

**MANAGEMENT PROGRAMME**

**Term-End Examination**

**December, 2017**

**MS-011 : STRATEGIC MANAGEMENT**

*Time : 3 hours*

*Maximum Marks : 100*

*(Weightage 70%)*

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- Note :**
- (i) *There are two Sections : Section - A and Section - B.*
  - (ii) *Answer **any three** questions from Section - A. All questions carry equal marks.*
  - (iii) *Section - B is compulsory.*
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**SECTION - A**

1. What do you mean by 'Strategy' ? Discuss the nature and essence of strategy.
2. Explain how do the external factors affect the strategic decision making in an organization. Discuss with special reference to the following external factors :
  - (a) Economic
  - (b) Social
  - (c) Political
  - (d) Environmental
3. What is the role of cost in business growth ? Also explain the concept of cost leadership.
4. Explain the concept of International Expansion and how it helps in establishing significant market interests and operations outside a company's home country. Illustrate with the help of suitable examples.

5. Write short notes on :
- (a) BCG's Growth Share Matrix
  - (b) Hofer's Product/Market Evolution Matrix

### SECTION - B

6. Read the following case study and answer the questions given at the end of the case :

The world of independent travelling using hostels offers great expectations, new life experiences, and opportunities to make new friends. Independent travellers have to deal with balancing spontaneity with the desire to have certainty about travel and accommodations. For the independent traveller, hostels provide low-cost accommodations that are used as key staging bases for exploring new countries and continents. Hostels also can provide a range of services including bar, bike hire, common room, free airport pickup, guest kitchens, Internet access, luggage storage, and travel information. Independent travellers exchange information about the best hostels to stay at, the tourist attractions to see, and what fellow travelling partners to avoid on their travels.

Colm Hanratty is one of these independent travellers, and he works for hostelworld.com, one of the leading global providers of online reservations to budget, youth, and independent travellers (BYIT), which is estimated to be annually worth \$4.5 billion. Hanratty spent a year backpacking around Australia and has acquired a knack for hunting out bargains no matter how long it takes. He regales readers on the hostelworld.com Web site with tales of where to go, what to see, where the best nightlife is and how to travel on a low budget - for example, a three - day trip to London for about £ 119.

The following expresses mission and vision of WRI.

“To provide on-line confirmed bookings for hostels, budget accommodation centres and package tours, as well as comprehensive content such as city and country guides.”

## **HISTORY**

Tom Kennedy owned the Avalon House Hostel in Dublin, Ireland. In the mid-1990s, in an effort to make the business more efficient, he contracted Ray Nolan, an information technology (IT) specialist, self-taught computer programmer, and owner of Raven Computing, to develop a software program that would allow his hostel to manage check-in and check-out. Following the successful installation of the software at Avalon House, Nolan resold the reservations management system as Backpack to a number of hostels.

In 1999, Ray Nolan and Tom Kennedy founded privately-owned Web Reservations International (WRI) and created an online reservation site for hostel bookings. The company is now the biggest global provider of confirmed online reservations for the budget accommodations sector. The Backpack software was modified to enable hostels to be seamlessly integrated with the online booking system. Ten copies of Backpack were sold in 1999, and this figure reached one hundred by 2001. Both men decided to leave their respective jobs, and WRI then employed 75 people. The company's revenue grew by 1,436 percent from 2000 to 2002 compared to the industry average of 269 percent for the top 50 technology companies in Ireland.

Turnover in 2003 was € 7 million with a profit of €1.8 million on the basis of having handled bookings worth about €70 million. Turnover in 2004 was understood to have doubled to €14 million.

## **External Issues**

### **Global Tourism Market :**

According to the World Tourism Organization (WTO), 691 million international tourist arrivals occurred worldwide in 2003. This figure is projected to grow annually at the rate of 4.5 percent until the year 2020. According to the WTO, the receipts from international tourism were worth \$622 billion in 2004, with Europe earning over half of these receipts (52 percent), the Americas 21 percent, Asia and the Pacific 20 percent, and Africa and the Middle East 3 percent each. The main purpose of travel for one in two travellers was for leisure, recreation, and holidays.

The period 2000 to 2003 experienced subdued accumulated growth of less than 1 percent in international tourism. Results collated by the WTO from over 120 countries showed a recovery in the tourism industry with growth of 12 percent for the period January to August 2004, which equates to an additional 58 million arrivals above 2003 figures. International tourist arrival growth figures were positive for all regions up to the end of August 2004, with Asia-Pacific up 37 percent, North America up 12 percent, the Middle East up 24 percent, and Europe up 6 percent.

The recovery of tourism in 2004 was seen as a release of pent-up demand resulting from constraints of the previous three years. Consumer and business confidence did pick up on the back of a less volatile geopolitical situation and some long-awaited signs of economic recovery in some key markets. The recovery in the long-haul air-traffic market coupled with the cruise market ensured an increase in growth in all markets. Various destination countries, city locations, and premium accommodations were seen by analysts as the main beneficiaries of this increased growth.

