

**ADVANCED GCE  
APPLIED BUSINESS**

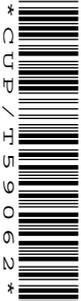
Unit 9: Strategic Decision-Making

**CASE STUDY**

**WEDNESDAY 11 JUNE 2008**

**F248/CS**

Morning  
Time: 2 hours



**INFORMATION FOR CANDIDATES**

- This is a clean copy of the Case Study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may **not** take notes into the examination.

This document consists of **9** printed pages and **3** blank pages.

# Erica's Eco Tours Ltd (EETL)

## The beginning

Erica Peterson saw the future of travel a long time ago. After leaving college with a diploma in Tourism and having had five years' experience with a mainstream travel company, Erica decided to go it alone. In 1992 she set up Erica's Eco Tours Ltd (*EETL*) – a small company specialising in travel for people who were environmentally aware or who wanted to put something back into the local economy. Indeed, these aims formed her mission statement. Through her sheer enthusiasm, an attempt at learning Arabic and some excellent contacts, *EETL* could offer 'eco-trips' to a number of countries in North Africa and the Middle East. They typically involved staying in eco-lodges (see **Appendix 1**), Bedouin tents or mud huts and, where possible, avoided major corporations. Local guides and travel organisations were sourced at all times in the location, although a British guide would be employed to lead the 'expedition'.

## Growth

After a slow beginning, *EETL* really took off and by the turn of the millennium the firm employed 15 full-time equivalent UK-based staff in a variety of jobs – from sales to travel research. Erica, as Managing Director, held 70% of the shares – the remainder being split equally between her two sisters who both worked part-time in *EETL*. *EETL* was not particularly profitable and, hence, the dividend was small or non-existent, but that was never the objective. Erica had a passion for travel and environmental awareness and sought to reconcile the two more and more as the years passed. The more people she could have working for and travelling with her business, the more she felt she was doing to help the developing world, broaden people's awareness and to helping the planet.

## The problems

While the business operation worked well on a day-to-day basis and customer retention rates were high, there were difficulties with staffing the all-essential leading of expeditions. Contracts to lead expeditions could only be offered on a short-term and casual basis. A salary was impossible. Expedition leaders needed language, organisational and leadership skills – not a common combination. Pay was poor and the best leaders tended to go to the highest bidder. Demand for environmental holidays might never have been higher, but competition for customers, as well as decent expedition leaders, was intensifying, while political difficulties in the Middle East were not helping matters. Erica was seldom concerned about profitability, but by 2007 it was clear that revenue would barely cover costs. The profit and loss account that year did not make encouraging reading.

## Decisions

*EETL* had had about 15 years of 'easy' growth without ever having to make any major strategic decisions. Opportunities seemed to fall into Erica's lap, whether it was access to finance or the opening up of a new destination. It was becoming obvious, however, that some sort of change to *EETL*'s business operations was necessary. In the spring of 2008, after much research and discussion with her contacts in the world of travel, **three** options presented themselves to Erica.

### Option 1 – Educational tours

Erica had conducted some market research, admittedly on a small scale, in some secondary schools. With increasingly affluent parents and a willingness to travel (see Appendix 2), many students were going on school trips abroad. The government was keen to award schools 'Eco Flags' and trips which improved environmental awareness were very much part of this scheme (see Appendix 3). With some alterations to the nature of the trip, schedules and logistics there seemed to be no reason why essentially the same 'eco-package' which *EETL* had always offered could not be offered to schools. This would be a totally different market and so there would be substantial additional costs. Erica listed some of them: 35 40

- extensive school-specific marketing;
- adapting and preparing foreign accommodation for school groups;
- training leaders;
- promotional offers to school staff, such as free inspection visits.

45

She was unsure whether to target all secondary schools in the UK or to first trial it within the two local education authorities nearest to *EETL*'s offices.

