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WORLDWIDE CASE COMPETITION

Sample Case Analysis #4

Qualification Round submission from the
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Case: *Extraordinary Journeys: Wild Times in the Safari Industry*

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STRATEGIC CONSULTING REPORT: EXTRAORDINARY JOURNEYS

Submission prepared for the Qualifying Round of the
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Introduction

The Big 5 compete for survival in the Animal Kingdom. Safari-goers are hungry to witness the most ferocious creatures across the savannah. Natural selection is inevitable. While animals adapt to their environment, safari tourists seek the ultimate package to suit their needs. Tour operators must face their ever-changing environment by capitalizing on trends and constantly innovating. Extraordinary Journeys (EJ) faces the **strategic issue of sustaining growth above 10%** in an increasingly competitive market.

External Analysis

Trends

The tour operator industry is **growing rapidly** with increasing tourism levels, which is proportional to increasing corporate profitability. It is **highly fragmented** with numerous competitors. The future of the industry, however, is tending towards higher levels of consolidation. Target markets within this industry tend to be **bucket-list travelers**, which indicates low levels of repeat travel for specific vacations. Consumers are increasingly demanding **customized experiences** and are highly aware of the negative impact that tourism can have on wildlife and the environment. The PESTEL model in Appendix 1 illustrates African tour operator trends.

Competitive Landscape

The African tour operator industry faces a **high threat of substitutes** from other bucket-list destinations, like India, Peru, and Patagonia. High fragmentation in the industry leads to **low barriers to entry**. Furthermore, the opportunities for start-ups in this industry is plentiful, which only reinforces the ease at which new firms can enter. The number of players across the value chain leads to **low supplier bargaining power**. The Porter's 5 Forces model in Appendix 10 details the intensity of competition.

Key Industry Success Factors

The tour operator industry key success factors (Appendix 2) are **industry knowledge**, **access to capital**, **service partner relationships**, and **exceptional customer experience**.

Internal Analysis

Resources and Capabilities

Extraordinary Journey's (EJ) competitive advantage lies in its ability to **differentiate** by creating **customized experiences** for its clients. Appendix 3 highlights EJ's strengths and weaknesses. The strengths lie in Elizabeth Gordon's management expertise and **tacit knowledge**, the **quality employees**, flourishing **reputation**, and strong **cash resources**.

Areas of Concern

EJ's growing business increases the workload for employees, which may lead to difficulty in employee retention. EJ's small size can lead to difficulties as industry consolidation becomes a reality. A downturn in the US market poses a significant risk for EJ, given their predominant reliance on US clients.

Management Preferences

Elizabeth Gordon's preferences include reducing the stress on employees, **improving systems**, and providing the best levels of employee training to **maximize customer satisfaction**. Assessing value chain partners enables EJ to provide quality controlled travel recommendations to its clients.

Strategic Alternatives

To achieve above average growth in an increasingly competitive industry, EJ must implement a new project. Please see Appendix 4 for the pros and cons of the different strategies and Appendix 5 for decision matrix evaluating each strategy against the key industry success factors.

1. Marketing Strategy

This alternative consists of hiring an external marketing firm to create and distribute marketing collateral across various channels, specifically social media. This option requires intensive capital requirements of approximately \$150,000 before any benefits can be realized. Marketing exhibits diminishing returns to scale and requires constant investment with a high acquisition cost. Furthermore, there is evidence of low customer retention, and benefits may be difficult to measure in the short-run.

2. Public Relations Strategy

Public relations will require an additional investment of approximately \$100,000. Currently, the PR provider for EJ is focusing on more lucrative clients. PR has generated past returns; however, similar to marketing, PR exhibits diminishing returns to scale and requires constant investment. EJ will be forced to compete for attention in a saturated travel market, and ROI is volatile. Positive PR attention can be developed organically through execution of EJ's competitive advantage.

3. Optimization Strategy

Optimization strategy will require an investment of approximately \$100,000 in capital expenditure for the system. An additional \$50,000 will be required in implementing the system along with recurring IT expenses each year. This option will provide a **5% productivity gain, better customer service, knowledge transfer and sharing, better communication, and scalability**. This option carries several mitigatable risks.