These traditional booking systems - known as Global Distribution Systems (GDS) - provide Pre-Internet travel booking systems. However, the high cost of installing and using GDS systems makes them unsuitable for both BYIT product providers and travel companies. In comparison, WRI's online booking system provides a Web-only, low-cost booking system, effectively becoming the GDS of the BYIT sector.

The value of the market has traditionally been vastly underestimated as a hostel booking's value ranged from €10 to €20 with a number of people sharing a room. As Ray Nolan points out, though, "It's one of the hidden facts about the tourist industry. Hostels are a very profitable business." The entire market has changed in many ways, making the Internet an obvious tool for reaching this global market. No longer does the BYIT market consist of poor students checking out the cheapest possible holidays. Nowadays, hostellers and budget travellers are often older people or families, and hostels now offer single and family rooms, in addition to multibed dormitories, to cater to this market. Hostellers and

backpackers carry credit cards and typically go online daily in Internet cafes, making online booking a cinch. Moreover, these travellers demand a more structured travel experience, seeking outdoor adventure or cultural activities and tours. WRI's online reservations system and Web sites cater to this demand. In addition, WRI spends plenty of money in restaurants rather than cooking in a communal hostel kitchen. Reflecting on these market changes, Tom Kennedy noted "A few years ago, a hostel would have been full of people cooking their pasta or lentils, and they would all arrive by bike. Now everyone arrives by taxi from the ferry or airport and they all head into town for dinner."

The changes in the BYIT market, coupled with the successful redevelopment of the Backpack software and the hostelworld.com and other related Web sites, afforded WRI a dominant position in this market. Both Nolan and Kennedy realized that, while it was time-consuming and labor intensive for an individual hostel to deal with e-mails and booking software - Kennedy had two people doing nothing but that - an automated booking service for hundreds or thousands of hostels could be the basis of a solid business.

## **Internal Issues**

### **Organizational Structure**

The management team consists of Ray Nolan as CEO, Tom Kennedy as president, Ni Mhir as director of marketing, and Mooney as chief operations officer. Nolan and Kennedy own 90 percent of the business, and the minority private investors are U2 manager Paul McGuinness and entrepreneur Paddy Holohan,

who is also a former executive of Baltimore Technologies. The holding company for hostelworld.com and its other associated Web sites is Web Reservation International (WRI). WRI's multicultural staff work in a variety of roles including programming, content, sales, and customer service, and all have experience in the budget travel industry from both business and leisure perspectives. The combined travel experiences encompass over 75 countries. For customer relations staff positions, candidates must be fluent in a number of languages, have previous experience in the hospitality industry, and have good administration, telephone, keyboard, and computer skills.

### **The Product and Web Sites**

The core product offered to individual hostels is Backpack, a reservation management system for youth hostels and budget accommodations. The software is designed to run on PC's running Microsoft Windows. A hostel installs the software.

One example of the advanced functionality of the Backpack software is its ability to enable hostels to maintain accounts for different travel agents. Beds can be allocated to agents and may not be booked by regular guests-that is, an agent will override the hostel rack rate, which cannot be changed. As guests arrive with agent vouchers, they are taken as a form of payment. At the same time, an invoice is created to be sent to the travel agent and the agent's debtors account is updated. Agent invoice reports, statements, and payment history subsequently may be produced from the debtor's ledger.

The main WRI Web site allows visitors to choose a destination or hostel, select an arrival date and length of stay, and quotes prices in any currency, all of which make the booking procedure extremely straightforward.

WRI's best known and flagship Web site is aimed at the backpacker and student market and annually attracts over 12 million visitors.

Having 500 individual Web sites ensures that anybody searching for a hostel will ultimately land on a WRI site. The success of this strategy can be seen in the fact that sites controlled by WRI dominate any Google search for hostel accommodations in any major town or city in the world. This Internet-based marketing strategy is consistent with the emphasis of being a low-cost operator. WRI uses search engine optimization and presents the same information in different formats, depending on the Web site. So, if an online user were looking for hostel accommodations in South Africa, a search engine might direct him or her to any one of four WRI sites.

WRI also provides a facility for tour/activity providers to advertise their offerings and for customers to book them online. The WRI reservations system is being used by customers to book not just their hostel rooms but also other elements of their travels. Such activities may include museum tickets, exhibitions, city tours, bungee jumping, rafting, rappelling, skydiving, and so on.

## **Competition**

WRI sees Travelocity and Expedia as its peers. They are huge billion-dollar companies, but WRI's technology is every bit as good as theirs. In fact, its booking process is probably simpler. The competition for WRI breaks into two segments : those online reservation competitors that offer hostel and budget accommodations and those that compete in the accommodations bookings market. Expedia, Travelocity and Orbitz were ranked as the top-three online travel agencies by U.S. visitors in April 2005.

