

FREE CASE

Please enjoy this free case from our Crack the Case System Case Library.
Visit mbacase.com for more free cases and companion videos.

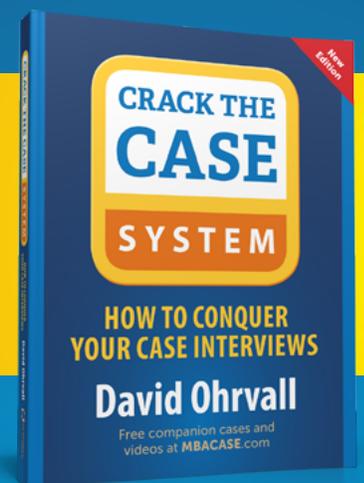
Crack the Case System available now on Amazon.

CASE **404**

Noble Line Travel

David Ohrvall

FOUNDER OF **MBACASE.COM**



Noble Line Travel

London, England

“Travel the World like Royalty” has been Noble Line’s motto for the last ten years. But will the harsh realities of terrorism, video conferencing, and corporate budget cuts finally catch up with their grandiose ways?

404
FULL
★★★

LONDON CITY FACTS

- ▶ London Heathrow is the world’s busiest airport
- ▶ The Tower of London, built by William the Conqueror in 1078, is the oldest building used by the British Government
- ▶ Over 1B journeys a year are made on the underground railway system, which is known as the Tube



TRAIN Profile

Type	Region	Analysis	Industry	Number
	<p>LONDON, ENGLAND Population: 7.5M Currency: British pound sterling, GBP</p>	<p>Maximize Profit</p>	<p>Travel</p>	<p>LEVEL 3</p>

Solo Practice with Video Assist

1. Find your videos
2. Set up
3. Listen to question
4. Recap
5. Create your plan
6. Present your plan
7. Stop and study
8. Reinforce



30 minutes

Partner Practice

1. Set up
2. Present the case question
3. Recap
4. Create your plan
5. Present your plan
6. Stop and study
7. Reinforce

Interview Guide

Case Situation and Question

Noble Line Travel (NLT) is one of the largest travel agencies in Europe. They recently purchased a well-known US travel agency that focuses on business travel; they do not book any leisure travel. They call it NLT-US. NLT-US's customer base comprises medium to large companies, whom they serve with both on-site agents and a call center. NLT-US is facing declining profits due to the general reduction in business travel. There is also a rumor that airlines may reduce or eliminate the commission they pay travel agencies.

How can NLT increase its profits?

Case Twist

- If the investors came back and said they needed \$750M rather than \$500M, would you change your answer? What would you do differently?
- Imagine that commissions don't exist. Instead, for each ticket sold NLT-US gets a flat management fee (bottom row of data, Handout B). How would your answer change?



Click or scan QR to see video.

Feedback

Physical Skills

	Weak	Strong
Body Language	①	② ③
Verbal	①	② ③
Listening	①	② ③

Thinking Skills

	Weak	Strong
Hypothesis Generation	①	② ③
Comfort with Ambiguity	①	② ③
Initial Plan & Output	①	② ③
Data Analysis	①	② ③
Basic Business Intuition	①	② ③
Integration	①	② ③
2nd Level Insights	①	② ③
Creativity	①	② ③

Total Score _____ / 33

Intro Facts (Tell the Candidate if Asked)

- Major assumption:** Airlines still pay commissions regardless of today's current practices. Otherwise all other current trends in travel are applicable.
- Commission rate:** Stress that these rates are set by country of origin for all flights. They vary by country. The US rate is 10%.
- Leisure travel business:** Management does not want to pursue this option.
- Service line:** Basic airplane reservations are about 90% of NLT-US's business.
- Locations:** Over 500 agents in "travel departments" of customers; 3 call centers (East, Midwest, West).
- Financial targets:** Management needs to know whether NLT-US can survive profitably in this industry.
- Suppliers:** Airlines supply the travel routes and pay a commission on each ticket sold.
- Government/ Legislation:** No barriers or legislation at this time.

Key Insights (Do Not Tell the Candidate)

- General Tips:** A simple revenue and cost structure will suffice. Don't get caught up over-analyzing the cost data (Handout C) as it has little impact on the bottom line.
- Revenue calculation:** Revenue = Ticket Volume x Price x Commission Rate (the portion of the ticket price NLT-US receives). Lines 4 & 5 on Handout B should only be used if you ask the Case Twist.
- Revenue drivers:** Commission and ticket price have a big impact on overall revenue. Commission varies by country. Many European countries have commissions over 10%. Long distance tickets are usually more per unit when compared to domestic.
- Competitors:** Some are out-performing NLT-US due to more international travel.
- Costs:** Few variables you can push on to make a difference. Ticket price increase is the most critical action to take.
- Profit:** Competitors are making more profit. Refocusing on long haul and international flights is the solution if NLT-US wants to increase profit.