Recommendation

As the decision matrix (Appendix 5) clearly demonstrates, alternative 1, pursuing an internal **optimization strategy** will meet the objective of achieving above average growth in an increasingly competitive industry. The **24% growth** and **19% ROI far exceeds the 10% target**. The optimization strategy will increase **knowledge sharing**, manage **service partner relationships**, and improve **customer experience**, while respecting **capital constraints**.

Implementation

The implementation will occur from Q2 2017 – Q4 2018. A timeline is included in Appendix 6. A new CRM will increase measurable customer engagement. Using business process reengineering, the knowledge transfer process, highlighted in Appendix 8, will be integrated into the CRM system. The use of data automation and customer profiles will eliminate redundant tasks, therefore, providing more customizable products to customers and a productivity gain.

Development & Deployment

Development and deployment of the CRM follows a strict guideline, see Appendix 7. The operations will fundamentally change from a manual approach with the sales team working in individual silos to a highly integrated platform allowing for cross functional communication and sharing of information. Integrating with partner systems will increase speed of communication and provide access to real-time data. Ensuring that the CRM satisfies the user requirements will be partially dependent on conducting proper employee interviews and selecting an appropriate system provider. The right partner needs to have the desired resources and capabilities to meet requirements. The partner must have a proven track record and the ability to meet the deadline on budget and provide after-sales support and development.

Human Resources

CRM implementation will result in a reduction of redundant tasks for employees as well as greater organizational support, communication, and access to knowledge resulting in decreased levels of strain on the workforce and an improved work-life balance. Gains will be realized through increased labor productivity. As a result, EJ becomes a learning organization through the integration of people, processes, and technology.

Marketing

Marketing will serve as an extension to the functions and opportunities offered by the CRM system. Appendix 9 illustrates the CRM capability model. EJ's website will offer the option to get tour quotes after creating a customer profile. The data generated will allow EJ to target leads through customized emails. Following the experience, customers will be asked for their opinion and feedback. The feedback will be stored and used to improve the services and experiences. In addition, the post-experience communications will encourage positive word-of-mouth, therefore strengthening brand reputation and ability to target customers outside of the US market.

Financing

Based on current sales projections for 2017 of \$12M, a sales growth rate of 24.12% year-on-year is determined and is applied to future sales through 2020, see Appendix 11 for all financial projections, the implementation budget, and summary of capital flows. This is reasonable given the historical CAGR of 60%, the efficiency gains of the CRM system, and the industry CAGR of 10%. The productivity gain is realized through the payroll costs as they directly affect the productivity of the labor. The projected ROI by period end 2020 is 18.87% and the estimated payback period is approximately 2 years 6 months. \$100,000 for the system is added to the balance sheet as a capital expenditure. It is estimated that the

implementation will further cost an additional \$50,000 and recurring fees of \$30,000 will be incurred each year. Please refer to Appendix 12 for a comprehensive list of financial assumptions.

Risks and Mitigation

Potential risks associated with software development and implementation include employee rejection, failure to meet organizational needs, failure in implementation, and customer data breach. Employees will be brought on board through **effective training, communication** and the **benefits** resulting from the new system. The system requirements will be developed to **meet the functionality of the company**. Implementation failure will be addressed through **system provider selection** and a thorough **statement of work**. Adequate **privacy settings** and **internal controls** coupled with **industry best practices** will limit the risk of client data breaches. Continually working with the service provider will mitigate other risks as they become apparent.

Expected Outcomes

In nature, the environment changes and becomes more and more competitive, only the fittest will survive. The Big 5 have survived and flourished so long because of their ability to adapt and optimize their traits to an ever-changing competitive environment. Extraordinary Journeys, too, must evolve and optimize to remain competitive and dominate in the changing competitive landscape. The CRM recommendation exploits the key industry success factors. In developing and implementing a CRM system, Extraordinary Journeys will enjoy a productivity gain, improve their tacit knowledge sharing and communication while building on their competitive advantage of absolute customization and customer service. The implementation will result in an estimated ROI of 18.87% from an investment of \$150,000. *Why adapt and survive when one can optimize and flourish?*

