network of international business schools

WORLDWIDE CASE COMPETITION

Sample Case Analysis #3

Qualification Round submission from the
2019 NIBS Worldwide Case Competition, Charlottetown, Canada

Case: *Extraordinary Journeys: Wild Times in the Safari Industry*

STRATEGIC PLAN FOR EXTRAORDINARY JOURNEYS

Submission prepared for the Qualifying Round of the
2019 Network of International Business Schools Worldwide Case Competition
University of Prince Edward Island

by

XXXXXX University

(Name of Student 1)
(Name of Student 2)
(Name of Student 3)
(Name of Student 4)

Word count: 1,488

Introduction

Having previously experienced consecutive years of rapid growth in revenue and company size, Extraordinary Journeys (EJ) now faces an increasingly competitive industry with many new players. While this has not yet impacted company growth, a new strategy is needed to navigate through these growing challenges and ensure a prosperous future for the company. Consequently, the key challenge is as follows:

“To define a strategic focus for Extraordinary Journeys that enables sustainable growth in an industry facing an uncertain future.”

Situation Analysis

Internal

A SWOT analysis (Appendix A) shows that the company’s core strengths lie in its high-quality customer service, exceptional industry knowledge, and unique ability to match customer interests with the right safari. These strengths have been crucial to achieving the company’s market-leading position. However, internal operational processes have not kept up with this rapid growth and will not provide the solid base needed to support further growth. In order to further leverage its strengths, EJ needs to improve these weaknesses in its internal processes.

External

A P5F analysis (Appendix B) shows that EJ operates in a highly competitive industry, which has been targeted by many new entrants due to the relatively high commissions. Further, the high degree of buyer power, caused by the large number of tour operators and low switching costs, presents another threat. However, the industry has been growing, and demand for luxurious and customised safari tours is increasing, which presents an attractive opportunity for EJ. It will be important for the company to differentiate itself from competitors, and fully leveraging its strengths, in order to exploit these opportunities.

Analysis of Alternatives

It is crucial to note that all the alternatives are, and are likely to remain, highly relevant for the future performance of EJ. In selecting one over the others, the decision has more to do with choosing the right sequence in which to implement these alternatives in order to maximize sustainable growth.

Alternative 1 – Marketing Strategy

Conducting a direct-to-consumer marketing campaign has never been undertaken by EJ before. Consequently, CEO Elizabeth Gordon has already reached out to various companies. This option promises quick payback as well as high and constant returns. However, it also requires a high initial investment. Since heavy competition is already present, it will be difficult to differentiate the company and costly to advertise effectively.

Alternative 2 - Public Relations Strategy

Implementing this strategy would not entail building something new, but rather drastically increasing the commitment with EJ's New York-based PR firm to roughly $100,000 annually. However, the company has recently seen weaker outcomes from this relationship due to increased competition in the shrinking journalism industry. Consequently, this alternative entails the most risk, but may also provide the longest-lasting results. Additionally, it would not place a further burden on the sales team.

Alternative 3 - Optimization Strategy

Rapid growth has left EJ's operations with many stopgap solutions, which are ill-prepared to support further growth. Fixing these issues will boost employee productivity and retention, while also enhancing customer experience. Moreover, developing an internal database will increase overall efficiency while a custom-built CRM software could possibly save labor hours for every client streamlining processes. Nonetheless, this option requires a high initial investment to build the software, and carries a serious risk of underperformance, along with frustration from employees if they do not see the promised value.

Alternative 4 - Vertical Integration Strategy

Backward integration by taking over destination management companies (DMCs) would increase EJ's profit margins while reducing the company's dependency on these businesses, thus increasing its market power. Further, this would allow EJ to directly approach camps and lodges, simplifying the product development task. However, integrating a company always bears the risk of incompatibility and EJ's lack of experience as a DMC further increases this. This option would also require a high initial investment and a great deal of time for training and integration.

Recommendation

To determine the best option to move forward, the alternatives were evaluated against each other on four key decision criteria (Appendix C) using a weighted decision matrix (Appendix D). Thorough consideration was then given to the advantages and disadvantages of each option (Appendix E).