### Option 2 – Further expansion into the Middle East

80 per cent of *EETL*'s customers go to Egypt, Morocco, Jordan and Syria. So why not offer more of the same, but somewhere more unconventional? Over the last few years Iran has been trying to boost its fledgling tourist trade and to get away from its dependence on oil exports (see Appendix 4). Persian history is fascinating and pretty much undiscovered by those in the West. Customers are becoming more adventurous and certainly Erica's travels to Iran had enlightened her as to the warmth and friendliness of the population. Why not expand *EETL*'s operations to this part of the Middle East? The next couple of years would see the best returns before competitors established a foothold. Erica's colleagues, some of them seasoned travellers, were not so sure. 50 55

### Option 3 – Entry to the cruise market

*EETL*'s third option was perhaps the most 'alternative', yet in many ways Erica felt, contrary to everyone else's opinion, the safest. An acquaintance in Alexandria, Egypt, worked for a firm which provided Mediterranean cruises on two rather small 'ferries'. The firm was struggling financially and was thus willing to sell one of its boats to *EETL*. Erica had seen an extensive set of photographs of the boat which was for sale and thought that, with a considerable amount of refurbishment, it could be made to accommodate up to 50 passengers in quite comfortable cabins. She felt good about this option as travel by sea was more environmentally friendly than by air, so it fitted with her ecological criteria (see Appendix 5). And, of course, *EETL*'s existing network of camps, lodges and guest houses along the North African coast and River Nile could be utilised. Additionally, cruises are becoming increasingly popular both amongst UK tourists and those, for example, from the United States. However, crewing and piloting a boat, port fees and regulations – together with all of the other considerations seemed daunting! This option would need new and different market research amongst totally different potential customers – aside from the significant capital outlay involved. Indeed, the Egyptian firm said that it would not sell the one boat for less than £500 000 – but Erica thought she might be able to negotiate. It seemed a bargain in one sense, but Erica was also aware that it would take a while to pay for itself. Raising finance would be the major issue and with this in mind Erica began looking into the possibilities of floating *EETL* on the stock market. 60 65 70

After some further discussions, the Egyptian firm agreed that *EETL* could buy the one boat – with the possibility of buying the second boat at some point in the future. 75

### The choice

All three options seemed to involve a lot of work and held varying degrees of risk. Should Erica play safe or seek finance and follow her instinct? Her preliminary look at the costs of each option is outlined in Table 1.

Option	Cost of research and set up
1	£282 000
2	£45 000
3	£750 000 for <b>one</b> boat, refurbishment, crew and marketing

**Table 1**

A decision had to be made very soon, so that work could get underway for the 2009 season.

## Appendix 1

Designed to be in harmony with their surrounding environment, eco-lodges utilise local businesses and labour. They are generally in remote locations but are still often luxurious and always comfortable. Most eco-lodges celebrate and preserve native vegetation in their gardens and are usually good spots for watching wildlife. Staying at one permits you easy contact with local people and the opportunity to become familiar with their traditional way of life and you can take part in sponsored activities which are low-impact on the environment.

Source: Info Hub, [www.infohub.com](http://www.infohub.com)

The British Guild of Travel Writers has commended Wadi Feynan Eco-Lodge, one of the nominations for the recent Best Overseas Tourism Project Award. To be accepted as a nomination, projects have to be of 'social and economic benefit to the local community', and have management policies which 'minimise adverse environmental impact in matters such as waste, energy, water use and transport.' They also need to 'protect or harmonise with the cultural, built and natural environment.'

Extract from *Wadi Feynan Eco Lodge*, posted by Hugh Taylor, Suite 101, <http://middleeasttravel.suite101.com>

## Appendix 2

### Earnings growth

Average earnings growth data shows an increase of about a third in private sector real earnings from 1995 to 2005, equating to an average annualised growth of 2.75% in earnings. Public sector employees experienced a slightly lower average annual growth of between 2.25% and 2.5% in earnings.

