Nottingham University Business School (NUBS)

MBA Programmes

MANAGEMENT PROJECT

N14M70

The Rationale behind Competitive Advantage

[WORD COUNT: 14815]

Peeyush Daruka

Student ID: 4165157

Varuni Sakhalkar

Student ID: 4161063

Fall | 12

THE RATIONALE BEHIND COMPETITIVE ADVANTAGE

In today's volatile business environment, a sustainable competitive advantage is what every firm seeks. Much has been said and written on this topic but it has been observed that in their pursuit of growth and diversification, many companies lose out on competitive advantage. The recent economic crisis has but the brakes on growth and market share and the impact has been felt globally across various industries. Reduced customer confidence and spending have made matters worse and companies are being forced to rethink their business model in order to gain an edge over their competitors. The following paper is based on theories of 'Competitive Advantage' and how a firm can achieve competitive advantage by leveraging its resources and capabilities. It considers examples of two companies – TUI Travel Plc. and Compass Group Plc.

Nottingham University Business School, Jubilee campus, Wollaton Road, Nottingham – NG81BB

Acknowledgement

We would like to acknowledge the insightful comments and guidance provided by my dissertation supervisor, Dr. John Colley (Director – MBA) of Nottingham University Business School (NUBS) during the course of conducting the research and writing this dissertation. We would hereby sincerely like to thank him for his valuable support.

I would also like to take this opportunity to express my appreciation to Tata Consultancy Services for giving us an opportunity to pursue a summer internship with them, and giving us interesting areas to investigate and derive our opinions on.

Peeyush Daruka and Varuni Sakhalkar

MBA (2011-12), Nottingham University Business School

TABLE OF CONTENTS

INDEX OF FIGURES & TABLES (Excluding Appendices)

INTRODUCTION

In today's volatile business environment, a sustainable competitive advantage is what every firm seeks. Much has been said and written on this topic but it has been observed that in their pursuit of growth and diversification, many companies lose out on competitive advantage. The recent economic crisis has but the brakes on growth and market share and the impact has been felt globally across various industries. Reduced customer confidence and spending have made matters worse and companies are being forced to rethink their business model in order to gain an edge over their competitors. Kim et al (2004) talk about 'the myth of low costs and price'. They mention that there is no limit to how much prices and cost can be lowered but their study on e-businesses has shown that considerable cost and sizeable investments need to be undertaken in order to provide value to the customer.

By putting a competitive strategy into practise a firm should be able to create value for its customers and therefore gain the much sought after competitive advantage. Porter (1985) defines competitive strategy as a search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. A competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. When asked about the key learning from Porter's insight Magretta (2012) says the following:

1. Keep a direct line of sight between your strategy and your financial performance. If strategy is to have any meaning at all, it must link directly to a company's results. Anything short of that is just talk.
2. A distinctive value proposition is essential for strategy. But don't confuse strategy with marketing. If your value proposition doesn't require a specifically tailored value chain to deliver it, it will have no strategic relevance.
3. No strategy is meaningful unless it makes clear what the organization will not do. Making trade-offs is the linchpin that makes competitive advantage possible and sustainable.
4. Don't feel you have to 'delight' every possible customer out there. The sign of a good strategy is that it deliberately makes some customers unhappy.'

OBJECTIVE

The travel, transportation and hospitality (TTH) industry today is amongst the largest and most dynamic sectors. Within the global economy, the industry comprises of various aspects like museums, hotels and restaurants, game parks, historic attractions, travel agencies, etc. Many countries attract visitors into the tourism industry as their main source of national income and there is increasing focus on business development within this industry as the global economic downturn has had a visible impact on the way people travel, choice of holiday destinations, buying behaviour, which method of transport they use and where they stay. It is also interesting to observe how other global events such as terror threats, pandemics, and fluctuations in exchange rates, forces of nature etc. have had an adverse effect on this industry's performance in the recent past. This along with people's changing attitudes over issues ranging from the environment to homosexuality have led to a change in the way TTH companies carry out business and strategy.

Through this paper we have gained an insight into strategic objective set up by companies within these sectors in keeping with the economic, legislative and corporate changes which impact their overall performance and competitive advantages.

METHODOLOGY

As part of the MBA degree assessment, we decided to work on a company based management project. The project allocated to us was with Tata Consultancy Services within the Travel, Transport and Hospitality vertical. The project brief was 'A detailed analysis of market and business strategies of key market players of travel, transportation & hospitality (TTH) companies in UK.' The key expectation from the client was for us to gather information regarding the industries and companies allocated to us and analyse them on the basis of empirically grounded research.

In the initial meeting we were allocated the following companies –

- Transport for London
- Rail Settlement Plan

- Compass Group
- TUI Travel
- Go Ahead Group
- Stobart Group

Since two of us were working on the project, we divided the companies between us. In order to get a better understanding of the companies and their performance, it was essential for us to get a feel of the current situation and structure within their respective industries.

The industries we analysed were as follows –

- Travel management companies
- Logistics
- Railroad
- Cruise
- Aviation
- Hospitality

The main objective was to analyse these companies, identify some strategic issues and to come up with suitable recommendations. The report focused on the strategy aspect of business and we have applied strategic frameworks to understand the issues that may be present within a company. The data collected was through various secondary sources. The information gathered was critically analysed to show statistical trends, facts and figures, paying particular attention to data's relevance, the dates the information were published, (as trends in the industry can change with time) and sources.

The following strategy frameworks helped us in thorough and meaningful analysis of the industries as well as companies -

External analysis to study the environment in which the firm operates by using:

- SWOT
- Porter's Five Forces

- Porter's Generic Strategy
- PESTEL

Internal analysis to understand the firm's internal capabilities, resources and issues by using:

- Resource Based View
- Make vs. Buy

Secondary Data Collection was used more extensively like published articles, books, academic journals, websites, analyst reports and newspapers relevant to the research. These were readily available, cost efficient and provided background information for the research. These secondary resources were obtained through library research from University of Nottingham Library and the information on the public domain. Discussions were also carried out regularly with people in TCS who are closely involved in the industries and literature related to the industries such as promotional material, blogs, newspaper articles were also scrutinised.

LIMITATION OF STUDY

Although this research was carefully prepared, we are aware of its limitations and shortcomings. First of all, the research was conducted in a short period of 12 weeks with a rather large scope of work. There were a few changes which were requested by TCS during the course of the project, which included changing the companies to be analysed. Secondly, most of the data has been collected making use of secondary sources. This approach is efficient for writing the literature review, but is not always substantial while doing a company analysis. Due to lack of access to company executives from various companies, the data was only collected through data available on the public domain and thus a true ambition of a company and its decision making criteria has not been factored in thus having a limitation towards practical implications.

The application of the collected data to the frameworks used has been from our understanding of the information and not from practical knowledge of the workings of the firm.

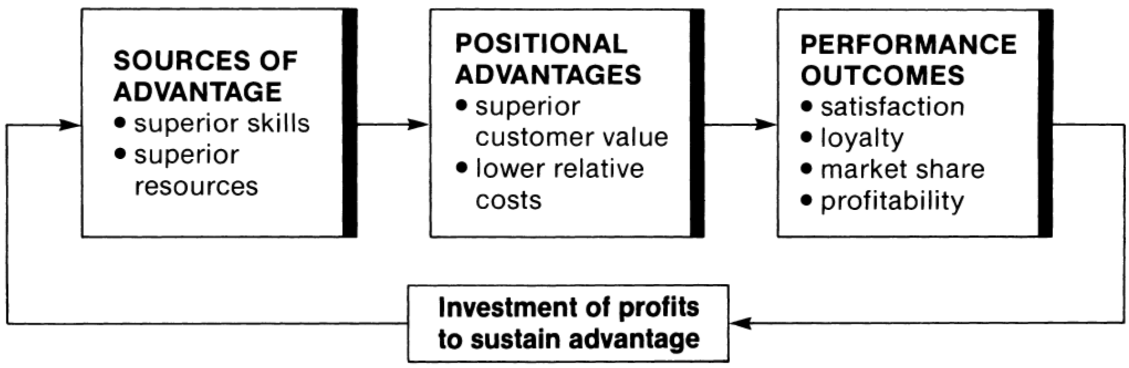
LITERATURE REVIEW

The Concept of Competitive Advantage

When a firm creates value for its buyers, it creates a competitive advantage for itself. This value creation needs to be done in such a way that it exceeds the cost of creation. Porter (1985) defines value as what buyers are willing to pay and superior value can be created by:

1. Offering lower prices than competitors for equivalent benefits. In other words being a cost leader.
2. Providing unique benefits that more than offset higher price, also known as differentiation.

