant alerting features for promotions and offers. The mobile application will be available on iOS and Android devices.

The technology is likely to become outdated before 2026 and will require further investment to upgrade or replace the system. The airline therefore considers this system will be in production for no longer than five years.

4.2 Organizational Feasibility

The proposed development of the Fly Dream Air Loyalty Program System would resolve the problems the business is experiencing and provide growth opportunities for the company in preparation for the planned IPO in approximately 18 months' time.

The proposed system will report on the spending habits of the airline's customers providing data on demographic information the company has been seeking. This data can be used to formulate the company's sales and marketing strategies which is an important part of the future business plans.

The marketing team will benefit from the system because it automates some of the current manual workflow and addresses some of the problems the company is facing with 'Opt-in' subscriptions. This will help reduce the airline's exposure to unnecessary litigation or fines.

The customer loyalty program will provide value to returning customers offering them deals, discounts and upgrades. This program will attract new members that will help boost demand for services and increase revenues.

4.3 Cost Feasibility

The airline is in a good position to finance the implementation of the proposed system because of the cash positive position the company has recently reported. This position was identified in the annual financial report delivered by the finance director to the board of directors. It has been important to establish the cash position of the company because the cost of the proposed system is a significant investment which requires adequate cash reserves.

The third-party provider that has been selected to implement the projects requires periodical payments upon achieving certain milestones through the project. To commence the project the third party will require a 20% deposit of the estimated costs.

After reviewing the project plan that has some indicative dates and milestones, the airline has confirmed that payment to third party will not negatively impact the airline or cause any unnecessary risk throughout the duration of the project. The finance team will need to receive any updates to any future dates.

5 Recommendation

The implementation of the Fly Dream Air Loyalty Program System would be a positive investment for the company. The system will resolve problems the business is experiencing and assist to grow the business before the planned IPO.

The benefits the airline will receive from the system out way the risks associated with the cost of implementation and on-going support and maintenance.

The recommendation is to proceed with this project.