

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

Business Behaviour

CASE STUDY

JUNE 2003

2873/CS

May be opened and given to candidates upon receipt.

INSTRUCTIONS TO CANDIDATES

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

This case study consists of 5 printed pages and 3 blank pages.

Oaks Holiday Tours Ltd (OHT) & Thornwood Coaches

OHT was set up in 1975 by James and Jayne Oaks. They began with one coach taking day trips to the Lake District from their base in Settle, North Yorkshire. As the population's demand for travel increased, OHT expanded into 7-day and 10-day holidays throughout the UK. However, by 1985 the vast majority of OHT's holiday destinations were to Europe (Table 1).

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OHT employs secretarial and administrative staff who make the necessary hotel bookings and plan the tour itineraries. It also employs full-time and part-time telephone reservations staff. However, OHT does not employ any coach drivers, nor does it own any coaches. This is because OHT sub-contracts out the individual holiday tours to coach companies throughout the UK. At any one time there may be as many as thirty coaches and twenty sub-contractors taking OHT customers to and from their destinations in Europe.

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The majority of OHT's customers purchase their holidays directly from the company. Brochures are sent out each year to anyone on the company's database who has purchased a holiday from OHT in the past five years. It also advertises in the majority of travel supplements in the better quality newspapers between December and June. Although research suggests that the majority of OHT's customers initially find out about the company by picking up a brochure in a high street travel agent, most still book direct over the telephone. The next 12 months will see OHT's website grow in size; the intention being that customers will be able to book holidays over the internet.

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James and Jayne are proud of OHT's reputation in the industry and put strong emphasis on quality. In the last five years OHT has won awards for 'Best UK Coach Operator', 'Best Coach Operator to France' and 'Best Long Stay Coach Operator'. The majority of OHT's holidays are fully booked, although a few run with as many as 20 empty seats on the coach. However Jayne, who is the firm's Marketing Director, is most proud of their customer feedback. She sees this as more important than any award. Customer feedback is encouraged by asking every customer to complete a questionnaire as they travel back to Calais on the final day of their holiday.

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As part of plans for diversification, OHT is currently looking at the feasibility of introducing 'Fly-Drive' Coach holidays. Customers would fly to their starting point, travel around their chosen location by coach for eight or nine days and then fly back to the UK. This would further increase the range of countries to which OHT could provide holidays. It may also help to reduce the age profile of its customer base (Table 2). Jayne recognises that she will have to spend a considerable amount of money developing new promotional methods if the Fly-Drive concept goes ahead.

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Thornwood Coaches, a coach operator based in Chatham, Kent, is just one of the many sub-contractors that OHT currently uses. Like all sub-contractors of OHT they have to provide an air-conditioned 49-seater coach of not more than five years age. The coach must be painted in OHT's green and white livery.

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Adrienne Thornwood, the owner of Thornwood Coaches, first took on an annual contract with OHT three years ago. She saw it as a way of gaining a regular income to supplement her main source of revenue from day coach tours and longer UK holidays for her regular customers from North Kent. However, she is now becoming increasingly concerned about the small profit margin that the OHT contract provides, and has been examining the financial figures (Table 3) with her accountant, Sunil Ambrose.

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Adrienne said, 'I am paid a fixed price of £2,430 by OHT for each 10-day tour. Out of this I have to pay all operating costs, including drivers' wages, diesel, road tolls, taxes and any other expenses. If the tour goes smoothly, I make a profit of less than £400 per trip. But most weeks the coach returns with some minor damage that eats into the profit. I sometimes wonder whether the contract with OHT is worthwhile.'

Sunil was less pessimistic about the data they were examining. He felt that Adrienne was putting too much emphasis on the profit figure.

'What you must remember is that the regular cash that this contract provides is just as, if not more, important than any profit. What is highly unsatisfactory is for one coach to be idle for too many days of the year. You need to investigate ways of hiring it out, especially during the winter. This will help to maximise your capacity utilisation,' argued Sunil.

'That's easier said than done. Remember it is painted in OHT's livery. Most of the other firms I do business with will not hire a coach with a competitor's name all over it,' replied Adrienne.