Appendices

Appendix 1: PESTEL Model

Political	<ul style="list-style-type: none"> • Unpredictable and unstable regional government leadership
Economic	<ul style="list-style-type: none"> • Increasing value of US dollar > Increasing disposable income • Recession risk > stagnation / contraction of industry • Increasing corporate profits leads to increased safari tourism demand • 4.5 million international tourists visited Africa for safari tourism in 2015 • Fragmented industry slowly becoming consolidated
Socio-Cultural	<ul style="list-style-type: none"> • Anti-poaching sentiments • Bucket List travelers • Increased customized experiences
Technical	<ul style="list-style-type: none"> • CRM & Marketing going online • Mass customization
Environment	<ul style="list-style-type: none"> • Sustainability / Triple Bottom Line: less environmental impact • Poaching can threaten the entire industry
Legal	<ul style="list-style-type: none"> • Permits / licenses for operating rights

Key Takeaway: The tour operator industry is fragmented with consumers seeking increasingly customized experiences.

Appendix 2: Key Industry Success Factors

Industry Knowledge	<ul style="list-style-type: none"> • Understanding the industry is imperative in meeting client preferences • Industry experience enables a company to draw upon the best supply chain partners to create customer value
Access to Capital	<ul style="list-style-type: none"> • Capital is necessary for establishing an operational structure, which includes an office and an experienced employee base. • Building a brand requires time and resources to develop awareness
Service Partners	<ul style="list-style-type: none"> • Access to qualified suppliers increases a tour operator's diversity of product offering. • Partnerships create symbiotic relationships between supply chain agents
Customer Experience	<ul style="list-style-type: none"> • Reputations are built on customer experience • Personal referrals are paramount to a strong customer base

Key Takeaway: EJ satisfies the key success factors to be successful in the **Tour Operator** market, supporting our recommendation of implementing a new software.

Appendix 3: Extraordinary Journey's Strengths and Weaknesses

Strengths <ul style="list-style-type: none"> • Elizabeth Gordon's management expertise and tacit knowledge • Customer above all mentality → competitive advantage <ul style="list-style-type: none"> ○ Matching customer interests with safari camps ○ Customized safari experiences and start-to-finish customer service • Great employees • High revenue growth & Cash resources 	Weaknesses <ul style="list-style-type: none"> • Increasing workload for employees • Small company size → limited ability to scale • Highly dependent on US clients
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Key Takeaways: EJ can leverage its competitive advantage to ensure future growth.

Appendix 4: Alternatives Pros and Cons

Marketing Strategy	
<ul style="list-style-type: none"> • Target specific market • Increase brand awareness • Fast payback 	<ul style="list-style-type: none"> • Diminished returns to scale • Expensive with high acquisition costs • Low customer retention • Crowded market • High SEO competition
Public Relations Strategy	
<ul style="list-style-type: none"> • Long lasting benefits • Build on past success • Increase brand awareness 	<ul style="list-style-type: none"> • Difficult to measure hence hard to analyze/justify/adapt PR strategies • High volatility of ROI • Compete for limited attention in a saturated market
Optimization Strategy	
<ul style="list-style-type: none"> • Knowledge transfer • Ability to scale • Better customer support • React to customer needs • Better communication with sales and ops • Productivity gain 	<ul style="list-style-type: none"> • Risk (e.g. employee rejection or system failure) • Capital intensive • Requires workforce training

Key Takeaways: The marketing and public relations strategy are inherently risky and difficult to measure.

Appendix 5: Decision Matrix

FACTOR	WEIGHT	MARKETING STRATEGY	PUBLIC RELATIONS STRATEGY	OPTIMIZATION STRATEGY
Industry Knowledge	40%	4	4	10
Service Partners	25%	6	6	8
Customer Experience	25%	4	3	10
Capital Requirements	10%	2	4	4
TOTAL	100%	4.3	11.85	24.5
SCALE: 1 Does Not Satisfy Requirements 10 Perfectly Satisfies Requirements				

Key Takeaway: The decision matrix clearly shows that an **Optimization Strategy** is the preferred option.