Figure 1: Elements of Competitive Advantage



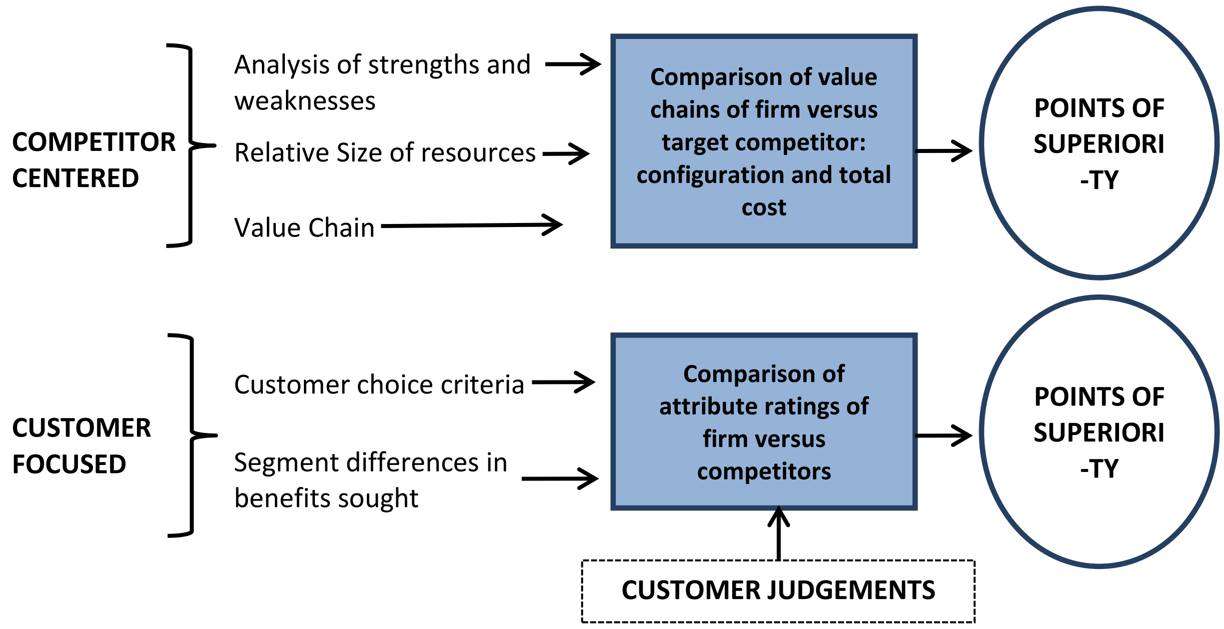
Source: Day and Wensley (2012)

Literature suggests that there is no common meaning for "competitive advantage" in practice or in theory. The term 'competitive advantage' is used as a substitute for "distinctive competence" which means relative superiority in terms of skills and organizational resources. This further suggests that competitive advantage is a function of the skills and the resources available to the organization. Another widespread meaning refers to what is observed in the market, based on the creation of superior customer value or the achievement of lower relative costs and the resulting market share and profitability performance. Neither of these meanings on a standalone basis gives a complete picture, but taken together they describe both the state of advantage and how it was gained. The integration of these two views provides a broader understanding of the term 'competitive advantage' based on positional and performance superiority of a firm as a result of relative superiority in the skills and resources a business deploys. These skills and resources are vital as they reflect the pattern of past investments a business deploys to enhance competitive position in the market. The sustainability of this competitive advantage requires that a firm must create enough barriers using its skills and resources that it becomes difficult for its competitors to imitate. In a competitive and a global market like in today's world these barriers to imitation are continually eroding, and therefore a business must continue to invest in maintaining competitive advantage through forces such as innovation and customer value creation.

The Integrated Concept of Competitive Advantage

The various extensions to the basic source-position-performance framework that are needed to portray better the realities of competitive strategy formulation are summarized in the figure below:

Figure 2: The Integrated Concept of Competitive Advantage



Source: Day and Wensley (2012)

Some of the limitation of the above frameworks can be described as under:

1. A firm's superior skills do not directly result in positional advantage. On the other hand there is no payoff from superior cost or differentiation positions. Both conversions are mediated jointly by strategic choices, including objectives and entry timing and the quality and tactics involved in decision-making.
2. The managerial ability to gain competitive advantage comes from the accurate identification of the key skills and resources that have the greatest leverage on position and performance. The firm must manage these key skills in order to ensure success in the long run.
3. The above framework describes the performance of a business in relation to that of its competitors. There are other factors that determine absolute performance such as attractiveness of the overall market as determined by its competitive structure and behaviour.
4. The above framework lacks the ability of the reliable methods to yield valid and insightful measures of the competitive standing for a business as required by each of the constructs in the framework.

Differentiation Strategy

According to Porter (1985) when following this strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. Day and Wensley (1988) state that differentiation goes beyond physical product attributes to embrace all activities and linkages of the business, including the kind of comprehensive support that a company provides its buyers.

The extent to which a firm chooses to differentiate itself depends on the industry structure. When we look at the travel industry, we find that it is a mix of services as well as product offering. Many firms tend to have a myopic view of differentiation and assume that it can be achieved only within product development and marketing practices. However Porter (1985) says that differentiation can potentially arise anywhere within a company's value chain.

Firms also run the risk of being different but not differentiated when they manage to achieve uniqueness, which their buyers have, no value for. The cost of differentiation and sustaining the advantage are other caveats to be kept in mind while formulating this strategy.

Sharp and Dawes (2001) explored link between differentiation and profitability. Current literature stated that differentiation could (a) reduce the directness of competition and (b) reduce price sensitivity. But they decided to question the belief that differentiation leads to an increase in a firm’s costs and price premium. They also challenged the view of differentiation being an option that firms choose to adapt. Instead they saw differentiation as a pervasive feature of the competitive market where firms strive to match their competitors’ features rather than be different.

Cost Leadership

A cost leadership strategy requires a firm to become the lowest cost producer of a product or service so that above-average profits are earned even though the price charged is not above the industry average (Stonehouse and Snowdon, 2007). An overall cost edge is gained by performing most activities at a lower cost than competitors while offering a parity product (Day and Wensley, 1988).

If a firm can achieve and sustain an overall cost leadership then it will be an above average performer in the industry provided it can command prices at or near the industry average. At a price same as that of its competition or lower, a cost leader’s low cost position translates into higher returns. This does not allow a cost leader to ignore the basis of differentiation. The product features are also critical and if the buyers do not consider the products acceptable, a cost leader will be forced to sell at a discounted price below the prices of its rivals. This will nullify the benefits of its favourable low cost position.

A cost leader must achieve ‘parity’ or ‘proximity’ in the basis of differentiation relative to its competitors to become an above average performer (Porter, 1985). ‘Parity’ in the basis of differentiation translates its cost advantage directly into higher profits. ‘Proximity’ in differentiation means that the price discount necessary to achieve an acceptable market share does not offset the cost leader's cost advantage and therefore the cost leader earns above average returns.

The logic of cost leadership usually requires that a firm must be a cost leader, not one of several firms vying for this position. While the cost leader will be most profitable, it is not necessary to be the cost leader to sustain above return in the commodity industries where there are limited opportunities to build efficient capacity (Porter, 1985). A firm that manages to keep its costs on the lower side will usually still be an above average performer. Many firms have made serious mistakes to recognize this and where there is more than one aspiring cost leader, rivalry among them is usually high because every point of market share is viewed to be crucial. "Therefore cost leadership is particularly dependent on pre-emption unless major technological change allows a firm to rapidly change its cost position" (Porter, 1985).

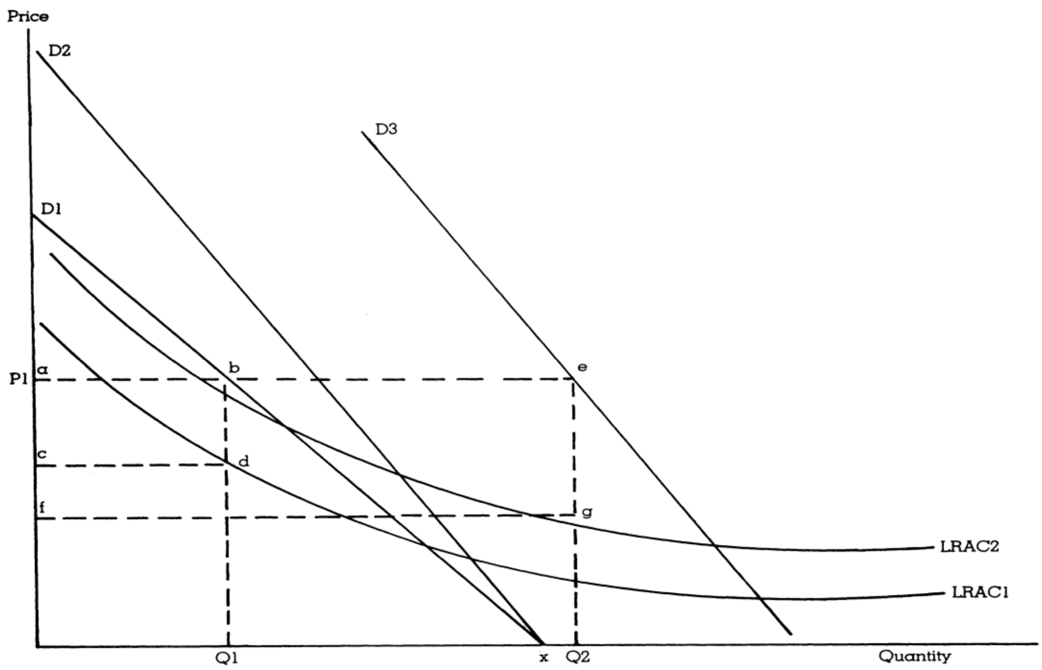
Differentiation vs. Low Cost

Porter's (1980, 1985) generic business level strategies, overall cost leadership and a firm's ability to differentiate its products in the market have become a dominant paradigm in the modern business literature. According to Porter each of these represents "a fundamentally different approach to creating and sustaining a competitive advantage. Usually a firm must make a choice between them or it will become stuck in the middle" (Porter 1985, p.17). Porter further suggests that achieving both cost leadership and differentiation is difficult as differentiation comes with an additional cost. (Porter 1985). This statement made by porter is critiqued on several grounds for instance differentiation can be means for the firm to achieve an overall low-cost position. Therefore contrary to Porter's statement cost leadership and differentiation are not necessarily different.