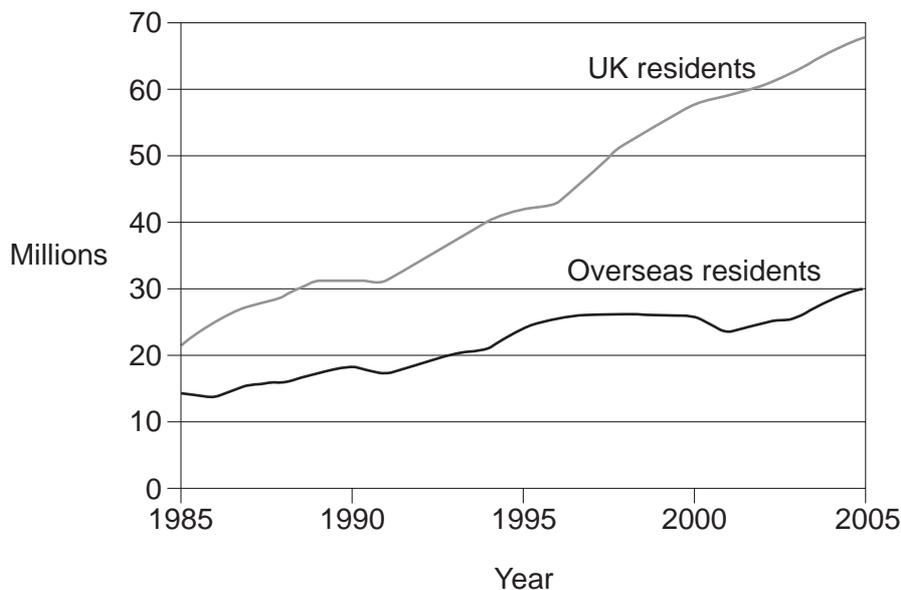
#### Average earnings growth

	Manufacturing	Whole economy	Public sector	Private sector
Annual % change				
<b>2004</b>	3.7	4.4	4.4	4.2
<b>2005</b>	3.6	4.0	4.8	4.0
<b>2006</b>	5.2	4.1	3.5	4.2

Source: European Foundation for the Improvement of Living and Working Conditions

### International travel

#### Record number of visits to and from UK in 2005



The number of visits abroad made by UK residents has more than tripled since 1985, to a record 66.4 million visits in 2005. Two-thirds of these visits abroad were holidays, just under half of which were package holidays. Although the number of holidays overall has continued to increase year-on-year, there has been a fall in the number of package holidays in the last five years.

Europe remained the most popular destination for UK residents, accounting for 80 per cent of visits abroad. Spain continued to be the most popular country to visit, with 13.8 million visits in 2005. France was second in popularity, with 11.1 million visits. The number of visits by UK residents to the USA increased by 2 per cent in 2005 to 4.2 million, 6 per cent higher than the number in 2001.

Spending on visits abroad by UK residents increased to a record £32.2 billion, a fourfold increase between 1985 and 2005 in real terms, and a 6 per cent increase between 2004 and 2005.

Source: Office for National Statistics, [www.statistics.gov.uk](http://www.statistics.gov.uk)

## Appendix 3

### What are Eco-Schools?

The Eco-Schools programme provides a simple framework to enable your school to analyse its operations and become more sustainable. By following the programme, your school will become a more stimulating place in which to learn, whilst reducing the environmental impact of the whole school on the community. The scheme is rooted in a genuine desire to help children become more effective citizens by encouraging them to take responsibility for the future of their own environment. It is not about environmental excellence, it is about your school starting to look at how it impacts upon the environment and how this is decided upon and can be managed.

Pupil involvement is a key part of the Eco-Schools programme. Having pupils engaged in the whole process, including monitoring, action planning and decision-making, leads to genuine ownership of the programme and an increase in their sense of responsibility for the school environment and local area. There are three award levels.

