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BUSINESS **9609/33**

Paper 3 Business Decision-Making **May/June 2023**

INSERT **1 hour 45 minutes**

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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.

This document has **4** pages. Any blank pages are indicated.

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Local Tours (LT)

LT is based in a large coastal city in country P in Asia. The country is popular with both business travellers and tourists. LT was started as a private limited company in 2018 by two graduates, Kanon and Tonia. While studying tourism, they learnt about the rise in the number of independent travellers of all ages who want customised tours. This, together with the improvement in global internet connectivity, gave Kanon the idea for a new tour business offering an online marketplace to connect travellers with local tour guides. LT uses only online operations to communicate with suppliers and customers.

LT's mission is to 'connect individuals with their ideal tour'. Tours range from two hours to one week.

Customers browse LT's website to choose a knowledgeable local tour guide. They book and pay LT for their tour. Guides are paid 80% of the tour price by LT and make all the local arrangements, including transport and hotels. LT has received many favourable reviews on travel websites, which praise the guides' local knowledge and arrangements. LT has a limited marketing budget, and all promotion is done through its own website.

Kanon and Tonia would like to expand LT.

New tours

Kanon and Tonia have identified six different day tours likely to be of interest to cruise ship passengers. LT would hire minibuses that have 16 seats. The marketing objective would be to sell a minimum of 12 seats on each day for each tour.

New Tour Hub

LT has contacted a large business that operates seven cruise ships which stop at the port in LT's home city. Each cruise ship spends one day a week in the port, and passengers take large group tours provided by the cruise ship business. The cruise ship business is keen to work with LT, as it thinks there will be significant demand for small group tours led by experienced local guides. The cruise ship business will take a commission for each booking.

The cruise ship representative thinks their passengers would prefer to make face-to-face bookings rather than book online. Therefore, Tonia wants to open an office at the local port. She suggests it would be easy for someone based at the port office to meet cruise ship passengers and take bookings. Tonia would like to call the new office the LT Tour Hub. This will become LT's head office from where it will continue to operate its online business.

LT would lease the office building for an initial period of four years. It would need to make major design changes and set up the internet connection, which will add to the capital cost. LT would employ two full-time tour advisers to take tour bookings.

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Tonia has carried out research with cruise ship passengers. She has estimated additional net cash flows, shown in Table 1.1, from tours booked through the Tour Hub.

This project will not have a residual value.

Table 1.1 Forecast net cash flows for the Tour Hub

	$
Year 0	(120 000)
Year 1	30 000
Year 2	40 000
Year 3	50 000
Year 4	50 000

Human resources

Currently tour guides are self-employed and only receive income after a tour is booked on LT's website. LT have a large number of guides' profiles on its website. Many guides take tour bookings from other travel businesses, especially during busy holiday seasons. This means they are not always available for LT's customers. As LT grows, Kanon is planning to offer a small number of the most popular guides an employment contract with a guaranteed number of tours per month.

Tour price elasticity of demand

LT recently increased the selling price of some of its popular tours. These include a half-day shopping tour that is popular with business travellers and an evening street food tour that attracts young independent travellers. Tonia has analysed recent sales data before and after increasing prices as shown in Table 1.2.

Table 1.2 Analysis of recent monthly price and sales data

Tour	Original price	New price	Sales before price increase	Sales after price increase	Price elasticity of demand
Shopping tour	$60	$75	250	240	See Question 4(a)
Evening street food tour	$40	$45	300	200	–2.67

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