Combining Differentiation and Cost leadership

Investment made for the purpose of differentiation has two main effects on the demand. The first one is that differentiation creates a brand loyalty decreasing the price elasticity of demand for the firm's product. The second is to broaden the appeal of the product in the market and increase its market share. This is particularly seen when differentiation involves breadth of a product line, however it can also be true for a single product. This can be illustrated with the help of the figure below.

Figure 3: Combining Differentiation and Cost Leadership



Source: Charles W. L. Hill (1998)

1. Differentiation decreases elasticity of demand and the firms demand curve shifts from D1 to D2
2. Differentiation also broadens the product appeal in the market shifting the demand curve further from D2 to D3.

The effect of differentiation also increases the unit costs. This cost will fall as the volume increases; the long run effect may reduce cost per unit. For instance, in the above diagram, the firm initially is charging price P1 and selling quantity Q1. The increase in expenditure on differentiation shifts the demand curve from D1 to D3. This increase in expenditure also shifts the long-run average cost curve from LRAC1 to LRAC2. Initially at price P1 the firm is making a profit equal to abcd. The firm keeps the price constant and as a result of the expenditure on differentiation the quantity sold increases from Q1 to Q2. Now the profit earned by the firm is aefg. As clearly seen aefg>abcd and the increase in the firm's profit is equal to aefg-abcd. The reason for the increase in the profit of a firm is because LRAC curve is shown to decrease significantly over a range of output considered due to economies of scale. In short we can conclude that differentiation allows a firm to attain low cost in the long run.

Putting together the concepts of differentiation and low cost, we can conclude that in today's competitive business environment we have to first evaluate the contingencies under which differentiation might be feasible to use it as a means of achieving a low cost strategy. Secondly, it is now possible to show when a sustained competitive advantage might be based on the simultaneous and continuous implementation of both low cost and differentiation strategies.

Converting Organizational Skills and Resources into Superior Positions and Outcomes

Information on the relative standing of a business on the sources, positions, and performance dimensions of its competitive advantage is only a means to an end. Today one of the biggest concerns of the managers is how to gain how to get the greatest improvement in performance for the least expenditure. For this to be achieved, it requires identification of the skills and resources within a firm that focus more on positional advantages and future performance, then selective allocation of resources toward those high leverage sources. These are the key success factors of the business that "must be applied or controlled for the business to be successful" (Ohmae 1982).

The strategy literature generally suggests how asks how an organization's skills and resources can be used to gain the competitive advantage. These are the structural determinants or "drivers" of cost or differentiation advantages (Porter 1985).

Converting Sources into Positions of Advantage

The drivers of positional advantages are the high leverage skills and resources that do the most to lower costs or create value to customers. Each activity in a firm's value chain is influenced by the combined effect of these drivers (Porter 1985).

Cost drivers are the structural determinants of the cost of each activity that are largely under a firm's control. The primary drivers are:

1. The economies or diseconomies of scale
2. Learning and knowledge that improves systems and processes that is independent of economies or diseconomies of scale
3. The pattern and trend around capacity utilization
4. When one activity performed affects another activity (Linkages).For example, higher quality materials and more costly product designs are used to reduce service costs.

Drivers of differentiation are analogous to cost drivers but represent those activities that are executed in a unique and / or a superior way. They are a direct outcome of a firm's superior skills and/or resources when mobilized by an effective strategy. The main drivers are:

1. Organization's policy how to perform certain activities and how intensely to perform them. This could include the firm's policy on crucial activities such as product features, performance, spending on advertising, extent of services provided, and the skills sets and experience of human capital.
2. Linkages within the value chain, for instance coordination between sales and production to improve the speed of order delivery, coordination with suppliers and distributors, and
3. Quicker timing that leads to first-mover advantages.

Other silent drivers include location, interrelationships with other businesses, learning, and scale that permit an activity to be performed in a unique way. It is the combination of different drivers that enables a firm to create a distinct advantage over its competitors. The usefulness of the notion of drivers is difficult to assess. It is not clear whether that they all mean the same thing. For example, some drivers of differentiation correspond directly to sources of advantage such as location, scale, or level of integration. However, "policy choices," of an organization is the most prominent driver of differentiation, as they represent top management decisions about crucial activities to be performed and how it is to be performed. Hence the competitive advantage is a function of how a firm takes decision and how effectively and tactfully it takes those decisions.

The Payoff from Positional Advantages

Both, differentiation or cost leadership will lead to superior market share and/or superior profitability as compared to the competitors. The size and duration of the superior payoff will depend on the following factors:

1. When the value that the customer perceives and the premium price that he is willing to pay are greater than the extra cost of the activities that create differentiation.
2. The objectives of the firm in terms of the trade-off between higher profits (maximum price level) vis-à-vis increase in market share gained through penetration pricing. In other words the organizational policy and decision making plays a crucial role.
3. How successful is a firm in creating a barrier to entry. In other words, the difficulty the competitors will have in creating their own niche. Not all industries can afford equal opportunities to sustain competitive advantage. Those with durable, irreversible, and market-specific assets and a slow pace of technological change are much more likely to promise enduring profitability (Ghemawat, 1986).

"The message is clear: to understand how a competitive advantage is created and sustained we must understand the intermediate stage of positional advantages. Otherwise the exercise is devoid of diagnostic value". (Day and Wensley, 2012)

Assessing Competitive Advantage

The possible measurement methods are classified in Table 2 by their place in the conceptual framework and whether they take the vantage point of customers or competitors. The immediate message of this table is that each of the many methods for assessing ad-vantage has a specific and limited role that gives only a partial picture of the complete framework. Thus customers have little to say about how a business has gained an advantage they value (e.g., which skills and resources created and sustained superior customer service). Conversely, analyses of competitive superiority in skills and resources are made by people within the firm using competitors as the standard of comparison. The findings do not tell whether the firm will be distinguished favourably in the eyes of customers or end users. A comprehensive diagnosis can be gained only with a combination of methods. The purpose of the following sections is to guide the selection of the appropriate methods.

Competitor Focused

The essence of these methods is a direct comparison with target competitors. Because the departure point for this comparison is the business, the frame of reference usually is confined to direct rivals. Hence the emphasis is on relative skills and resources and the resulting cost position. The search is directed toward finding those activities the firm does better than its competitors.

The most common competitor-cantered method is judgmental identification of distinctive competences, which are based on "unique levels and patterns of both skills and resources, deployed in ways that cannot be duplicated by others" (Hofer and Schendel 1978). However, a firm can have a distinctive competence without gaining a competitive advantage if what it does best is relatively unimportant to customers or competitors. Key success factors therefore have an important role in disciplining the competitive analysis process, for they direct attention to high leverage competences. Several methods such as value chain analysis can be adapted to help identify key success factors

Customer Focused

A customer perspective means the comparison of competitors is made by customers rather than by the management team, as summarized in Table 1. Emphasis is shifted from the cost factors and the internal value chain activities addressed in the competitor centred approaches to segment differences and differentiation advantages.

Methods of Assessing Advantage

Table 1: Methods of assessing Competitive Advantage

	Competitor-Centered	Customer-Focused
A	**Assessing Sources (Distinctive Competences)**	
	1. Management judgments of strengths and weaknesses 2. Comparison of resource commitments and capabilities 3. Marketing skills audit	
B	**Indicators of Positional Advantage**	
	4. Competitive cost and activity comparisons a. Value chain comparisons of relative costs b. Cross-section experience curves	5. Customer comparisons of attributes of firm vs. competitors a. Choice models b. Conjoint analysis c. Market maps
C	**Identifying Key Success Factors**	
	6. Comparison of winning vs. losing competitors 7. Identifying high leverage phenomena a. Management estimates of market share elasticity b. Drivers of activities in the value chain	
D	**Measure of Performance**	
	10.a Market share	8. Customer satisfaction surveys 9. Loyalty (customer franchise) 10.b Relative share of end-user segments

	11. Relative profitability (return on sales and return on assets)

Source: Day and Wensley (2012)

Differential Pricing in the Digital Age

When firms adjust their prices according to customer, location or product, they are said to follow the strategy of segmented pricing or differential pricing (Strauss and Frost, 1999 in Yelkur and DaCosta, 2001). The travel and tourism industry is a good example as it offers prices depending upon location, age group, group size, seasonality etc. Yelkur and Herbig (1997) define five steps in determining differential pricing within a firm:

1. Select a target market
2. Divide the target market into smaller customer service segments
3. Estimate demand for each customer segment
4. Determine reservation prices (which indicate willingness to pay) for each segment
5. Determine prices for each segment

For industries where transactions can be completed without physical delivery of the product with a low frequency of purchase and high cost, the Internet is a more efficient medium for firms to use to conduct business. The travel industry features among the top products in terms of online transactions. Yelkur and DaCosta (2001) mention how ‘intangible or symbolic information products such as airline tickets or hotel reservations gain tangibility on the Internet medium’. Many product manufacturers as well as service providers have moved to the Internet as a medium of business. They also discuss the importance of evaluating the marketing mix when making this transition since the Internet is a highly dynamic marketplace. They specially emphasize the importance of pricing and how it is neglected by firms instead of being used as a tool to enhance customer satisfaction and loyalty; which further builds competitive advantage.