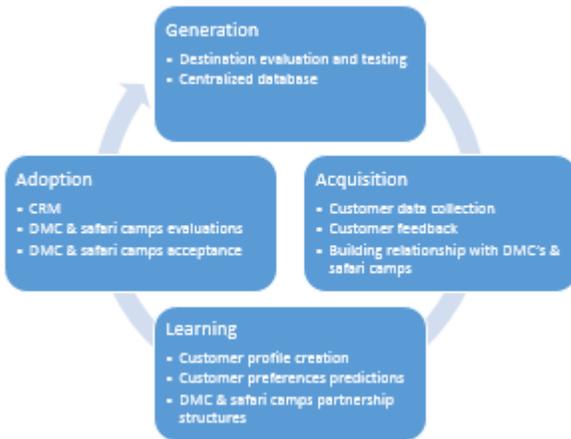
Appendix 6: Implementation Timeline

Task	Q2 2017	Q3	Q4	Q1 2018	Q2	Q3	Q4
Employee Interviews	█						
Provider Evaluation and Selection	█	█					
Statement of Work		█					
Building, Test, Configure			█				
Parallel Implementation				█	█		
Employee Training				█			
Adoption						█	█
Evaluation of KPI's					█	█	█

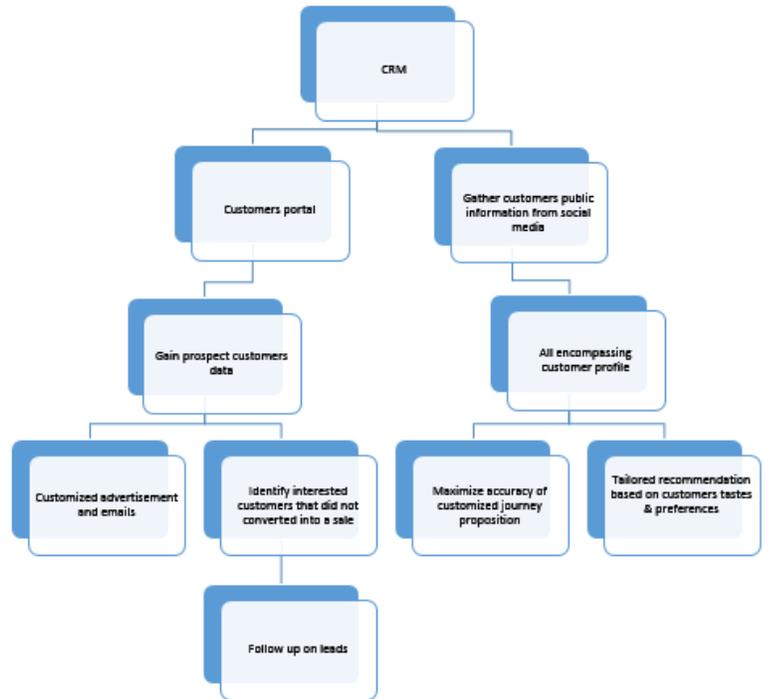
Appendix 7: CRM Development and Deployment

Employee Interviews	<ul style="list-style-type: none"> • Identify AS IS and TO BE processes • Develop user cases, to pinpoint system requirements • Inform employees on the purpose of the system and the optimal benefits to their workflows
Provider Evaluation and Selection	<ul style="list-style-type: none"> • Ensure ability to meet requirements • On schedule and on budget • Proven industry experience • After sales support
Statement of Work	<ul style="list-style-type: none"> • Outlines performance requirements • Detailed timeline • Integration with partner systems (EDI, API)
Build, Test, Configure	<ul style="list-style-type: none"> • Work with chosen provider to create the customized CRM system • Configure system to best meet and support user requirements • Test using simulations, and test of controls with test data
Parallel Implementation	<ul style="list-style-type: none"> • Implement the new CRM system side-by-side to the existing methodology in order to mitigate the risk of employee rejection and curb the learning curve
Employee Training	<ul style="list-style-type: none"> • Educated employees on use of system and benefits directly related to their day-to-day tasks and work life balance
Adoption	<ul style="list-style-type: none"> • Complete implementation by phasing out the old system and relying on the sole use of the new CRM system
Evaluation of KPIs	<ul style="list-style-type: none"> • Labor productivity of, measured in terms of productivity gains based on salary expense: 5% • Customer Engagement: faster response times and more leads converted • Customer Satisfaction: customers are satisfied with the itineraries created for them in the CRM • Communication: operation managers and salesforce members are on same page and making decisions based on similar information • Stress and Strain on Workforce: is the workforce working at 40 hours a week and is the level of stress due to repetitive or non-value-added tasks decreased