This process identified alternative 3—the optimization strategy—as the best path forward. This option scored high across all criteria, and was decisively better on long-term growth.

While specific actions to optimize its operational processes are already being considered, this strategy is not bound to existing plans. Rather, our proposal presents further opportunities to optimize EJ's operations.

Implementation Plan

To successfully implement the optimization strategy ensuring sustainable growth a D-E-C-Strategy will be executed over a time frame of one year (Appendix F). Furthermore, for a long-term implementation timeline please refer to Appendix G.

Develop – June 2017

We have previously mentioned the need for CRM software and an internal database; these two components are urgently required and should be developed first. To this end, a capable software engineer must be found to develop the custom-built CRM software. As for the database, it will need to leverage existing employee knowledge and streamline internal knowledge transfer. This should be available via an intranet that can be accessed via desktop and mobile devices, and must make it easy for employees to enter all relevant information regarding accommodation. As soon as the CRM system is installed, employees should receive specific trainings from IT-experts, elaborating on and how the employee as well as the customer will benefit. Additionally, software maintenance should be included in the contract.

The next step will be expanding the database to include safari activities. Employees should be sent to the partner organisations that provide these activities and encouraged to experience them first-hand. This will enable EJ to further leverage its core strength to match customer interests with specific activities.

To increase efficiency, we recommend that EJ cultivate a network of licensed pilots available to fly customers from hotspots in the South up North to the Masai Mara. Having a reliable network will make a drastic difference in the quality of the customer experience, while also cutting costs.

Enforce – January 2018

In the third quarter, the enforcement phase will begin. EJ will leverage its newly acquired data to enable even deeper customisation of customer trips. This phase will include the first airplane trips flown by the newly signed network of pilots. Surveys will also be distributed, giving EJ the chance to evaluate the changes made and flag any adjustments needed. The surveys will also help the company to identify areas in which customer satisfaction is subpar. Employee training will be held at regular intervals to address any performance gaps.

This phase will also see EJ work to strengthen relationships with its partners to cultivate loyalty and ensure that its core values and brand identity are consistently represented throughout, resulting in an aligned brand image.

Capture – April 2018

This phase will begin in the fourth quarter. EJ will leverage its enhanced database to offer an expanded set of product offerings, enabling the company to further differentiate itself from rivals while staying true to its vision. We also recommend that EJ introduce a new attraction: Hot Air-Balloon rides at specific locations. This will enable the company to benefit from its established pilot network, while providing a unique experience for its affluent customers—a breathtaking view of nature that will ensure that their stay is a once-in-a-lifetime experience. From a business standpoint, the goal is to generate favourable word-of-mouth and personal recommendations, enabling EJ to capture new customers.

We recommend that EJ reassess its market position at the end of five years, to consider new markets and decide upon further direction.

Financial Implications & Risks

While the chosen alternative does not score favourably on ROI compared to the other alternatives, the sustainable long-term financial performance is decisive. For a detailed analysis of financial implications and assumptions, please refer to Appendix H.

Through the optimisation of EJ's internal processes, we expect revenues to triple from 2017 to 2023 due to the enhanced client experience, which will result in an increase in both the number of clients served and average prices. The positive long-term effect will also be manifested in a reduction of wages and COGS. The overall effect will be accelerating increase in operating profits, which are forecast to reach $5,192,052 in 2023. Taking into account possible risks, revenues are projected to rise even in the worst-case scenario. However, we have included a thorough risk mitigation plan to avoid this worst-case outcome (see Appendix I).

The initial investment of $120,000 for software and employee training will come from debt-financing. While this increases the firm's financial leverage and therefore risk, projected free cash flows indicate that interest on the long-term debt can be paid. Ensuring the minimization of risk is especially important in this industry, given its uncertain future.