Increased Internet usage has helped companies in reducing distribution costs but has also led to an increase in customer knowledge and interaction. When a firm decides to establish its presence on the Internet, ‘its marketing activities, including advertising, pricing, and distribution, should reflect characteristics unique to the medium to help consumers realize the value added over traditional methods' (Yelkur and DaCosta, 2001).

Clemons et al (2002) say that if firms are to compete in a dynamic business environment with informed customers they must 'understand the presence or absence of exploitable imperfections in internet markets and their implications on pricing strategy'. Provided the products or services are similar, marketing them over the Internet can result in a price war since other competitive factors such as store location are absent. On the other hand if products and services can be potentially differentiated then buyers can be appropriately segmented and led towards the desired product (Yelkur and DaCosta, 2001).

Service Based View

Heskett (1986, 1987 in Siferd et al, 1992) studied multi-site service firms where field managers look after operations, personnel and marketing, with all three being of equal importance. He claimed that for a service firm's success, it must have a clear strategic service vision, and integration of systems is a part of that strategic vision. Such a vision included four important elements: a) clearly targeted market segments, b) a well-defined service concept, c) a focused operating strategy, and d) a well-designed service delivery system.

These elements were linked by the firm's positioning strategy and what Heskett termed as value cost leveraging, as well as the integration of systems. Value-cost leveraging was defined as the maximization of the difference between the value of the service to customers and the cost of providing it. Heskett also emphasized the benefits of a supplementary 'inner-directed' strategic service vision, in which groups of employees are targeted.

Sasser et al (1978 in Siferd et al, 1992) propose a view of service offerings as the presentation of a 'bundle' of goods and services to customers. Their bundle includes: a) physical items offered to the customer, called facilitating goods; b) explicit services performed for the customer; and c) implicit services or psychological benefits received by the customer.

Fitzsimmons and Sullivan (1982, in Siferd et al, 1992) expand the service 'bundle' concept to include the facility in which the service takes place. The 'bundle' concept is one more way of saying that the customer, the server and the place of service all must be considered when planning and executing strategies and tactics for service sector operations.

Shankar et al (2009) refer to this bundling as a hybrid solution of products and services combined into innovative offerings, which can help companies attract new customers and increase demand among existing ones by providing superior value; ultimately spurring growth in profit and market share. They mention that a customer's value and use of the offering is determined by its complementarity (the value increases by using the product and service together) and independence (dependant products and services have to be bundled together). However this is easier said than done and in order to develop a value proposition for the customer they propose the following rules:

1. **Look for points of differentiation in product and service markets**
    - **What is the degree of commoditization?** – A highly commoditized product can be enhanced by high quality service and vice-versa.
    - **Is the customer's problem complex?** – Offering a hybrid solution to a complex problem makes it harder for competitors to imitate and also increases the switching costs; thus leading to a sustained competitive advantage.
    - **Can the service quality be improved?** – A commoditized product paired with consistent and reliable service can help in differentiation. If the product brand is well known then the service component will also benefit from the resulting 'halo effect'.
2. **Scope the service and scale the product**
    - **What can be centralised?** – Services need to be productive to be profitable. They could be delivered from a central location or administered online.
    - **Can the service be digitised?** – Internet can be used to link products to services which would result in a lower unit cost of the offering.
3. **Assess the revenue and profit potentials of various hybrids**

- **Which half of the offering has the most profit potential?** – By identifying this factor profitable products or services can be paired with highly purchased products or services.
- **How often to customers repurchase either product or service?** – Typically services are purchased more often as compared to products. By hedging between product and service purchase cycles, companies can develop more successful hybrid solutions.
- **Which should lead the customer purchase, product or service?** – For one-stop bundles like cellular phones, it is better to lead with the offering that the customer chooses first.

4. **Invest in the brand** – investments need to be made in effective branding activities which link the product and services.

Innovate or Evaporate

The global economic recession has left facing the business leaders with a series of challenges. These leaders, as the pioneers, visionaries and innovators of the business world, can play a significant role in addressing these challenges and coming up with innovative methods and practices to perform in the market. Besides shaping the mind-set of the managers, they also need to focus on changing the mind-set of its employees and giving them a sense of direction. They should always be prepared to implement strategic and innovative initiatives in the existing hostile environment of economic downturn. In this context, innovative strategies alone can best tackle the pressures triggered by the current economic turbulence and allow a firm to create a competitive advantage.

“Good managers create winning products; Great managers create whole new industries. The best way to predict the future is to create it (Suryanarayana, A. 2010)”. Powerful innovative ‘Unique Value Propositions’ (UVPs) can create entire new industries and can lean a firm to enjoy the competitive advantage. The fundamental logic of capitalism is that it requires firms to understand consumer wants and desires and translate it to products and services through continued innovation. Sometimes the business leaders are expert at understanding the markets and they then go ahead executing innovation even though research results in a slightly negative feedback. It is this spirit of innovation and taking measured risk that leads to creating a whole different range of products and services allowing firms to succeed. They not only have the talent to innovate but also give serious rejuvenation and invigoration to their innovation culture. They strongly endorse this culture throughout the organization and try to inculcate innovation as one of the most critical factors of success.

Sometimes it is believed that innovation is perhaps one of the most challenging tasks within an organization that can satisfy the commercial needs of the organization and at the same time create a value proposition for the customers. In our opinion this is partially untrue and this is because when people are empowered, inspired by vision, provided ample time and resources and an appropriate environment, new ideas come up in this process. The main challenge lies not in ideation-producing ideas but in accessing the feasibility of those ideas. Bringing innovative products and services to the market is risky but refraining from doing so is even riskier. Technology plays an important role in a business able to innovate new products; however it is not the only factor that results in innovation. There is no superior technology or engineering in Barbie or Dell. The use of technology combined with the overall spirit of the organization towards innovation creates successful products and systems that allow a firm to maximize its profits.

Competition in global markets in virtually every product, service, industry and market segment is fierce and will grow even fiercer. "Not to innovate is to die" (Christopher Freeman, 1982) in his famous study of the economics of innovation. Especially in times of recession organizations have a reason to innovate and think differently about how they are conducting business. (Bledow et al 2009) All companies interested in growth will be looking at how they can be innovative and it is increasingly, and widely, recognized that innovation capability is one of the key determinants of long term profitability and survival.

Vertical Integration and Competitive Advantage

The competitiveness of an individual firm depends on the competitiveness of the value chain it belongs. Competitive pressure to achieve efficiency gains obliges companies to work more closely with partners upstream and downstream in the value adding process. An integrated value chain allows a company to measure and manage systems and constraints as a whole leading to better efficiencies and resulting in creating competitive advantage. (Lu and Hung, 2010). However, having said that, does being vertically integrated always result in growth? The answer is no because it is important for business to know when to integrate vertically to gain maximum benefit. “Whereas historically firms have vertically integrated in order to control access to scarce physical resources, modern firms are internally and externally disaggregated, participating in a variety of alliances and joint ventures and outsourcing even those activities normally regarded as core.” (McKinsey & Company, 1990)

Later in the ‘Application Section of the paper, we have used the theories of transaction costs (as mentioned below) to analyse the levels of integration within Compass Group and TUI Travels Plc. Our analysis of these companies revealed that because their levels of integration is optimum based on the theory of transaction cost, they enjoy a competitive advantage in the markets they operate in.

The Concept of Transaction Cost

Transaction costs simply are the costs incurred to use a market. To use the market it requires two parties – buyer and seller. For example buying a mug of beer from a bar involves the buyer (individual) and the seller (firm). On the other hand the cost involved to use a firm is called ‘Management costs’. For example if a firm is buying the beer from another firm it is a ‘firm-to-firm’’ transaction’ or the cost incurred by the management. A ‘transaction’ involves:

- Identifying trading partners
- Negotiating contracts
- Monitoring compliance
- Enforcing fulfilment

The traditional theory assumes that the ‘economic agents’ have full and perfect information therefore mistakes are never made and thus transactions costs are brought down. The modern literature assumes that an individual’s ability to absorb complex information is limited. Hence no individual or a firm can have perfect information, hence the. This is termed as *‘bounded rationality’.* Since there is ‘bounded rationality’ as per the modern approach, the transaction costs are higher leading to the question – 'In-house or outsource?'

'Make or Buy' Decision

This decision arises due to the complexity and limited information of the economic agents. Theory suggest that a firm's decision to produce in house or outsource could be made based on a few broad economic theories – Economies of scale, Number of firms, Asset specificity, Firm specific knowledge, Uncertainty, Scope of opportunism, monitoring costs and complexity of production.