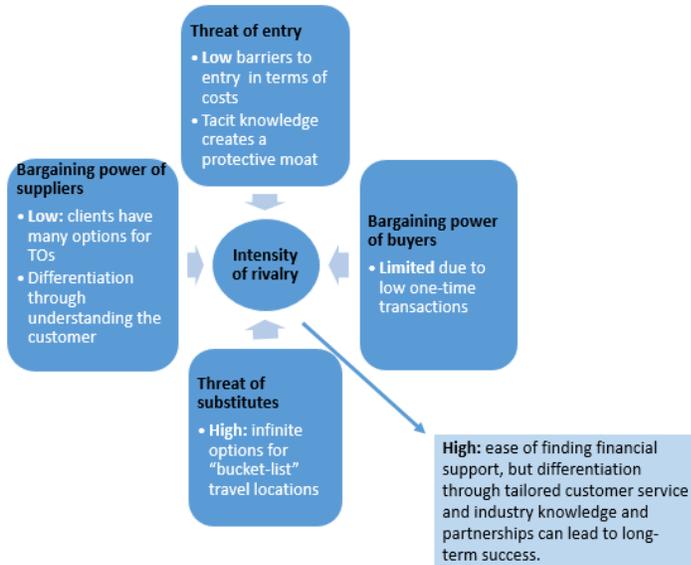
Appendix 8: Knowledge Transfer Process



Appendix 9: CRM Capability Model



Appendix 10: Porter's Five Forces



Appendix 11: Financial Projections

EJ: Statement of Earnings Projections					
Ratios '16	2016	2017	2018	2019	2020
1 Sales	\$ 9,667,801	\$ 12,000,000	\$ 14,894,804	\$ 18,487,431	\$ 22,946,599
82.16% COGS	7942962	9859072	12237412	15189075	18852680
1.35% Promotions	130617	162126	201237	249775	310020
8.86% Payroll	856875	1063582	1320154	1638575	2033799
Productivity Gain			-66008	-81929	-101690
0.98% Travel	94977	95000	95000	95000	95000
1.71% Office	165172	205017	254474	315853	392037
0.00% IT Fees			30000	30000	30000
Implementation Exp			50000		
4.94% Net Income	<u>\$ 477,198</u>	<u>\$ 615,203</u>	<u>\$ 772,535</u>	<u>\$ 1,051,081</u>	<u>\$ 1,334,752</u>

2016 - 2017 Projected Sales Growth			Summary of Captial Flows					
2016	2017	G%		2017	2018	2019	2020	Totals
9667801	12000000	24.12%	Productivity Gains		66008	81929	101690	249626
Inflows		249626	Initial Investment	100000				100000
Outflows		210000	Implementation Exp.		50000			50000
			IT Fees			30000	30000	60000
ROI		18.87%	Total	-100000	16008	51929	71690	39626
Discounted Payback Period			Payback		-84922	-33728	38807	80180
Year Postive		2019						
Gain/Month 2020		5974						
Months to 0		5.65						
Payback		2 Years, 5.64 Months						

Implementation Budget			
Expense	Cost/Unit	Units	Cost
CRM Development Costs			
System Development Fees			\$100,000
Addition to CAPEX			\$100,000
Training & Development	\$200/hr	50hr	10000
Configuration		100hr	20000
Support		50hr	10000
Supplier Integration		50hr	10000
Total Expenditure			\$ 50,000
Recurring Expenses			
Expense	Cost/Unit	Units	Cost
User Cost	\$1200/yr	21	\$ 25,200
Enviroment Cost	\$480/mo	12	4800
Total IT Expense			\$ 30,000

Appendix 12: Financial Assumptions

- Support and IT Consulting costs are \$200/hr, 250 hours are required in implementation
- User costs are \$100/month and environment cost is \$400/month after implementation
- EJ's competitive advantage allows them to grow above the industry average CAGR, hence the 2016-2017 growth rate is used until 2020
- COGS, promotions, office expenses all increase proportionate to sales
- Payroll increases proportionate to sales due to the compensation nature of pay, productivity gains are realized by reducing the payroll expenditure by 5%
- Travel expenses will not vary YoY