Mid-case Data (Tell Only at Appropriate Time)

- Before you begin discussing costs (details in Handout C), ask the Candidate about what type of costs a travel company might have. Here are some examples:
- People:** The highest portion of costs. Most of the work is administrative.
- Systems:** Most travel companies use reservation systems that require maintenance fees and an initial purchase fee.
- Office rental:** Space is required for the hubs. Locations at a client site usually have no fee.
- Sales and service:** Sales people meet with corporate clients. Service would be handled by the reservation people.
- Back-office:** Typical support functions like HR, IT, and admin personnel.

Case Flow and Milestones

1 Give Handout

Say that NLT-US is a recently acquired, business (not leisure) travel company and give Handout A. Mention that NLT in all handouts refers to the NLT-US entity.

2 Answer Any Basics

Questions may come up after the candidate reviews Handout A. Review the Intro Facts to know what to say.

3 Ask for Clarification

Be sure to make him explain anything you do not fully understand. Look for solid logic on how this plan will drive data, root causes and eventually answers to your questions.

4 Guide Discussion

There are several handouts, and the case flows better if they are given in order. See the Mid-Case Data section.

5 Get a Recommendation

Since it is clear that some companies are making significant profit, and the drivers of that profit are the higher commission rate and average ticket price, NLT-US should consider refocusing its marketing.

Handout and Data Guide

Handout A:

Give this handout at the beginning of the case.

Candidate: What about the other two divisions, or, when will commissions be cut?

Interviewer: Ignore those divisions for now. Commissions will not be cut for now.

Insight: This is a profit maximization case, so stay focused on revenue and costs.



Handout B:

Candidate: Do you have any sales information?

Interviewer: Here's sales information by competitor.

You Must Say: Calculate revenue for me. Please only use the top 3 lines. What's driving the revenue for Excursions? How about the others?

Insight: No single driver, but the key elements are price and volume.



Handout C:

Candidate: Do you have any cost information?

Interviewer: I only have it on a per ticket basis. What are your thoughts here?

You Must Ask: Which costs seem to have the most impact? Who is leading in terms of cost control or economies of scale?

Insight: Spread between lowest cost per ticket and highest is \$4. A \$40 ticket price increase at 10% achieves the same profit increase for less effort.

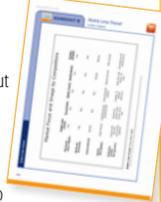


Handout D:

Candidate: Do we know anything about the market focus of each company?

Interviewer: Here's some qualitative info a consultant put together quickly. What can you infer about each player?

Insight: Regional players make less money. Companies that book international flights are getting higher commission rates. Flights originating from certain countries must pay more than the US rate of 10%.



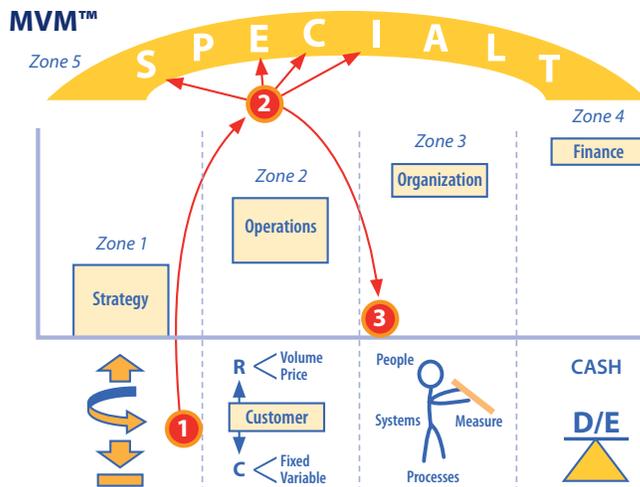
Re-routers

Questions to Keep Things on Track

- **How do you think a travel agency makes money?**
 - ▶ Small commissions for each transaction
 - ▶ Additional commissions for services like booking hotels, cars, business meetings, conventions and side trips
- **What do you think would be in the indirect labor category?**
 - ▶ Any labor that is not a ticket agent (e.g. corporate support functions like marketing and IT and agent supervisors).
- **What can you infer about the total costs per ticket when you look at all of the competitors?**
 - ▶ Either cost cutting is over and most of the firms are lean, or all of the firms have high costs and additional cost savings are available.
- **If you and your team could focus on improving only one area—revenue or cost reduction—what would you do and why?**
 - ▶ Choose revenue, because it is easier and has more upside. Even with major, difficult cost reductions, savings would most likely be small.