Appendices

Appendix A: SWOT Analysis

STRENGTHS	WEAKNESSES
- High quality customer service: → Matching interests and personalities of customers with creative safari tours - Excellent industry knowledge: 1. Management: Family history, experience, affinity 2. Sales team: Regular trainings, travel experience - Growing brand awareness: → Customer satisfaction and loyalty → Positive word-of-mouth → Several awards - Strong market position	- Inefficient internal processes: → Lack of internal database and formulized knowledge → Communication difficulties between sales agents and sales support staff → Limited CRM due to lack of time and people - No marketing operations
OPPORTUNITIES	**THREATS**
- Growing luxury safari industry - Rise in demand for customized safari tours - Trend of adventurous travelling	- Immense competition: 1. New entrants due to attractive commissions 2. Safari Camps and Lodges pushing into tour operator business 3. Low-cost providers - Buyer power due to high competition - Influence of economy and US stock markets performance - Political instability, civil riots, outbreak of diseases possible in Africa

Appendix B. Porter's Five Forces

	Strength	Reasoning
Threat of substitutes	High	Attractive alternatives for buyers: Adventurous and luxurious tour journey's in India, Australia, Patagonia, etc.
Threat of new entrants	Medium	Attractive industry due to high commissions but significant capital investment and industry knowledge required
Bargaining power of buyers	High	Low switching costs, many tour operators
Bargaining power of suppliers	Medium	High number of firms in supplier's industry but not as many in luxurious customer segment; Supplier could vertically integrate forward but high entrance barriers: high capital investment, industry knowledge, skill to manage marketing and branding campaign
Degree of rivalry	Medium	Immature market, low switching cost of buyers, large number of competitors, Competitive advantage through product differentiation

Appendix C: Key Decision Criteria

Importance to further long-term growth	To what extend does the alternative provide a relevant base for further/future growth?
Potential to increase service quality & positive reputation	Is the alternative going to help leveraging EJ's core strength of high-quality customer service and therefore contributes to a positive brand reputation?
Risk avoidance	To what extend can possible risks of the alternative be avoided?
Return on investment	Will the alternative rise the company's ROI?

Appendix D: Decision Matrix

Key Decision Criteria	Weight	Alternative 1: Marketing	Alternative 2: Public Relations	**Alternative 3: Optimization**	Alternative 4: Vertical Integration
Importance to further long-term growth	0,3	2	3	**5**	4
Potential to increase service quality & positive reputation	0,25	3	3	**5**	3
Risk avoidance	0,25	4	2	**4**	1
Return on investment	0,2	5	3	**3**	1
Total	1	**3,35**	**2,75**	**4,35**	**2,4**

Legend: 1 - most unfavourable to 5 - most favourable

Appendix E: Pros and Cons of Alternatives

	Alternative 1: Marketing	Alternative 2: Public Relations	Alternative 3: Optimization	Alternative 4: Vertical Integration
+	Quick payback period; Increasing brand awareness	Proven to be a very effective tool; Highest possible payout and long-lasting results; Not a burden on sales team efforts	Preparing the company for future growth → long-term benefits; compiling knowledge in database; → Increase in efficiency; Improving internal communication and customer experience; Lower stress → greater employee retention	Decreased dependency on DMC → possible bargaining power; Improved client experience
−	$150,000 required to test profitability; Competitive & expensive; Never been undertaken → Lack of experience; Multiple channels needed to succeed; Short-term focus	Recently weaker results of strategy; Highest risk and longest lasting payback period; Expensive	USD 100,000 required; Number of existing risks	High initial investment needed; Difficulties in integrating → Lack of experience

Appendix F. Short-Term Implementation Timeline

Quarter 1

- Look for potential partners, such as local licensed pilots and software engineers
- Organize employee trainings for the CRM software
- Compile gathered data in internal data base

Quarter 2

- Contract with pilots and ensure first trial of service by employees
- Hire software engineer and install CRM software
- Train employees to ease the use of CRM software
- Design and distribute surveys to customers and employees

Quarter 3

- Strengthen relationships with partners and customers among value chain
- Look for new safari activities to diversify product portfolio
- Evaluate surveys and consider implementation of changes if required to enhance customization

Quarter 4

- Send employees to test new potential safari activities, such as hot air balloon trips
- Develop network of pilots
- Capture value from satisfied customers and employees