Economies of Scale

Economies of scale occur when a 'proportionate increase in all inputs leads to a more proportionate increase in output' thereby reducing the cost of production and thereby reducing transaction costs. Economies of scale are often seen in larger firms that have been in the business for a long time. If a supplier enjoys economies of scale, it would be cheaper to source from him instead of backward integrating and vice versa.

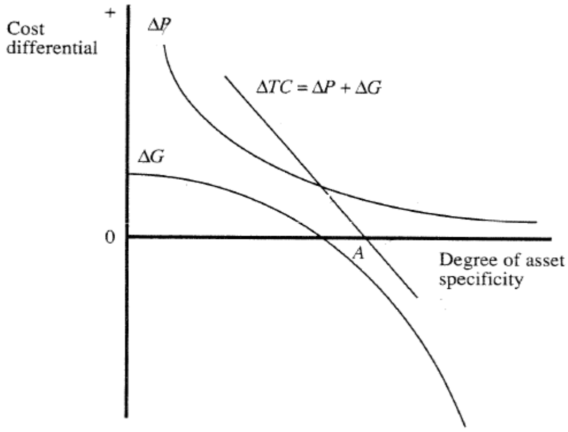
Number of Firms

Theory suggests that the price that the firm pays for its inputs or will receive for its outputs will depend on the number of firms in the market. For instance if a firm has an option to choose from a large number of buyers, the price will be kept lower and in the same way if a firm has a lot of competitors in the market it will have to keep its prices low

Asset Specificity

An increasing number of business relationships, characterized by high degrees of asset specificity, choose contracts instead of integration to protect against potential hold-up problems. As noted by Holmstrom and Roberts (1998, p. 80), "there seems to be something of a trend today toward disintegration, outsourcing, contracting out and dealing through the market rather than bringing everything under the umbrella of the organization". The firm vs. market in terms of asset specificity can be explained with the help of the figure below:

Figure 4: Firm vs. Markets (Asset Specificity)



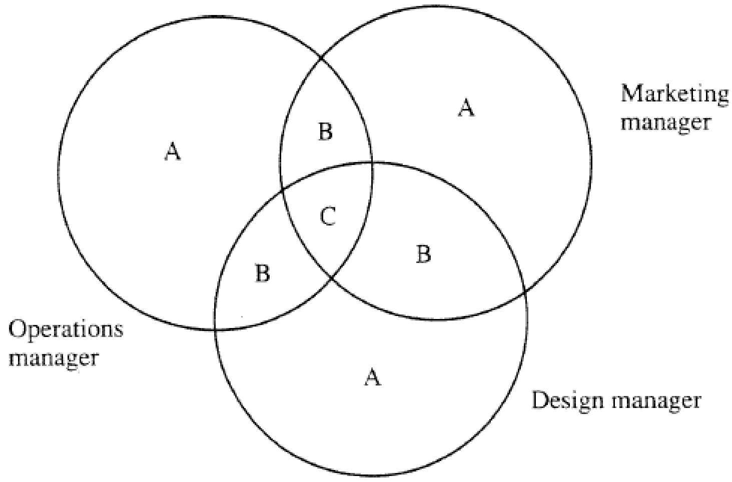
Source: The Economic Institution of capitalism, (Oliver E Williamson, 1985)

ΔG represents governance cost. It is positive with lower asset specificity but becomes negative with increase in asset specificity, showing that the firm's governance costs are lesser than that of the market. This is because the market finds it hard to restrict opportunism. This opportunism increases with the increase asset specificity due to which the number of suppliers decreases. ΔP curve shows that the transaction costs reduce as a company starts to generate economies of scale. The ΔTC curve is derived by the addition of ΔG and ΔP. This shows that up to point A the use of the market is more efficient than producing in house.

Firm Specific Knowledge

A firm's competitive advantage is the result of the collective knowledge about the market, the production or production technology. For example if a firm has an advantage linked to R&D, the use of the market may be risky because it threatens the security of that knowledge. The knowledge links within the firm can be explained in the following figure:

Figure 5: Firm Specific Knowledge



Source: The Economic Institution of capitalism, (Oliver E Williamson, 1985)

Uncertainty

Economic theory assumes perfect knowledge on the part of economic agents and therefore it there would be no difficulty in making long-term contracts between firms. However, since perfect knowledge does not exist on the part of the economic agents and due to the future being unpredictable it is better to outsource a part of the production in order to maintain flexibility and thereby reduce risks.

Scope for Opportunism

Markets often fail because of opportunism and bounded rationality. Williamson defines opportunism as 'a lack of candor or honesty in transactions, to include self-interest seeking with guile (1975, p.9) 'Cowboy builders are by definition, opportunists'. Theory suggests that customers sometimes are poorly informed about the quality of work of these builders and the transaction costs are likely to go up if the customers are to acquire such knowledge. This presents an opportunity for the cowboy builder to misrepresent his abilities and competence in order to win contract. Since this is a one-off transaction, there is no prospect of future loss of business, which might serve to constraint the cowboy's activities. However the scope of opportunism reduces with the increase in the number of firms because there are a series of awards and opportunities for everyone.

Governance Costs

These are the costs involved in governing a business: 'how individuals interact and the extent to which they can be harnessed to pursue common goals'. Thus deciding whether to use the market to source the product or produce in house is influenced by the availability and effectiveness of the control and governance structure that each institution possesses. If a business is undertaking a complex process, the cost of supervision governance goes up. This suggests that the higher the cost of monitoring it must be left to the market for gaining the benefits of low transaction costs.

Complexity of Production

The complexity of production also increases the transaction costs, as specialized labor and machinery needs to be employed. For example in case of custom made cars (Rolls-Royce) complexity of production increases making the market higher in transaction costs. Therefore in theory it is assumed that the higher the complexity of production, the firm must undertake production in order to lower transaction costs.

APPLICATION

EXHIBIT A: TUI Travel Plc.

An Introduction to TUI Travel PLC

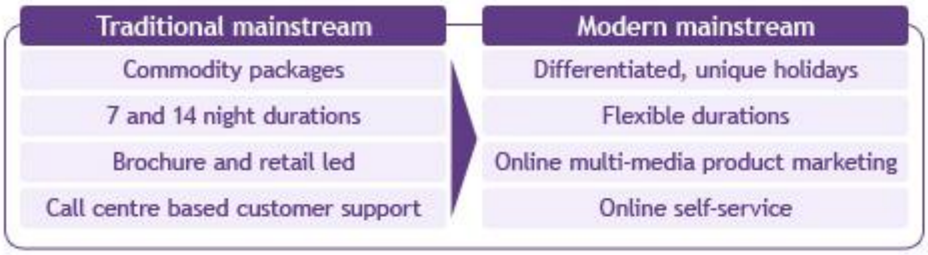
TUI Travel PLC (TUI) is one of the world's leading leisure travel companies, with over 200 brands in 180 countries and more than 30 million customers. It offers diverse travel experiences through its portfolio of individual and market leading brands, employs approximately 53,000 people and operates in 31 key source markets worldwide.

TUI's share in Hapag-Lloyd container shipping has been divested recently in order to focus on the core business of tourism and reduce debt. For ease of operation the company is divided into four sectors. Each sector focuses on a different type of business and region. This has been done recently in 2011, keeping in mind current trends and economic scenario while focusing on the company's strategy of differentiation, online sales and growth in BRIC economies. The sectors are as follows –

1. ***Mainstream –*** this is the largest sector in scale, scope, financial performance and number of employees. It is further divided into three operational divisions:
    - Northern region – responsible for distribution, tour operating and airline in UK, Ireland, Nordic countries and Canada. The Nordics have the number one or two brands in all its markets.
    - Central Europe – comprises business in the source markets of Germany, Austria, Czech Republic, Slovenia and Switzerland. Germany is the largest market and TUI is the leading brand here and in Austria.
    - Western Europe – consists of tour operators and airline business in Belgium, Netherlands and France; and a further two operators in Spain and Italy. TUI has the leading position in Belgium, France and Netherlands.

This sector in particular has featured largely in TUI's initiatives towards enhanced product differentiation.

Figure 6: Traditional Mainstream vs. Modern Mainstream



Source – Company Annual Report

2. ***Accommodations and Destinations–*** these businesses provide hotels, transfers, tours and excursions, meetings and events and cruise handling services to operators, agents, customers and corporate clients worldwide. Its four business lines are – accommodation online travel agents, destination services, cruise handling and accommodation wholesale.

3. ***Specialist and Activity–*** the ethos of this sector is 'if you can dream it, we can take you there'. It comprises over a 100 global travel businesses to fulfil the travel needs of customers with a range of interests and passions. Its six divisions are – adventure, education, marine, North America specialist, sport and specialist holiday group.

4. ***Emerging Markets–*** this portfolio focuses on the source markets of Brazil, Russia, China and India. A tour operator exists in Russia and CIS and TUI is currently exploring their strategy for Brazil, China and India.