- Bronze Award – self-assessed via website leading to a certificate
- Silver Award – self-assessed via website leading to a certificate
- Green Flag – externally assessed leading to a certificate and flag

Source: Eco-Schools, [www.eco-schools.org.uk](http://www.eco-schools.org.uk)

## Appendix 4

### Iran holidays

Over many years of organising travel to Iran, our experience is of a warm and friendly country whose people are only too delighted to see foreign visitors. This is quite contrary to media reports and some western newspaper reports. Birthplace to one of the world's great empires, Iran has been subsequently dominated and influenced by a host of cultures whose architectural remains lie scattered across the country.

While the mood has obviously changed since pre-revolutionary days, Iran remains a fascinating country and one which is so large that it is almost impossible to explore on one visit. It is difficult to talk about holidays in Iran, but travelling there is both rewarding and informative.

Source: Steppes Travel, [www.steppestravel.co.uk](http://www.steppestravel.co.uk)

## Appendix 5

### Is cruising any greener than flying?

We asked travel industry experts for their opinions on whether travelling by cruise ship was a more environmentally friendly way to travel.



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#### Cunard Cruises spokesman

“We do get people crossing the Atlantic because they don’t want to fly. Every ship has to meet environmental targets and the Queen Mary 2 has a zero-discharge policy.”

#### Climate Care, carbon offsetting company

“According to our calculations, a cruise liner such as the Queen Mary 2 emits 0.43kg of CO<sub>2</sub> per passenger mile, compared with 0.257kg for a long-haul flight (even allowing for the further damage of emissions being produced in the upper atmosphere). Sometimes our instincts about what’s best for the environment are wrong and this shows the importance of calculating the actual carbon emissions from different activities and making our decisions – both as individuals and government policy – based on the real numbers. We would certainly welcome the cruise liner industry taking a closer look at its carbon footprint. As these figures show, it is not negligible.”

#### Gwyn Topham, travel writer

“Mile for mile, the carbon footprint for a cruise is worse – and many passengers will take planes to join a cruise. Since the big cruise lines were hit with massive fines in the US for polluting waters a few years ago, they have made improvements – but ships are not facing the same kind of scrutiny outside Alaska and California. The overall benefits to the ports of call are questionable. And while environmentalists do generally agree that new ships are greener, it takes a long time to adapt older ships and in many areas – such as cleaner fuel, better waste treatment systems – campaigners think cruise lines aren’t doing nearly enough.”

Extract from *Is cruising any greener than flying?*, The Guardian, 20 December 2006 © Guardian News & Media Ltd 2006







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*Copyright Acknowledgements:*

Appendix 1	Source: Info Hub, <a href="http://www.infohub.com">www.infohub.com</a> Extract from <i>Wadi Feynan Eco Lodge</i> , posted by Hugh Taylor, Suite101, 15 November 2006, <a href="http://middleeasttravel.suite101.com">http://middleeasttravel.suite101.com</a>
Appendix 2	Source: European Foundation for the Improvement of Living and Working Conditions, <a href="http://www.eurofound.europa.eu">www.eurofound.europa.eu</a> Source: Office for National Statistics, <a href="http://www.statistics.gov.uk">www.statistics.gov.uk</a> . Crown copyright material is reproduced with the permission of the Controller of HMSO and the Queen's Printer for Scotland.
Appendix 3	Source: Eco-Schools, <a href="http://www.eco-schools.org.uk">www.eco-schools.org.uk</a>
Appendix 4 text	Source: Steppes Travel, <a href="http://www.steppestravel.co.uk">www.steppestravel.co.uk</a>
Appendix 5 text	Extract from, <i>Is cruising any greener than flying?</i> , The Guardian, 20 December 2006 © Guardian News & Media Ltd 2006, <a href="http://www.guardian.co.uk">www.guardian.co.uk</a>
Appendix 5 image	© Kent Gilbert / AP

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