Appendix G. Long-Term Implementation Timeline

Year 2
Look for new safari activities, such as cooking classes (local African cuisine)

Year 2 until 5
Focus on customer and employee satisfaction; implement marketing and PR approach while leveraging competitive advantage

Marketing approach via increasing promotions on social media, such as videos or collaborations with influencers; increase awareness in mass audience

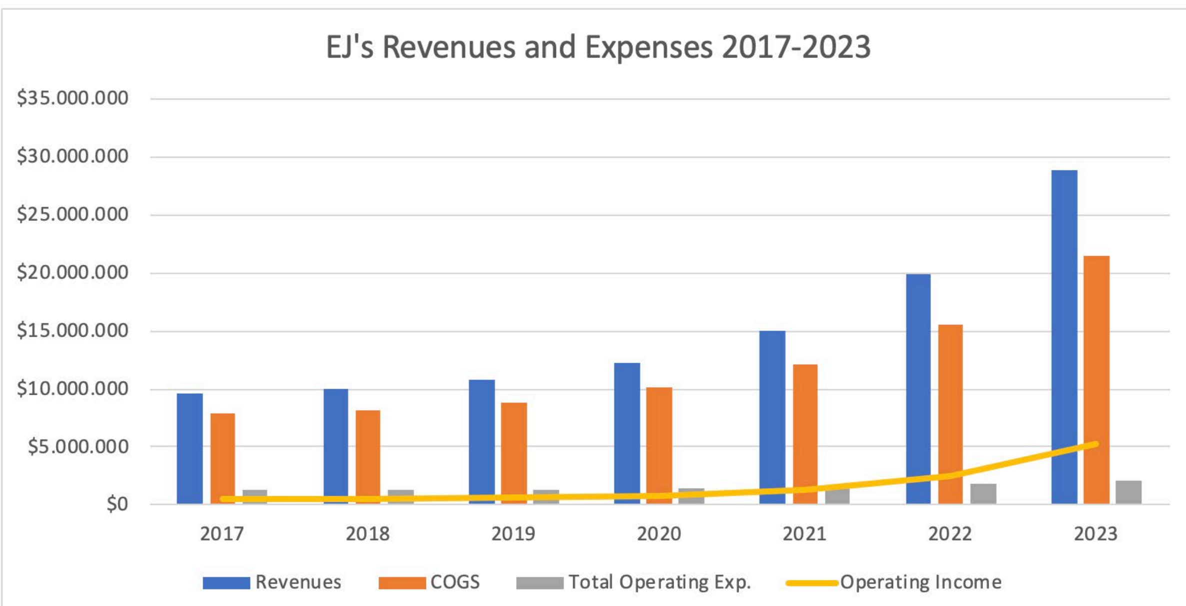
PR approach to capture more customers throughout more credible marketing

Become the best “Safari-preneur” and further differentiate from competitors

In 10 years
Capture a wider customer base; e.g., by establishing an office in Europe

Appendix H: Financial Implications

EJ's Income Statement in $							
Year	2017	2018	2019	2020	2021	2022	2023
Revenues	**9.667.801**	**9.957.835**	**10.754.462**	**12.260.086**	**14.957.306**	**19.893.216**	**28.845.164**
Revenue Growth	*0%*	*3%*	*8%*	*14%*	*22%*	*33%*	*45%*
COGS	**7.942.962**	**8.181.251**	**8.835.751**	**10.072.756**	**12.087.307**	**15.592.626**	**21.517.824**
COGS Growth	*0%*	*3%*	*8%*	*14%*	*20%*	*29%*	*38%*
Gross Profit	**1.724.839**	**1.776.584**	**1.918.711**	**2.187.330**	**2.869.998**	**4.300.590**	**7.327.339**
Gross Margin	*18%*	*18%*	*18%*	*18%*	*19%*	*22%*	*25%*
Operating Expenses							
Total Promotion	130.617	133.229	135.894	139.971	144.170	151.378	166.516
Total Employee Expense	856.875	874.013	917.713	1.009.484	1.150.812	1.380.975	1.698.599
Travel to Africa for inspect.	115.000	100.000	100.000	100.000	100.000	100.000	100.000
Total Office Expense	165.172	170.172	170.172	170.172	170.172	170.172	170.172
Total Operating Exp.	**1.267.664**	**1.277.414**	**1.323.779**	**1.419.627**	**1.565.154**	**1.802.525**	**2.135.287**
Operating Income	**457.175**	**499.170**	**594.932**	**767.703**	**1.304.844**	**2.498.065**	**5.192.052**
Operating margin	*5%*	*5%*	*6%*	*6%*	*9%*	*13%*	*18%*
Taxes (40%)	182.870	199.668	237.973	307.081	521.938	999.226	2.076.821
NOPAT	**274.305**	**299.502**	**356.959**	**460.622**	**782.906**	**1.498.839**	**3.115.231**
Investment	120.000	0	0	0	0	0	0
FCF	**154.305**	**299.502**	**356.959**	**460.622**	**782.906**	**1.498.839**	**3.115.231**