## **Expedia**

Expedia is ranked as the fourth-largest travel agency in the United States and is a wholly owned subsidiary of IAC/InterActiveCorp., listed on the NASDAQ. Expedia continues to develop its Expert Searching and Pricing (ESP) technology, which provides one of the most comprehensive flight options available online. ESP also allows customers to dynamically build complete trips that combine flights, special-rate accommodations, transportation, and destination activities. Expedia operates Classic Custom Vacations, a leading distributor of premier vacation packages to destinations, such as Hawaii, Mexico, Europe, and the Caribbean. In addition, it operates a corporate travel agency. Through other subsidiaries, such as Travelscape, it cross-sells to third parties on a private-label basis.

## **Travelocity**

Travelocity ([www.travelocity.com](http://www.travelocity.com)) directly distributes travel-related products and services to business and leisure customers through its branded Web site, call centers, and Web sites owned by its supplier and distribution partners,

such as Yahoo! Travel, America Online, American Express and US Airways. In 2003, Travelocity launched a new technology platform, TotalTrip, which enables them to market higher-margin travel products, and in quarter three of 2004, Travelocity launched Travelocity Business platform, which integrates and automates the corporate travel reservation process from beginning to end. By year-end 2003, revenues had increased by 16.5 percent from \$339 million to \$395 million, while transaction revenue increased \$74 million or 34.4 percent. Its revenue mix consisted of stand-alone hotel revenue (50 percent under its own merchant model), package trip revenue, and cruise and car revenue, in addition to advertising. Travelocity's unique audience is in excess of 11 million, with a visitor conversion rate of 3 percent. In the last quarter of 2004, Travelocity acquired direct control of Travelocity Europe, which it had partially owned, and the company intends to continue the joint venture with the Otto Group in the German market. The strategy for Travelocity going forward is to grow revenue from its merchant model hotel, to offer last-minute packaging, to develop the appeal of Travelocity Business, to invest in new opportunities in European and Asian markets, and to develop the TotalTrip package.

### **Other Rival Firms**

Competitors that compete directly with WRI include hostel bookers, hostelmania, and mobissimo. Hostelbookers ([www.hostelbookers.com](http://www.hostelbookers.com)) is privately owned and was developed by FPL Webshows, which designs, builds, and operates both simple and advanced Web sites as well as online interactive tradeshow in a number of market

sectors and London Web Communications, which also hosts the site as FPL's preferred ISP.

### **Market Expansion and Growth**

Hostels.com has been in operation since 1994 and had a well-established brand name in the market, listing over 6,000 hostels worldwide. Hostels.com received numerous industry awards (Yahoo! Internet Life, CNET EZ Connect) and had over 10 million page requests per month for a variety of services, including hostel accommodations, rail and airline tickets, car hire, and travel guidebooks.

### **The Future**

Since its two acquisitions, speculation surrounded the future direction of WRI and whether Nolan and Kennedy would sell the business. In late 2004, WRI received informal interest from Summit Partners ([www.summitpartners.com](http://www.summitpartners.com)), a leading private equity and venture capital firm that has a capital base in excess of \$ 5.5 billion. Summit has a proven track record of providing equity to high-growth firms since its foundation in 1984 and has successfully managed over a hundred public offerings and 80 strategic mergers or sales. Its equity/debt investments typically span a range of growing industries and ranges from \$ 2 million to \$250 million. Its tentative interest in WRI comes at a time when the WRI faces a number of significant challenges that will ultimately set the future direction of the company and its employees. WRI's strategy is further dominance and defense of its market position in the BYIT sector. Further growth and acquisitions outside hostel and budget accommodations were considered as the most likely strategic options for growth of the business.

An earlier management meeting generated a lot of discussion about the future direction of the company. The main issue is how WRI would continue to maintain its dominant position in the BYIT market and transfer its technology and business model to the low-cost hostel market or other sectors of the travel industry. The issue of further investment in development of new products and online functionality was also discussed at length. The issue of trust and security in relation to WRI's 500 Web sites and affiliate programs could become an issue in the future given the lack of an overall brand for WRI. Summit Partners valued WRI at about €100 million. The cost of making one euro of revenue had fallen from € 2.56 in 1999 to 41 cents in 2003 and forecasted to drop by another 20 percent in the next few years.

To compete from an Irish base with peer competitors, such as expedia.com, Nolan realized the company will need to continue to expand rapidly to ensure its dominance strategy and to replicate its business model in other growing sectors of the travel industry. Based on these challenges, some question for WRI to consider are these :

- (a) What are the strategic options open to WRI ?
  - (b) In what ways should WRI begin to compete with Expedia and Travelocity ?
  - (c) How can WRI protect itself against competitors that imitate its strategy and business model ?
  - (d) What are the unique competencies of WRI ? Are they sustainable over the long term ?
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