An Introduction to the Travel Industry

Travel and tourism is recognised as a critical economic activity globally and has a direct impact on the GDP of a country. Despite various macroeconomic factors posing serious challenges to the industry, the projection remains positive in terms of growth in GDP and employment provided by travel and tourism. As with other industries, the emerging economies of BRIC, South and Latin America continue to contribute towards the demand for leisure as well as business travel. The former is largely due to the rising middle class in these regions and the latter can be attributed to the rise in international trade overall. The developed economies, on the other hand, are more scrupulous and the imposition of various austerity measures will only make them more so.

The recession and the resulting reduction in overall consumer confidence have had an understandable impact on UK travel and tourism industry. The most apparent effect has been seen in the decrease in outbound travel and an increase in domestic tourism. After two years of decline, a slow and steady growth has been predicted for this sector.

As mentioned above the direct impact of the economic downturn has been felt across industry but for some it has been more adverse than the others. The most talked about has been the collapse of Holidays 4 UK, a Brighton based tour operator. Some companies licensed with Air Travel Organizers' Licensing also ceased trading in 2011.

All these factors have made it imperative for travel companies to develop strategies that provide them with competitive advantage. The most common tactic is to offer discounted rates and packages to customers in order to attract them. But in the long run it does not prove sustainable as other travel operators can easily imitate it.

What TUI has attempted to do is to largely adopt a differentiation strategy by offering unique products and services to its customers; products which their competitors cannot offer. This has allowed them to charge a higher price as this is what their customers value and are ready to pay for. TUI caters to various levels of customers and has divided them into price driven and product driven; and caters to their needs differently. Since they have clear customer segmentation, they do need to take care of the cost factor as well. Not every TUI customer looks for a unique product; many wish to take a budget holiday as well. Therefore, TUI also looks into cost drivers besides the factors of differentiation in their overall strategy.

TUI Travel's Revised Business Model: Leading to Competitive Advantage

TUI has recently revised its business model to be able to better respond to the evolving trends in the industry.

1. ***Global Market Trends*** – TUI seeks insight into what the customers need in order to offer them the right product and services at the right time. They identified the following as crucial market trends to look out for:

    a) Customers seek value
    b) 'Go online', search, compare, book and share
    c) Individualisation
    d) New business model online travel agencies, search engines, low cost carriers
    e) Increased demand for experiential holidays
    f) Demand from emerging markets

    By identifying these trends TUI is able to modify and develop its product and service offerings. In keeping with current customer trends they are in a better position to build customer value. Their core strategic focus is to strengthen their online presence and explore emerging economies.

2. ***Customers –*** TUI customers are divided as product driven or price driven. For product driven customers they offer differentiated and exclusive products within the Mainstream sector as well as products from the Specialist and Activity sector. On the other hand, price driven customers are given the option of online accommodation bookings and commodity packages. Even though the main strategy for the firm is to develop its differentiated offerings, they do pay attention to the cost factor as well. This is important to serve the segment of customers who are price driven.
3. ***Product Characteristics –*** product offerings vary depending upon the customer category; whilst product driven customers look for differentiated, flexible, experiential and exclusive products, price driven customers are more likely to book online commodity packages. Having a large repertoire of brands across the tourism sector, which includes TUI Hotels, TUI Cruises and TUI Travel, allows the group to be more integrated and be its own supplier. This has a cost benefit and TUI is able to pass on the cost saving to their price driven customer segment.

4. ***Key Success Factors –*** for the product driven category the following are the factors which also help TUI erect high barriers to entry:

   a) Unique and innovative concepts and products
   b) Supplier relationships
   c) Cost relevant
   d) Commitment and yield management
   e) Product knowledge

   Whereas for the price driven category the following factors allow TUI to be able to offer the right price to their customers:

   f) High volume
   g) Competitive pricing
   h) Range and diversity of hotel stock
   i) Lowest cost

TUI has decided to adopt a differentiated product strategy to tide itself over the economic downturn and difficulties being faced by the travel industry currently. As per the company's website they state that 'We have a clear strategic goal to create superior shareholder value by being the world's leading leisure travel group providing customers with the widest choice of differentiated and flexible travel experiences to meet their changing needs. To help achieve our goal, we are focused on four strategic imperatives - Product & Content, Distribution & Brands, People & Operational Effectiveness and Growth & Capital Allocation. We continually evaluate the delivery of these four strategic imperatives which link through to our key performance indicators.' (www.tuitravelplc.com, 2010)

Increasing the proportion of products which are different to those offered by competitors is key to TUI's strategy. Differentiated products have earlier booking curves, higher customer satisfaction and retention and superior margins. These products are difficult for competitors to replicate and TUI has a significant competitive advantage due to existing brand loyalty and experience of designing and operating new concepts. They target a differentiated product mix of greater than 50% as a proportion of total Mainstream Sector holidays. A lot of their initiatives recently have been in line with their chosen strategy.

Initiatives undertaken by the firm include diversifying tourism products away from the ever-popular "beach and sun" destinations. In 2011 the company's French arm and in particular its Club Marmara division has been the top performer in the Group reaching 62% differentiated and exclusive product sales in line with its global strategic approach closely followed by the Nordic region.

Figure 7: Differentiated Products as a proportion of total Mainstream Sector Holidays 2010-2011

TUI Travel Plc: Differentiated Products as a Proportion of Total Mainstream Sector Holidays 2010-2011

Region	2010	2011
Differentiated product % of mainstream		
UK	42	47
Nordic region	45	58
Germany	31	32
France (Nouvelles Frontières)	40	42
France (Club Marmara)	60	62

Source: Company website
Note: Differentiated products include "hotels and products tailored to offer additional services and facilities to customers" (TUI Travel Annual Report , 2011)

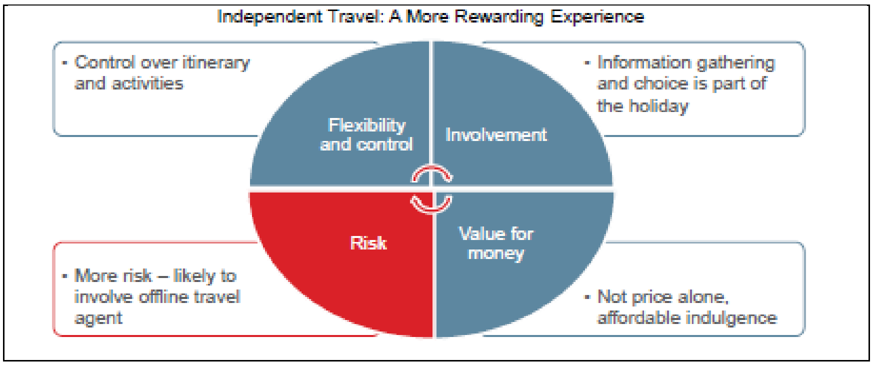
Source –Euromonitor

There has been a greater integration of sustainability into mainstream travel and tourism. For example, TUI Germany introduced in 2011 a new hotel concept – Viverde Hotels. This new hotel chain will be small (maximum of 250 rooms per hotel), environmentally friendly and in line with TUI's strategy for sustainability. TUI plans to build 15 hotels by 2015 with two properties expected to be launched in 2012 in Turkey and Italy. In terms of exclusive hotels, TUI Germany's ambition is to reach 136 properties by 2015.

TUI also buys over 150 million room nights every year. This helps them achieve economies of scale, bargaining power over suppliers and makes them one of the largest distributors of accommodation globally. All these factors add up to a substantial competitive advantage for the group and let them offer superior value to their varied customers.

There has been a surge in independent travel for the past decade. After deregulation, the airline industry in Europe saw a rise in LCCs (low cost carriers), who adopted Internet bookings in order to remove agency and distribution costs. The growth of online travel agencies led to a decline in high street agencies and traditional travel retailers responded by developing their own online services. A wide selection of tourism products is now available and can be booked on the Internet. The rise of independent travel created a need for reviews and advice, which is satisfied by social media.

Figure 8: Independent Travel - A More Rewarding Experience



Source –Euromonitor

TUI recognises this trend and almost one third of their profits are generated by the 'Accommodation & Destinations' and 'Specialist& Activity Sectors', which serves the independent travel market. These sectors have high growth and margin; and include specialist tour operators offering unique, experiential travel and online accommodation providers.

TUI ended the year with strong results and total revenue of £14.9 billion at the year-end September 2011 up 9% from 2010. The performance was directly related to a strong focus on improving differentiated product offerings and boosting online presence in key European markets.

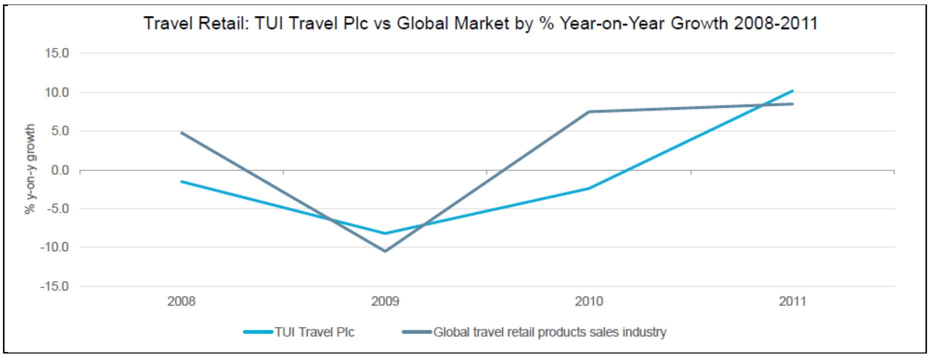
Competitive Position of TUI Travels

Global

TUI registered poor performance in 2010 as compared to global players. This was mainly due to the recession in Europe, which is the company's core market. 2011 saw resurgence in positive figures as TUI focussed on differentiated product offerings and strengthened its online presence.

