



**GCE A level**

1083/01

**BUSINESS STUDIES**

**BS3**

P.M. THURSDAY, 14 June 2012

2 hours

#### **ADDITIONAL MATERIALS**

In addition to this examination paper, you will need:

- a calculator;
- a 12 page answer book.

#### **INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Answer **all** the questions.

Write your answers in the separate answer book provided.

#### **INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication that involves extended writing in questions 4 and 5.

You are reminded that questions 4 and 5 are synoptic and so will test understanding of the connections between different elements of the subject.

Study the information provided about *Thomas Cook Group plc* and answer the questions that follow.

## THOMAS COOK GROUP PLC

Thomas Cook Group plc is one of the world's leading leisure travel groups with annual sales of £8.9 billion and 22.5 million customers operating in 21 different countries.



Thomas Cook Group plc

## HISTORY

The business was founded by Thomas Cook, who organised his first profit-making excursion from Leicester to Liverpool in 1845. Ten years later he organised his first continental tour to the International Exhibition at Paris and in 1872/73 he organised and led the first round-the-world tour. He was away from home for 222 days and covered more than 25 000 miles.

Thomas Cook not only sold holidays; he also published European railway timetables and guidebooks. His company opened a foreign exchange department and was the first to issue travellers cheques which greatly reduced the risk to tourists of losing their money whilst travelling abroad.



Important dates in the business's history include the following:

- 1886 John Mason Cook (son of Thomas) launched his new fleet of luxurious Nile steamers.
- 1919 Thomas Cook & Son was the first travel agent to advertise pleasure trips by air.
- 1928 Frank and Ernest Cook, the grandsons of Thomas Cook, sold the business.
- 1948 Thomas Cook & Son Ltd was nationalised under the British Transport Holding Company.
- 1972 Thomas Cook was privatised and bought by a consortium of the Midland Bank, Trust House Forte and the Automobile Association.
- 1996 Thomas Cook acquired Sunworld, the UK and Ireland's fourth largest short-haul tour operator, and Time Off, a specialist European city breaks tour operator.
- 1997 Thomas Cook On-Line was launched, making Thomas Cook the first UK retail travel agency to sell holidays over the Internet.
- 2001 Thomas Cook was acquired by C & N Touristic AG, a German company.

- 2002 Thomas Cook Airlines was officially launched in the UK.
- 2007 Thomas Cook and MyTravel Group plc merged to form Thomas Cook Group plc, listing on the London Stock Exchange.
- 2008 Thomas Cook Group plc acquired a number of businesses in Canada, France, the Middle East and India as well as several independent UK travel companies.



- 2009 The German company sold its remaining shares in Thomas Cook Group plc, resulting in 100% of the Group's shares being freely floated on the London Stock Exchange.
- 2010 Thomas Cook Group plc acquired a leading online provider of travel-related products and also a major German tour operator that specialised in package holidays to Turkey.

## **BUSINESS STRATEGY**

According to the company, its business strategy is “focused on strengthening our core mainstream business and investing in areas of future growth, primarily independent travel, travel-related financial services and other opportunities via mergers, acquisitions and joint ventures.

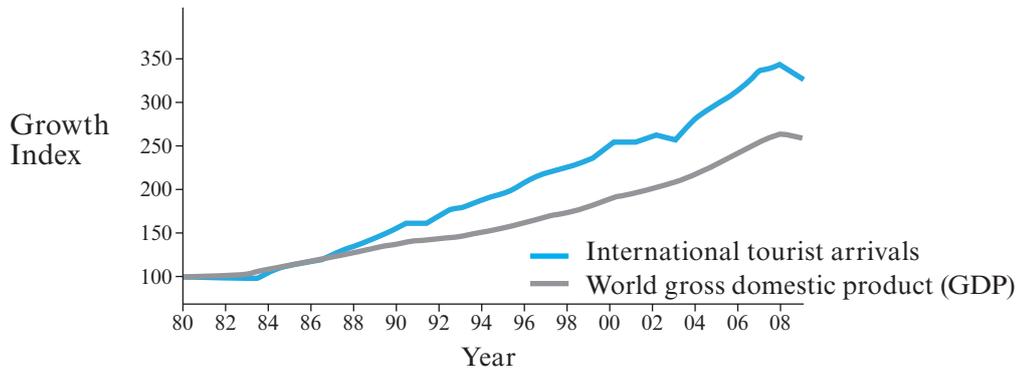
Our strategy is built around our vision of going further to make dreams come true. For many of our customers, their holidays are the highlight of their year and we want to ensure that those holidays live up to their very high expectations. At the same time we also aim to deliver outstanding long-term value to our shareholders. Our strategy, which was originally formulated when our Group was formed in 2007, is designed to deliver against this vision, and whilst we have refreshed this strategy regularly to adjust to changes in our marketplace, it still holds true. The foundation of our strategy is our outstanding team of people and their shared values.

Our core business is primarily the sale of package holidays where two or more components of travel, such as flights, hotels, transfers and rep services, are bundled together in advance. These holidays are sold to customers through brochures and agents in stores and online through our various websites or over the phone from our call centres. The package holiday remains very popular as customers appreciate the value for money it provides, the ease of choice and the security offered. However, in the long term, sales growth is expected to be moderate in established economies. Our strategy is to maximise the value of our core business through cost efficiencies and through increasing the proportion of higher value business such as all-inclusive holidays, four and five star properties and more exotic destinations.

Independent travel, where consumers build their own trip either on their own or with the help of a travel agent, has gained in popularity boosted by greater use of the internet and new technologies that allow consumers to create their own holiday packages (dynamic packaging). This area of travel also includes scheduled tours where consumers either tailor-make their trips or buy pre-packaged holidays. It also includes our wholesale business, where we do work for other holiday companies.