Additional Study Using the FRAME Method

F – Form a Plan



M—Mine for the Answer

What kind of questions did you ask? Usually it takes 2–3 questions per topic to uncover what is really happening. See how many you asked during the case.

Revenue & Costs	Specific Markets	Entering New Space
<ul style="list-style-type: none"> What is the revenue of each company? Who is making more money? <i>Calculate revenue by taking transactions x average ticket price x commission rate.</i> Which variable is the biggest driver? <i>No one variable is dominant.</i> Who has higher costs per ticket? <i>Excursions (highest commission rate) and Destinations (highest volume) are leading.</i> Who has benefited from scale? Should we focus on cost reductions? <i>Cost reduction provides little profit leverage compared to revenue.</i> 	<ul style="list-style-type: none"> How are some companies earning more revenue than others? What are the various niches? <i>Handout D shows that companies who focus on international travel tend to do better.</i> Which niche seems to be offering the most revenue? Are there correlating increases in cost with these markets? <i>Regional transportation keeps the average ticket price low and the commission rate at 10% (US rate).</i> 	<ul style="list-style-type: none"> What are the barriers to entering a new space? <i>Doing more international bookings will require us to have more of a presence in several foreign locations.</i> Is NLT suited to play in that space? What challenges will we face? <i>Many of these regions may be tough to enter, and increasing our brand awareness may be difficult.</i> What would it take to get our organization ready? <i>Internally, we need people with international experience to market us.</i>

1. Start in Zone 2, Operations: Break profit into revenue and costs. Determine which one will be the biggest driver of increased profit (the main question of the case).

2. Move to Zone 5, External Factors: Consider how NLT can increase profit:

- Competitors – What is their overall margin? Are they succeeding? How?
- Suppliers – What are the airlines' plans for the near future and the long-term?
- Industry – What other barriers exist in this industry? What about in foreign countries?
- Economy – What additional barriers may exist due to slow economic times?

3. Finish in Zone 3 with People: Can NLT provide the kind of leadership and manpower necessary to carry out new initiatives?

A – Anchor a Hypothesis

A hypothesis structure can be helpful, even in a case where you think you need to see the data first. By anticipating one or two issues a company may have, you give yourself a focus for your questions; you have "turned your mind on" and readied it for the data. The data may give you a different answer than expected, but that is the beauty of a hypothesis: the data will prove it or disprove it.

Scale is the Issue

"Since NLT is fifth in terms of revenue, they are probably missing out on some scale advantages that larger organizations have."

Costs

"Costs may be out of control, which could be hampering bottom line profit."

Revenue by Segment

"These companies probably differentiate themselves by going after different segments. I want to make sure we are going after the most profitable corporate clients."

E – End the Case

"Noble Line Travel can increase its profit by focusing on revenue rather than cost reduction, since costs are already in line with competitors'. To increase revenue, international bookings will drive increases in our commission rate and our average ticket price. A 20% increase in revenue will result in \$15M being added to the bottom line. I recommend that we quickly look into what clients we need to pursue to increase our number of international bookings."

Post Case Review

Case Insights & Takeaways

- NLT-US is focused mainly on short-haul, US based flights. They rarely sell domestic flights.
- Given that longer flights command larger dollars and non-US flights may be at a higher commission rate, NLT-US may be missing out on a growth opportunity. They should consider booking more international flights.
- NLT-US seems to have gotten their costs in line with the other companies. A 10% reduction would only result in \$4.1 per ticket.
- NLT-US should align resources behind revenue changes, as a small price change results in a greater impact than cost reductions.

Math & Logic Tips

- With multiple slides and numbers, your goal should be to standardize the *scale and comparison metrics* as quickly as possible.
- Handout C introduced the cost per ticket metric which should have been a clue to switch to that approach for all remaining math. When you compare revenue and cost on a per ticket basis, the math is much easier.
- Always do a quick check on which drivers will make the most impact. In this situation, revenue changes seem like an easier approach and provide more upside than making cost reductions.

How It Ties Together

- With multiple slides, remember that the interviewer is looking for you to *integrate* the findings. In this case you needed Handouts B and C to calculate profitability. Handout A provided direction and Handout D should have confirmed your recommendations.
- After you understand how the slides connect then consider digging deeper for additional insights. If there are additional pieces of information that you are not using, ask about them after you have developed your base answer.

