

# Advisory note



**ASSIGN  
BUSTER**

The company is an established player in the international tours and travel industry. The company now has 5 branches with a total employee force of 26. Two directors are at the helm of the leadership at Safari Tours & Travel Ltd. At the end of the 2011 financial year, the annual turnover stood at SSH MM representing just over 20% increase from the previous financial year 2009. Figure 1: Trend of Annual turnover and Profit for Safari Tours and Travel Limited. At the end of the 2009 financial year, a strategic retreat was held by all the managers and directors to fast-track growth.

The following were the key decisions reached at the strategic retreat: The management agreed to double the branch network from the current 3 branches to 6 branches in the next two years \* The non-core functions such as cleaning, errands, catering and so on are to be subcontracted \* The company will also open a taxi line in order to tap into its growing customer base who is increasingly demanding cab service as part of the travel package.

The management agreed to purchase 10 new vehicles at a cost of SSH MM each should they get approval for bank loan to finance this initiative. \* There was consensus that the marketing function should be beefed up by increasing personnel as well as the gadgetry allocation. \* The management team also agreed to reduce operational costs by 20% and increase operational efficiency by the same margin. \* The annual staff salary increments should also be halved from the current 6% to 3%.

Occurrences in Safari Tours and Travel Ltd between 2009 and 2011 \* A number of European countries namely the United Kingdom, France, Germany

and Spain, which are the company's key markets, issued travel advisories to its citizens due to the increase in the spate of abductions of tourists by Salamis fundamentalists from a neighboring country. \* The overall tax imposition on the cuisines increased by 10% \* The cost of operation increased by 12% even though management had agreed to reduce that by 20%.

This is most likely attributed to the opening up of 2 new branches and also an increase of staff numbers to 26. \* A new bill paving way for a new licensing regime whereby the travel businesses will operate multiple business lines under a consolidated and cheaper license was unanimously passed by the parliament. \* A bomb went off within the facility that houses Safari Tours and Travel Ltd and 5 people were unfortunately killed.

Investigations revealed terrorist connections were heavily involved especially with the

Lesbians claiming responsibility for the blast. Thankfully the business and staff were however not affected. \* The two directors are currently not Seeing Eye to eye after they divorced earlier in the year. The matter is still pending in court but they continue active directors of the firm. Analysis of decisions, its outcomes and occurrences \* Due to the decisions taken at the retreat to open new branches and bolster marketing, the company's turnover grew by Asks MM to stand at Asks MM at the end of 2011.

There was also new income from the new business line of the taxi service. The company's revenue also grew slightly due to the outsourcing of non-core functions such as cleaning, errands and catering. \* Due to the increased

budgetary allocation and staff members to the Marketing department, Safari Tours and Travel was able to gain greater visibility in the market and hence more sales therefore resulting in higher revenue. The reduction in the staff salary increments year on year may have had two effects; either the operational costs were reduced or staff morale may have also reduced since the members did not get the annual increments that they are used to. The company now has a total of 5 branches and a total workforce of 26 employees. \* The company's profitability dipped to Asks MM because of possibly this reasons: \* Increase in operations expenditure due to salaries for the new staff mostly in Marketing department and also because of the expenses in running the new branches. The company also had to start repaying the Asks MM loan borrowed to finance the acquisition of 10 cars to be used in the new cab service. \* Travel advisories issued by countries in Europe which adversely affected the business \* The increase in tax imposed on the genuineness grew by 10% and this had a direct hit on profitability in the company's books. \* Increased competition due to the new licensing regime meaning that business entry cost was much lower and many more players can enter the Tours and Travel field therefore affecting the profitability of Safari Tours ; Travel. Although the blast at the building hosting the headquarters for Safari tours ; Travel did not actually affect the company, the employees were affected psychologically and this could have led to lower performance levels which had an effect on the company's profitability \* The wrangling between the two directors has also adversely affected the company and with the directors both continuing to be active in the day to day running of Safari Tours and Travel, there is even further risk of lower profitability.

Future outlook The tours and travel industry is very dynamic and Safari Tours and Travel is well placed to continue with its upward growth unabated if it can be able to address the rapid changes within the micro and macro environment. In view of this, Safari Tours and Travel held a staff retreat in July 2011 in order to engage both staff and management on the way forward. The staff were encouraged to be as open as possible about their views concerning the present operation of the company as well as what they thought the future holds.

In the end of the retreat, the staff and management of Safari Tours and travel set the following objectives for the next three years: i. To grow the total annual revenue to Asks MM representing a 54% increase it. To raise the percentage of profits to at least 40% of the total income. The current percentage stands just a little over 13%. ii. To reduce operational costs by 20% even though this target was not achieved when set by the management 'v. To increase the branch network by 5 additional branches and to bring the total branches to 10.

Recommendations \* The ongoing court case involving the directors of the company needs to be concluded as a matter of urgency because its effect on the business will be tremendous going forward. The case needs to be first tracked and if possible and in the interest of the company and time it should be taken to arbitration in order to find a solution. \* Reduction of operating expenditure may not be feasible at this time because the company is undergoing expansion with a view of doubling its branches. Safari Tours and Travel should initiate the cost saving initiatives once there is stability. The company needs to intensify its marketing campaigns in view of the Travel

<https://assignbuster.com/advisory-note/>

advisories issued against Kenya due to the spate of abductions. One inexpensive way of doing this is to partner with the government under the banner of 'Magical Kenya' marketing initiative. This will ensure that Safari Tours and Travel gets maximum exposure in the global market through the Ministry of Tourism initiative. Another way is also to focus on the Asian market that is huge and yet untapped in order to bridge the windfall due to the travel advisories.

On the local front, Safari Tours and Travel should continue to intensify its marketing activities as well to ward off potential competitors due to the cheaper license for operation. They need to also work on being the market leader so that they will be in a position to control the market pricing and standards. \* The expansion drive is good but too ambitious. Doubling the branch network in three years may not work in the favor of the company and we suggest that this expansion be stretched through a longer period so as to cushion the business against unexpected changes in both the micro and macro environment. The objective to increase the profit margin to is laudable but it may again be difficult in the face of the expansion because the operational cost will be high especially as the branches start operating off the ground. \* Even though there is a mindset to drive down the operational costs, this should not be done at the expense of the staff retention and morale. The company should continue to offer competitive packages to the critical staff to ensure that the operations are not affected by their exit and especially with the advent of new competitors.