In independent travel, we plan to make further changes and investments in our e-commerce capabilities to strengthen our position as an online travel agent. We also continue to invest in our dynamic packaging capabilities and our independent product portfolio in general.

**Figure 1: World GDP growth and international tourist arrivals 1980-2009**



**Figure 2: World leisure travel market 2009 = £820 bn**



Travel-related financial services broadly fall into the categories of travel money, which are products that help customers pay for goods and services whilst travelling such as pre-paid foreign exchange; travel insurance, which are products that cover the various risks associated with travel such as insurance for accidents and thefts; and travel finance which are products that allow customers to finance their travel, such as credit cards. These are typically high profit margin products, and are naturally sold alongside other holiday components. Our strategy is to make the most of our brands and distribution capabilities to continue to grow this important part of our business.

To support our growth strategy, we are constantly open to opportunities to bolster our business through mergers, acquisitions or joint ventures. As developed markets mature, we are focused on the one hand on ways to consolidate these markets and maximise the value from them, and on the other on the new growth areas of emerging markets.”

Source: [www.thomascookgroup.com](http://www.thomascookgroup.com)

## THOMAS COOK PLANS TO MAKE EVERY RUSSIAN AN INTOURIST

According to a recent article in the Times newspaper “for most companies, the idea of stepping back in time to do business with the murky world of Soviet dictators and state-controlled travel is as fanciful as the plot of a John Le Carré novel.” Not for Thomas Cook. It has acquired a majority stake in the former Soviet monopoly Intourist, which was set up by Joseph Stalin in 1929 to control travel to and within the former Soviet Union for foreigners.

Thomas Cook Group plc spent up to \$45 million (£29 million) in cash and shares, buying a 50.1 per cent stake in Intourist, which was privatised in 1992, with an option to buy the remaining shares over the next five years. It aims to tap into Russia’s growing appetite for Mediterranean beach holidays.

Manny Fontenla-Novoa, Thomas Cook’s chief executive added: “The move into Russia is in line with our strategy of capturing growth in emerging markets. I am glad we have taken our time to secure a strong partnership”.

More than six million Russians went on overseas, packaged holidays last year and the market is expected to grow by a double-digit percentage in the coming years, driven by the increasing affluence of Russia’s 142 million population. Intourist carried more than 650 000 passengers last year and is one of Russia’s leading travel brands.

Intourist’s management team will continue to run the business on a day-to-day basis. It will use Thomas Cook’s IT systems and benefit from its purchasing power in securing hotel accommodation. Intourist’s sales, from divisions included in the deal, declined last year as a result of the financial crisis. Revenue fell 20 per cent.

Shares in Thomas Cook Group plc rose 1½p to 190½p. The deal was welcomed by Vince Cable, the Business Secretary. Dr Cable said: “Russian tourists bring £500 million to the British tourist industry every year, and they can also benefit from Thomas Cook’s expertise around the world.”

Manny Fontenla-Novoa said that China was next on the company’s agenda but that it would bide its time. “We have been evaluating the Chinese market for a long time. If you think Russia was slow, wait for China. Entry to China will be through an acquisition,” he said.

Thomas Cook is also considering the Brazilian and Indian markets.

*Source: Marcus Leroux, The Times, 26 November 2010*

## TENSIONS IN THE MIDDLE EAST

A recent newspaper article commented that “there was no holiday for travel businesses yesterday as tensions in the Middle East pushed up the oil price, making the cost of doing business for cruise operators, airlines and tour operators more expensive.

The oil price was back above \$114 a barrel after reports that Saudi Arabia, the world’s largest oil exporter, could be drawn into the unrest in the region by trying to quell protests in Bahrain.

Thomas Cook Group plc was also hit by a piece of research from the analyst Morgan Stanley, which cut its profits forecasts on the holiday business by 5 per cent, partly due to concerns about higher fuel costs and the political turmoil in popular destinations such as Egypt and Tunisia.”

*Adapted from The Times, 02 March 2011*

## THOMAS COOK GROUP plc’s FINANCIAL PERFORMANCE

### PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDING 30 SEPTEMBER

	2010 £m	2009 £m
<b>Total Revenue</b>	8 890	9 269
<i>Less</i> Cost of Sales	6 827	7 085
<b>Gross Profit</b>	2 063	2 184
<i>Less</i> Expenses	1 896	2 027
<b>Net Profit</b>	167	157

## BALANCE SHEETS AS AT 30 SEPTEMBER

	2010 £m	2009 £m
<b>Fixed Assets</b>	5 426	5 377
<b>Current Assets</b>		
Stock	32	27
Debtors	973	926
Bank & Cash	340	550
Other	129	182
<b>Total Current Assets</b>	1 474	1 685
<b>Current Liabilities</b>		
Creditors	1 821	1 904
Other	1 564	2 284
<b>Total Long-term Liabilities</b>	3 385	4 188
<b>Long-term Liabilities</b>		
Loans	1 773	1 154
<b>Net Assets</b>	1 742	1 720
<b>Shareholders' Capital</b>		
Share Capital	91	86
Reserves	1 651	1 634
<b>Total Shareholders' Capital</b>	1 742	1 720

Source: [www.thomascookgroup.com](http://www.thomascookgroup.com)

1. Identify and explain the main political, economic and social factors that are likely to affect Thomas Cook Group plc. [10]
2. Explain the ways in which new technology can benefit Thomas Cook Group plc and its customers. [10]
3. Analyse and evaluate the financial performance of Thomas Cook Group plc. [14]
4. Evaluate Thomas Cook Group plc's business strategy. [12]
5. "Not all stakeholders benefit from the activities of the tourist industry." Discuss. [14]