My Takeaways

To build skills and improve, you must apply what you learned to future cases. Take a few moments and review the interviewer feedback and jot down some key insights about your performance in the space below.

Thinking Skills

My top 2 strengths are:

My top 2 soft spots are:

To address these problems I'll begin to:

Click or scan QR to see video.

My Performance During the Case

Add up your points. → Total Score: _____ / 15

F	Form A Plan	R	Read My Audience	A	Anchor a Hypothesis	M	Mine for Answers	E	End the Case
points	<ul style="list-style-type: none"> ③ Structured, clean ② Somewhat organized and logical ① Messy, overlapping ideas 	points	<ul style="list-style-type: none"> ③ Good back & forth, caught clues ② Awkward, trouble with interviewer style ① Interviewer not interested, couldn't follow 	points	<ul style="list-style-type: none"> ③ Solid hunch, pursued clue ② Partial direction ① No hypothesis at all 	points	<ul style="list-style-type: none"> ③ Specific questions, solid analysis ② Missed some questions, some math mistakes ① Vague questions, weak math, no linkages 	points	<ul style="list-style-type: none"> ③ Used facts and data, connected the dots ② Some data, mostly understood connections ① No data, no passion, no connections

Interviewer's Data Guide

Math Zone (make estimates and round your numbers)

Calculate Revenue

Revenue = transactions x average ticket price x commission rate

	<u>Noble Line Travel</u>	<u>Excursions</u>	<u>Globe Travel</u>	<u>Destinations</u>	<u>Hawke Shields</u>
	\$75M	\$144M	\$88M	\$135M	\$99M
Calculate Profit	↓	↓	↓	↓	↓
	\$13.5M	\$68M	\$47M	\$24M	\$19M

Profit = Total revenue – Total costs (cost x volume)

Interpret the Numbers

- Excursions and Destinations have high revenue, but for different reasons. Excursions has above-average volume, the highest commission rate and above average ticket price. Destinations' success is all about volume.
- So Excursions' high profit makes some sense. But what about Globe Travel? What makes it so profitable? Basically, it is the ticket price. With an average ticket price of \$800, almost double NLT's, and costs in line with the others, their additional commission goes to the bottom line.
- Since there is a high correlation between high profit and high ticket price, looking for ways to increase the ticket price seems like a good idea. International flights command higher ticket prices. Also, the commission rates are higher in many countries of origin. (See Market Focus by Competitors—Handout D.)
- As for costs, the narrow spread between the best company and the worst company indicates that there probably is not a lot of opportunity.

Try Some New Scenarios

Increasing ticket price by 20% for NLT would result in \$15M of additional profit. $\$500 \times 1.2 = \600 (new average ticket price) $\times 10\% = \$60$ revenue - $\$41$ cost = $\$19$ profit per ticket or $\$28.5$ M total.

Overview

- Noble Line Travel is a travel agency with three divisions: corporate travel and two others
- Corporate travel agencies have two types of sites: offices at their customers (e.g. IBM travel department) and reservation sites throughout the world
- Noble Line is ranked fifth in terms of revenues but they do not know how their profits compare to their competitors
- Several employees have discussed starting a union, but only in certain regions
- Customers like Noble Line's quality and service but perceive them to be expensive
- Airlines are considering eliminating the commission structure on ticket sales, a trend that makes Noble Line uncertain about its future