The Arab Spring and floods in Thailand also negatively impacted the company's performance in 2011. TUI reacted by shifting capacities to Mediterranean countries.

Figure 9: Travel Retail - TUI Travel vs. Global Market by % Y-o-Y growth 2008-2011



Source – Euromonitor

Figure 10: Travel Retail - Top 10 Global Companies by value 2007-2011

Travel Retail: Top 10 Global Companies by Value 2007-2011

Company	5-year share trend	2006	2007	2008	2009	2010	2011	% share 2011
Carlson Wagonlit Travel Inc	↑	1	1	1	1	1	1	4.2
Expedia Inc	↑	4	5	4	3	2	2	3.8
TUI Travel Plc	↓	-	2	2	2	3	3	**3.2**
American Express Co	↓	2	3	3	4	4	4	3.2
Priceline.com Inc	↑	17	12	10	10	7	5	2.8
Thomas Cook Group Plc	↓	-	4	5	5	5	6	2.6
JTB Corp	↑	6	6	6	6	6	7	1.9
Sabre Corp	→	7	7	7	7	8	8	1.7
Orbitz Worldwide Inc	→	-	8	8	8	9	9	1.5
BCD Holdings NV	↑	9	9	9	9	10	10	1.4

Source – Euromonitor

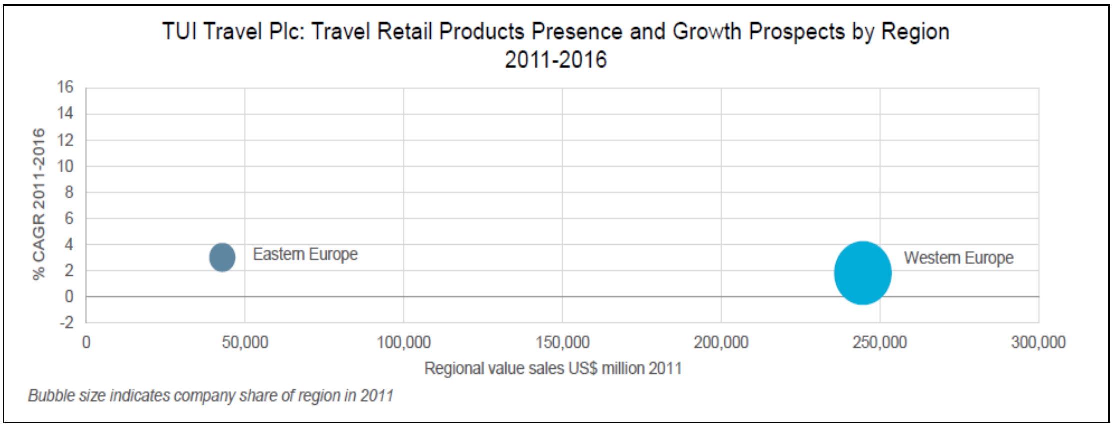
TUI places third in global travel retail; with a 3% value share in 2011. It dominates the European market as the top retail travel operator.

Firms compete more on price since travellers are more tech savvy and are able to compare prices online. The increased penetration on online bookings and smartphone apps has reinforced the position of players like Expedia and Priceline, in the travel market. Especially Expedia has managed to overtake

Travel retailers are expected to continue declining in profitability due to increased competition in the market. They are forced to reduce package prices as inflation rates go higher and direct online sales by providers such as airlines and hotels increase.

Regional

Figure 11: TUI Travel Plc. - Travel Retail Products Presence and Growth Prospects by Region 2011-2016



Source - Euromonitor

Western Europe accounted for 10% of TUI travel retail sales in 2011. Nordic countries continued to be successful in 2011 due to strong focus on boosting online bookings and sales. TUI Nordic operates in Norway, Denmark, Sweden and Finland and recorded an operating profit of £70 million in 2011.

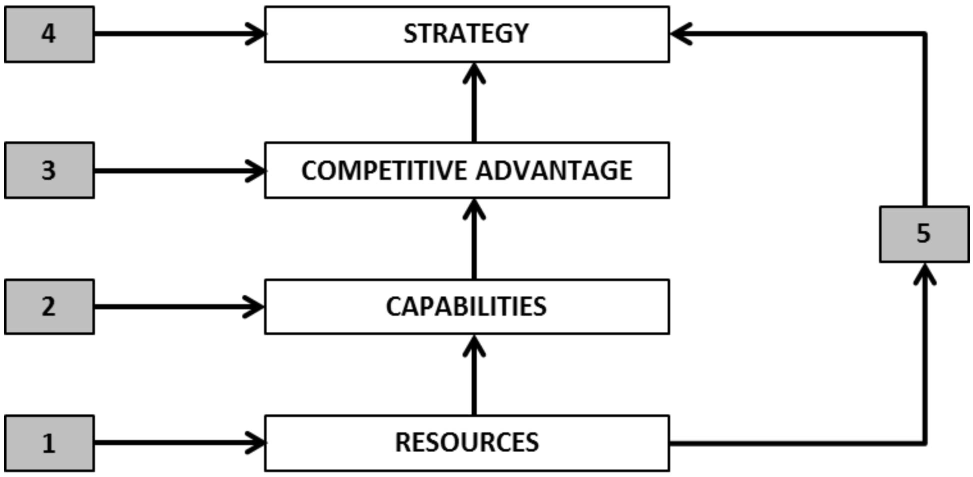
TUI strengthened its position in Eastern Europe, and specifically emerging markets of Russia and Ukraine, through its joint venture S-Group in 2011. Online sales in travel and tourism are growing rapidly in Russia. Increase in Internet usage and the impact of the recession encouraged travellers to look for bargains online, which TUI aims to tap into through its joint venture.

Analysis

Analysis 1: Resource Based View

There are two fundamental reasons for making the resources and capabilities of the firm the foundation of its strategy. First, the internal resources and capabilities provide the basic direction for the firm's strategy and, second, resources and capabilities are the primary source of the firm's profit.

Figure 12: A resource-based view of strategic analysis



Source: R.M Grant, 1991

TUI's resources can be divided into four broad categories – Financial Capital, Physical Capital, Human Capital and Organizational Capital.

Table 2: TUI's Resources

CATEGORY	DESCRIPTION
Financial Capital	Market capitalization = £2.44 bn ; Revenue = £14.84 bn ; Operating profit = £255 mn ; Total Cash = £442 mn ; Total Assets = £9053 mn
Physical Capital (Technology, plant, equipment, location, access to raw material)	£1938 mn net assets, 3,500 travel agencies, 79 tour operators, 120 aircraft, 37 incoming agencies, 12 hotel brand in 28 countries with 285 hotels and around 163,000 beds, 10 cruise liners.
Human Capital (Training, expertise, judgment, intelligence, relationships and insights of managers and workers)	53,000 employees, Leadership Development and Management Graduate programs to attract and nurture best talent, committed to diversity and safety.
Organizational Capital (Brand Value, Organizational structure, planning, controlling and coordinating systems, informal relations among groups within the firm and with outside groups)	Market leader in Europe, number 3 globally in travel retail with over 200 brands in 180 countries and 30 million customers.

Source: Fame - company report of Compass Group PLC; Bloomberg, 2012

Applying Barney's (1991) VRIN framework can determine if a resource is a source of sustainable competitive advantage.

Table 3: VIRN Framework - TUI Travel

Resources	Valuable	Rarity	Imitability	Non Substitutable	Competitive Implication	Perform -ance
Physical Capital	Yes (+)	No (-)	Yes (-)	No (-)	Yes (+)	Good (+)
Financial Capital	Yes (+)	No (-)	No (+)	Yes (+)	Yes (+)	Good

						(+)
Human Capital	Yes (+)	Yes (+)	No (+)	Yes (+)	Yes (+)	Good (+)
Organizational Capital	Yes (+)	Yes (+)	No (+)	Yes (+)	Yes (+)	Good (+)