At the conclusion of the meeting, Adrienne turned her attention to a very different matter. A married couple who she has employed as a driving team for the past three years, primarily for the OHT contract, wanted to speak to Adrienne about the future.

For thirty weeks of the year, Rob and Linda Davies operate OHT's highly popular 'Swiss Glacier Express' 10-day tour, staying for three nights in Lugano, Switzerland and four nights in St. Anton, Austria. One night is spent in Brussels travelling out to Switzerland and back from Austria. The tour includes two optional excursions: to Stresa on Lake Maggiore and Innsbruck. (Both optional excursions are charged for separately, and any profit from these remains with Thornwood Coaches.) Although they enjoy their job, Rob and Linda are considering whether they wish to continue working the OHT contract for the 2004 season.

Spending ten days with a group of passengers is demanding work. As well as sharing the driving, Rob and Linda must also load and unload the passengers' luggage at each hotel, serve hot and cold drinks when not driving, deal with any problems or complaints and liaise with hotel staff. For this they are each paid a flat rate of £38 per day. In addition they receive a lunch allowance from Adrienne of £5.50 each per day and get their breakfast, evening meal and board provided free of charge by the hotels.

Linda began the meeting by outlining her concerns to Adrienne. 'We are basically on duty all day from 7.00 am until 8.00 pm or later. Even when we arrive at the hotel the customers expect us to sort out their problems and answer their questions. We are not really getting the minimum wage and we even have to pay for our own uniforms. I would be better off working on the checkout at the local supermarket.'

Rob added, 'Also, we are away from family and friends for ten days out of every fortnight. Quite often you end up giving us local jobs to do during the other four days so we hardly get any time off. If it wasn't for the tips we get at the end of the holiday I would pack this job in tomorrow.'

Linda felt now was the time to put forward an idea she had about increasing their earnings. 'I am usually the one who organises the bookings for the optional excursions. Most of the time the coach is less than half full on these extra trips; breaking even is a real issue. If we were able to keep some of the extra income generated from these trips we would work harder at encouraging the customers to go on them. This would increase our pay and still improve your profits.'

'At the moment we might as well discourage the passengers from going on these extra trips. At least we would then get a couple of extra days off during the tour,' Rob added. 95

Adrienne quickly replied, 'I doubt I can afford to do that. Remember the local tour guides have to be paid out of that money as well as extra diesel and road tolls. The way finances are at the moment I may even have to take a cut of your tips.' 100

'Well if that's the case I might as well start looking for a new job tomorrow,' said Linda angrily, as she stormed out of the meeting, closely followed by Rob.

After Rob and Linda had left, Adrienne sat and thought about the problems she faced. Could she afford to hand over some of her income to Rob and Linda? If she did not, then how else could she avoid losing such good drivers? 105

Table 1

OHT Holiday Destinations (% of sales revenue)						
	1980	1985	1990	1995	2000	2005*
UK	14	5	3	2	2	1
France	13	12	8	6	5	2
Benelux	17	19	19	17	18	19
Germany	22	23	18	14	12	12
Switzerland/Austria	16	20	23	20	19	21
Italy	10	11	15	18	18	21
Spain	8	8	10	12	10	10
Eastern Europe	0	2	4	11	16	14
Total Revenue (£m)	0.9	1.2	2.2	3.8	4.8	6.1*

* Forecasts

Table 2

Age Profile of OHT's Customers (%)							
	1990	1992	1994	1996	1998	2000	2002
0-17	1	1	2	3	3	4	2
18-29	3	5	5	6	8	8	9
30-39	5	6	9	9	10	10	14
40-49	19	22	21	24	24	26	25
50-59	52	46	41	35	29	27	25
60+	20	20	22	23	26	25	25

Table 3

Typical Costs (£) for Thornwood Coaches (10-day Swiss Glacier Express)			
<u>Main Tour</u>		<u>Optional Excursions</u>	
Drivers' Wages	760	(Stresa)	
Diesel	900	Local Tour Guides	72
Road Tolls & Taxes	210	Diesel	100
Drivers' lunch allowance	110	Extra Road Tolls & Taxes	20
Miscellaneous	100	(Innsbruck)	
		Local Tour Guides	60
		Diesel	64
		Extra Road Tolls & Taxes	12