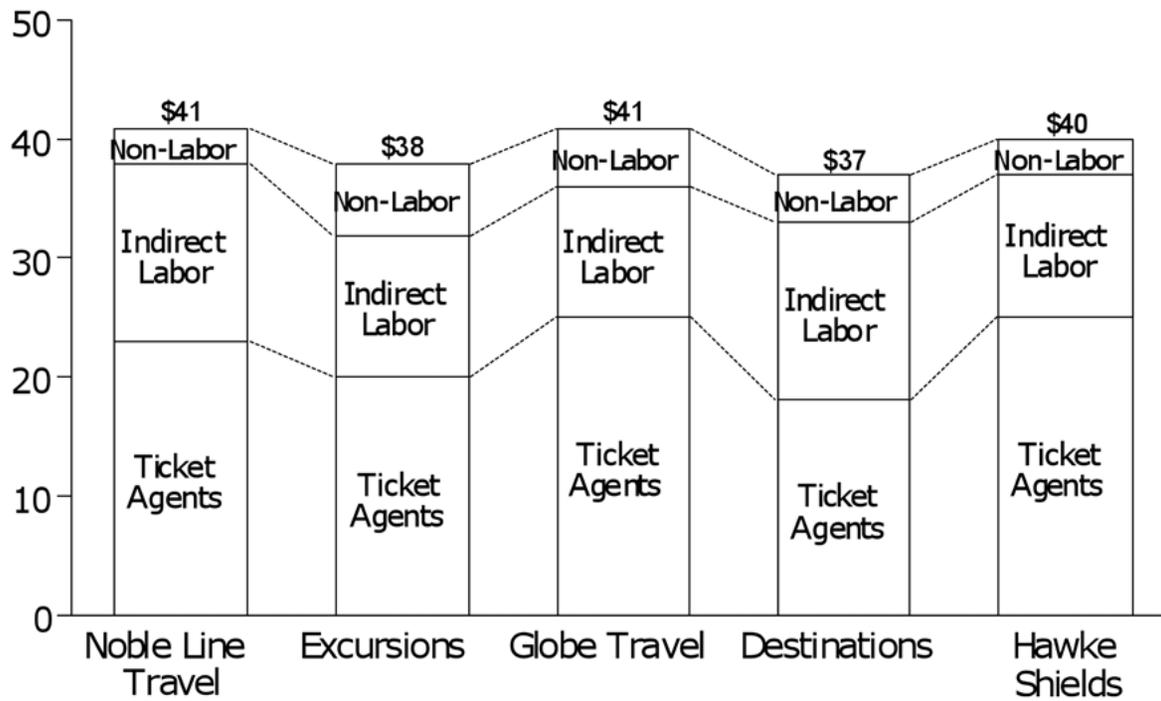


How can Noble Line Travel increase profitability in this changing industry?

Sales by Competitor

	Noble Line Travel	Excursions	Globe Travel	Destinations	Hawke Shields
Transactions Per Year	1.5 MM	2MM	1MM	3MM	2MM
Average Ticket Price	\$500	\$600	\$800	\$450	\$550
Commissions Per Ticket	10%	12%	11%	10%	9%
Override / Fee Per Ticket	1MM/\$5	1.9MM/\$7	900K/\$5	3.5MM/\$6	1.8MM/\$5
Management Fee	\$55	\$43	\$45	\$48	\$50

Costs per Ticket



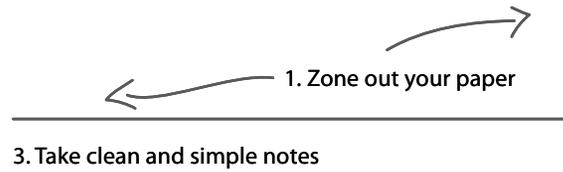
Market Focus and Image by Competitors

	<u>Noble Line Travel</u>	<u>Excursions</u>	<u>Globe Travel</u>	<u>Destinations</u>	<u>Hawke Shields</u>
Regional, short flights	Yes	No	No	Yes	Yes
National Domestic	Yes	Yes	Yes	Yes	Yes
International	Rarely	Yes	Yes	Rarely	Rarely
Public Perception	High Priced	Sophisticated, experienced	International expert	Quick service	Mid-priced
Industry Inside Perspective	Good with service, technically behind	Premium player with great client list	Leader in global alliances	Gets the job done, no frills	Average on all dimensions

Today's date:

2. Be original with your data

4. Leave ample room for a structure and additional notes as the case progresses



Rev. - no data, 5th overall
 Costs - ?
 Profit Margin - unknown, don't know competitor profit
 Goal: how increase profit?

NLT-US, just bought, 3 divisions
 Unionizing the workers?
 Quality and service high
 Customers think they are expensive
 Commission structure may disappear

How can NLT increase profit?



Can we increase price / commission / how do we charge?

Are there customer segments that pay more?

Where have we not taken price increases recently?

Which segments drive our volume? Have they shrunk?

Which segments are growing the fastest?

Are there segments we need to enter? Do they need products?

What are the basic fixed costs? Computers, office space, fees for travel systems, office machines

Personnel, paper, tickets, brochures, marketing materials

HUNCH: prices cannot be changed due to competition. Fixed and variable costs are out of control.



Voiceover

"Since Noble Line Travel wants to increase profit, I want to review both revenue and costs to determine which one will give us the most bottom-line impact. Looking first at volume and price, I'd like to explore what price points we offer today and whether they are competitive. As for volume, we should understand which customer and product segments are the most important now and going forward. On the cost side, we'll need to see what can be done feasibly to reduce our fixed costs in perhaps leased spaces or travel computer systems. Variable costs will likely be linked to what we pay for personnel and marketing. I would like to begin with any revenue data you have, unless you would prefer that we discuss another area first."

Click or scan QR to see video.

Additional Study: For more questions to consider, review Section 13: Roadmaps.