EJ's Scenario Analysis in $									
	2017			**2020**			**2023**		
	worst	expected	best	worst	expected	best	worst	expected	best
% of Revenues	*95%*	*100%*	*105%*	*95%*	*100%*	*105%*	*95%*	*100%*	*105%*
Revenues	9.184.411	9.667.801	10.151.191	11.647.082	12.260.086	12.873.091	27.402.906	28.845.164	30.287.422
COGS	7.545.814	7.942.962	8.340.110	9.569.118	10.072.756	10.576.394	20.441.933	21.517.824	22.593.716
Operating Expenses	1.204.281	1.267.664	1.331.047	1.348.646	1.419.627	1.490.609	2.028.523	2.135.287	2.242.051
Operating Income	434.316	457.175	480.034	729.318	767.703	806.088	4.932.450	5.192.052	5.451.655
Operating Margin	*5%*	*5%*	*5%*	*6%*	*6%*	*6%*	*18%*	*18%*	*18%*

ROI of various alternatives				
	Marketing	Public Relations	Optimization	Integration
Investment occ. in 2017	$150.000	$100.000	$120.000	$80.000.000
Additional op. income in 2018	$59.976	$31.360	$21.972	$2.000.000
ROI in 2018	40%	31%	18%	3%

Assumptions	
ROI Marketing Strategy	170 additional customer in 2018 due to strategy (each costing $800); operat. margin is set at 4,9%; average spend/client is $8.000
ROI PR Strategy	80 additional customers
ROI Optimization Strategy	Decrease in Employee Expense (total wages) increases operating margin by 0,28%; Revenues increase by 3%
ROI Integration Strategy	Additional operating income is expected to amount to $2.000.000; Investment to acquire suppliers is set at $80 million
Income Statement 2017	2017 IS is similar to 2016 IS because the effects of the strategy implementation are not showing yet; the only changes compared to 2016 are the increase in travel expense due to investigations of new activities
Corporate Tax	The tax rate is assumed to be 40%
Income Statement 2018-2023	VC increase generally; Promotion ex. increases slightly due to more resources available for promotion spending (2%-7% growth) (2%-7% growth); Office exp. increases by $5.000 in 2018 due to the occurrence of maintenance expense for database & software Total wages decrease less than proportionally to sales over time (familiarity with software & less working hours); COGS increase portportionally to growth in sales in the first years; after some time, EOS and cost savings due to higher bargaining power towards decrease the growth rate in COGS compared to sales

Appendix I: Risk Mitigation

Risk	Impact	Likelihood	Mitigation
Lack of potential suppliers, such as local pilots	High	Low	Collaborate with well-known airlines or establish own network of pilots by specifically training employees
Economic downturn resulting in a rapid decrease in demand for safari tourism	High	Medium	Adapt prices while strengthening relationships with partners; decrease spending and cut costs
Difficulties in implementing the CRM software and employee rejection	Medium	Low	Hire more specialists to train employees and put more efforts in their training; change software if necessary
Entrance of further competitors or collaborations of strong competitors in the market	Medium	High	Stress brand uniqueness and engage in relationships to foster loyalty and satisfaction which in turn will lead to favorable word-of-mouth