Cambridge International AS & A Level

BUSINESS **9609/31**

Paper 3 Case Study **May/June 2020**

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INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

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Jan Guiding Service (JGS)

Jan loves being in the countryside. Many years ago, he visited country P, where mountains take up 80% of the land area. Country P is one of the poorest countries in the world, with very low income per head. Jan made his home there and took a job assisting with walking groups. He gained a certificate as a professional mountain walking guide.

The start of JGS

Five years ago Jan set up JGS, in partnership with Gorl, another professional mountain walking guide. JGS offers mountain walking tours. JGS organises and promotes these tours. Originally, Jan and Gorl guided most of the walking tours themselves. JGS has always outsourced all its travel and accommodation. Jan and Gorl are spending more time on managing the business and less time guiding as the demand for JGS tours increases. JGS now outsources most of its mountain guiding. Customers stay with host families in mountain villages, most of which cannot be reached by road. Host families are paid by JGS to provide food and accommodation for its customers. Many families compete to provide these services to JGS. Using outsourcing in this way gives JGS many benefits. JGS employs an administrator to organise outsourcing. JGS is one of the few businesses operating in this market. However, Jan knows that other businesses are becoming interested in offering mountain walking tours.

Demand for JGS services

JGS has not increased its prices for three years. Over 95% of JGS customers are visitors from country K. Demand for JGS tours is increasing and Jan thinks that income levels in country K are an important factor. Average income in country K rose by 5% in 2019. Demand for JGS tours from residents of country K increased by 20% in the same period. Jan currently believes that there is still time to get more bookings for quarters 3 and 4 in 2020. He also knows that increasing the effectiveness of the JGS Internet presence is important.

Gorl has analysed sales figures for the last three years. Table 1 shows his results. He has used the moving average method and has forecast the centred moving average (trend) sales figure for Quarter 3 2021 of $86 560.

Table 1: Sales figures for JGS

Year	Quarter	Sales ($000)	Centred moving average (Trend) ($000)	Seasonal variation ($000)
2017	3	34		
	4	78		
2018	1	40	41.5	–1.5
	2	10	45.0	–35.0
	3	42	48.0	–6.0
	4	98	50.0	48.0
2019	1	44	52.25	–8.25
	2	22	56.75	–34.75
	3	48	62.0	–14.0
	4	128	64.25	63.75
2020	1	56		
	2	28		

Increasing the number of employees – need for clearer organisational structure?

Jan and Gorl are planning to increase the number of employees for two main reasons:

- The rapid growth of JGS means that three regional managers and additional administrative employees will be needed.
- The government of country P has introduced new, stricter employment regulations. It has stated these will apply to all businesses. This now means that businesses using outsourcing must insist that outsource providers keep to these stricter employment regulations. Jan and Gorl think that providing guiding and accommodation services through direct employment of workers is the best way of meeting these requirements. They are unsure whether to offer flexible temporary contracts or part time permanent positions.

Jan suggested to Gorl that: 'Our rapidly expanding business and external environment changes mean that a clear effective organisational structure will be very important.' Jan wishes to keep control and is reluctant to give responsibility to employees who might not be reliable. He added: 'Centralising decision making enables rapid decisions and is key to success. We must have authority and make employees accountable to us.' Gorl replied: 'Employees can be trusted to take decisions. They are closer to the problems and find solutions faster. Delegation is essential for success.' They think JGS might need a marketing department. This would be responsible for the planned increase in marketing activities necessary to maintain expansion.

Costing each tour

Gorl and Jan have different views on the minimum number of customers needed before each tour can take place. This is because they have different views about how to deal with the fixed and variable costs. JGS policy is to provisionally confirm that a tour will take place once customer numbers reach six. The business then hopes to get at least two more customers before the tour starts. However, Jan now thinks that a tour should go ahead with just two customers. Gorl is not happy about this. They discuss the financial information in Table 2.

Table 2: Cost and price information ($)

Fixed costs per tour: administration, marketing, guide, transport	550
Variable costs per customer: accommodation, food	370
Price per customer	480

Corporate social responsibility issues

JGS has a business model based on attracting customers who wish to experience the culture of people who live in country P's high mountains. Jan and Gorl are aware that this culture is under threat from too many tourists, cheap souvenir production, corruption and increasing environmental damage. JGS tries to operate to the highest standards, which can result in high costs. However, other businesses do not. Consequently, there is irresponsible forestry, litter, inappropriate payments by tourists, bribes for local authorities and businesses not paying villagers a fair price for services. Pressure groups in country K and country P are increasing their demands that tourist businesses provide for the needs of the various communities in country P. Some customers might be willing to pay higher prices to ethical and responsible travel businesses. The government in country P has set up an official enquiry into the corporate social responsibility of the tourism industry.

Additional opportunities for growth

Jan and Gorl are always aiming to expand JGS. They are enthusiastic about the future and are considering two growth options. They know it is very important to make an assessment of the risk involved in each option.

Option 1: a partnership with KrazyTours

Jan has held initial talks with KrazyTours; a large multinational tourist operator that is considering expanding into country P. KrazyTours is only interested in a partnership with a business already operating. In effect this would be a franchise agreement. The two businesses agreed the following points:

- JGS would arrange mountain walks in country P with agreed costs that would need to be paid in advance.
- KrazyTours market these holidays in over 120 countries, providing JGS with client lists. JGS would pay a fee for each tour.

This arrangement offers the possibility of increased revenue and profit for JGS but carries risks. KrazyTours may fail to deliver customers and may pressure JGS to lower prices significantly.

Option 2: guided walks for tourists

Expanding into the general tourist market by offering guided visits and/or walks to attractions. These include historical sites, temples, markets and a wildlife park. This would require JGS to:

- research and identify suitable venues with appropriate transport and accommodation arrangements
- employ suitably qualified guides to take charge of the groups
- engage in additional targeted marketing.

The risks are that several businesses from country P already offer such holidays and competition is higher than for mountain walks.

Jan presented Gorl with a completed decision tree calculation shown in Table 3. They discuss the risks involved in each option as well as the forces that might make them choose one option rather than the other. It is unlikely that JGS will be in a position to carry out both Options.

The business is at a key point in its life. Are Jan and Gorl too ambitious? What could go wrong?

Table 3: Decision Tree calculation

	Option 1 KrazyTours	Option 2 Tourist walks
Cost ($000)	34	110
Probability of positive market response (%)	70	60
Expected outcome with positive market response ($000)	80	180
Probability of negative market response (%)	30	40
Expected outcome with negative market response ($000)	45	135
Expected Monetary Value ($000)	35.5	52

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