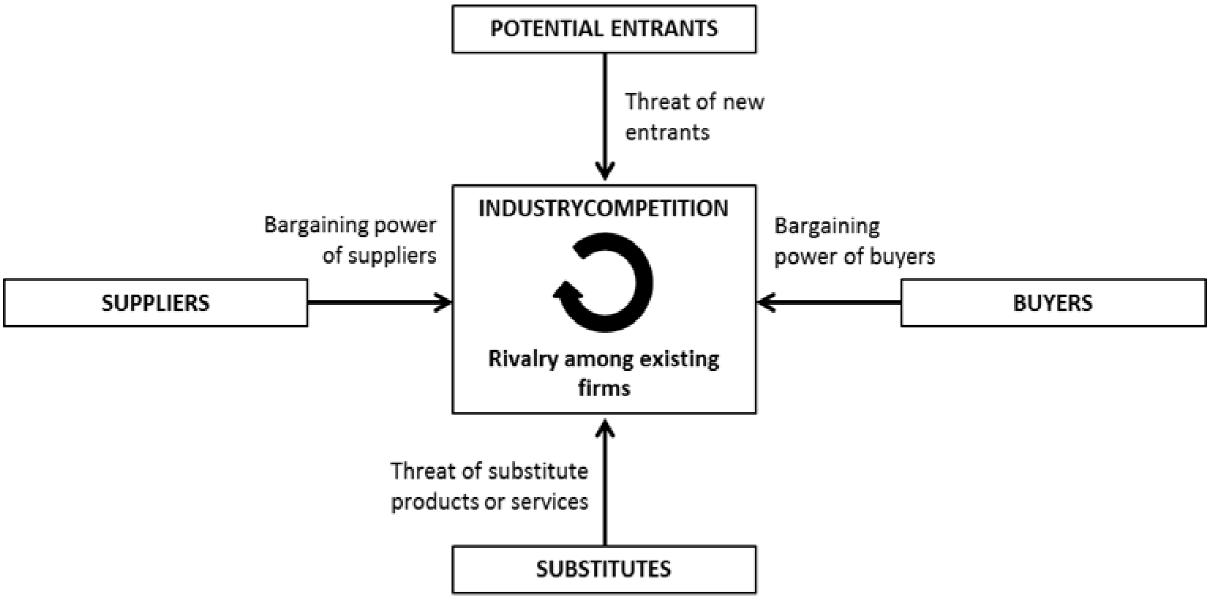
Table 4: Sources of Sustainable Competitive Advantage and Strategy Formulation

Resources	**Capabilities**	**Core competence**	**Strategy**	**Justification**
Physical Capital	Differentiated product and customer value	Responsiveness	Differentiation	Having a vast array of brands and products gives more control to TUI and allows it to respond better to customer needs.
Financial Capital	Improved profitability, investment in online distribution and emerging markets	Economies of scale and scope, fund expansion	Divestment and improve cash flow	Debt of £338 Mn in 2010 reduced to £249 in 2011
Human Capital	Quality service delivery	Trained and motivated human resource	Directly employed	Motivated and trained staff ensures better service delivery
Organizational Capital	Customer loyalty and	Brand value	Differentiation and cost	Global brand value allows it to

	retention		efficiency	explore new markets better

Analysis 2: Porter's Five Forces

Figure 13: Porter's Five Forces (TUI Travel)



Threat of entrants: A high capital requirement poses as a barrier to entry and the top 10 global companies own almost 30% of the existing market share. Economies of scale and brand recognition also require time to acquire. Therefore the threat of new entrants is considerably low.

Threat of substitutes: Consumers have a low level of substitution when it comes to tourism. Even though there are options like television, movies, social activities etc to keep one occupied, there is no real substitute for travelling. People are exposed to different places on virtual media but still prefer to experience it for personally.

Bargaining power of buyers: Buyers in this industry are the travellers and enjoy low switching costs, especially with the emergence of online travel retail and social media. Consumers have the power to compare and decide on the best option based on expectations and budget. However they do not have a bargaining power over the travel operators.

Bargaining power of suppliers: The suppliers in this case are the hotels, restaurants, and cruises etc. who sell inventory to tour operators; who in turn promote and sell it to the consumers. Suppliers have a higher bargaining power with companies who have a lower market share. But it is not so with larger companies such as TUI who have a substantial market share and are in a better position to bargain and achieve economies of scale.

Competition: There are incumbents in the market like TUI but there are new entrants who are making their presence felt and overtaking them especially in the online sales. Larger firms like Thomas Cook have had to shut shop due to the high fixed costs and increasing Internet penetration. This has led to a change in business models and competitive rivalry in the travel sector. It is becoming more and more competitive.

Analysis 3: SWOT

Table 5: SWOT - TUI Travel

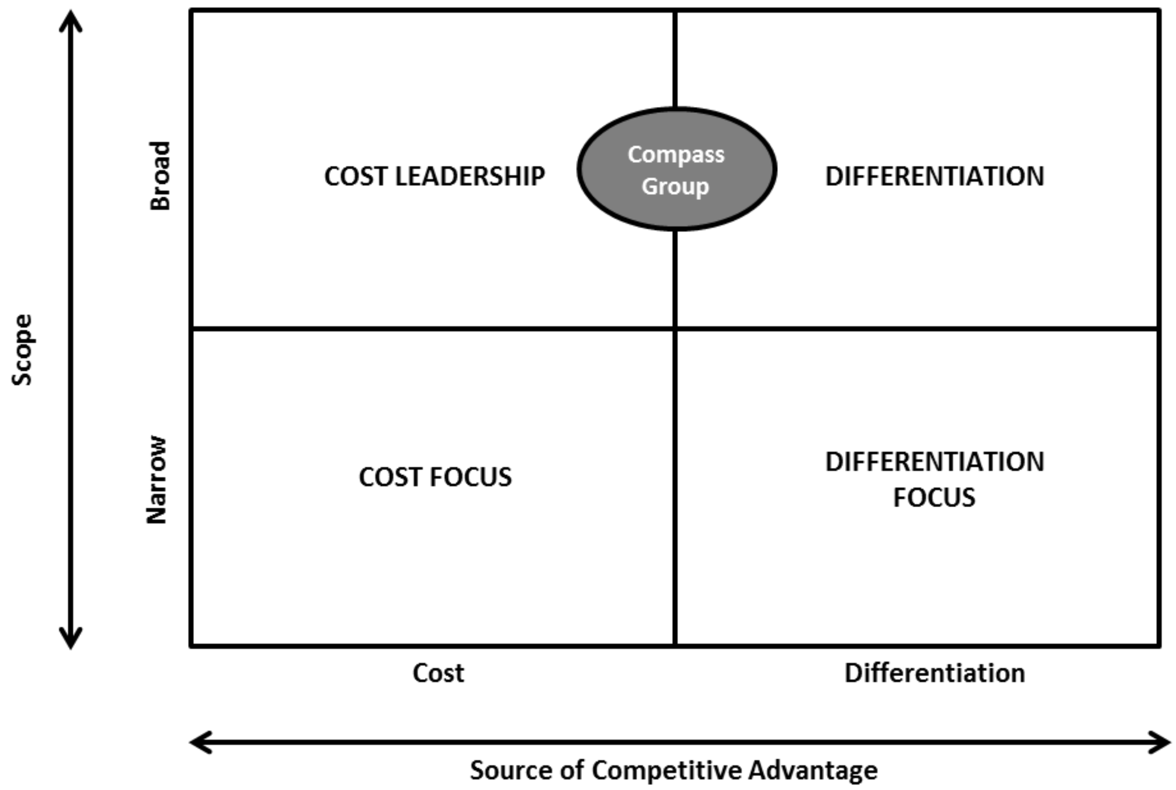
STRENGTHS	WEAKNESSES
1. **Top European leader** – TUI has maintained its top position in Europe in 2011, with 30mn customers. 2. **Brands** – the diversity of its 200 brands (119 in UK) allows TUI to respond promptly to customer demands and tastes.	1. **Challenging consumer** – diminished consumer confidence and reduced spending has had a negative impact on TUI's performance. 2. **Online players** – leading online players like Expedia and Booking .com are posing a challenge to TUI.

OPPORTUNITIES	THREATS
1. **Emerging markets** – emerging markets like China are the key to the company's growth and therefore they are striving to establish their presence in such markets. 2. **Tap into intra-regional** – TUI will have a first-mover advantage by providing services between Russia and Asia. There is an increased between the two regions due to airlifts and trade.	1. **Eurozone** – the volatile situation in various Eurozone countries is threat to TUI as majority of its growth comes from this mature market. 2. **ETS** – besides the air passenger duty taxes, the EU emissions trading scheme will be an additional financial burden on TUI.

Analysis 4: Porters Generic Strategies

Applying Porter's Generic Strategy on TUI Travels we can see that the company is adapting a mix of both the strategies – Cost Leadership and Differentiation and as a result is enjoying a competitive edge in the market.

Figure 14: Porter's Generic Strategy - TUI Travel



Analysis 4: 'Make or Buy'

TUI's is a relatively integrated company operating 200 diverse brands within the tourism industry. The assets they own ranges from hotels to cruises, ski resorts, shops, airlines, call centres etc. Using the table below we try to understand the feasibility of their integration strategy.

Table 6: Make (M) vs. Buy (B) – TUI Travel

Parameters	Hotels		Cruises		Airlines		Yatch		Call Centers		Staff	
	M	B	M	B	M	B	M	B	M	B	M	B
Economies of Scale	+	-	+	-	+	-	+	-	+	-	+	-
Number of Firms	-	+	-	+	-	+	-	+	-	+	+	-
Asset Specificity	-	+	-	+	-	+	-	+	+	-	+	-
Firm-specific Knowledge	+	-	+	-	+	-	+	-	+	-	+	-
Uncertainty	-	+	-	+	-	+	-	+	+	-	-	+
Scope for Opportunism	-	+	-	+	-	+	-	+	+	-	+	-
Monitoring Costs	-	+	-	+	-	+	-	+	-	+	-	+
Complexity of Production	-	+	-	+	-	+	-	+	-	+	+	-
TOTAL	**2**	**6**	**2**	**6**	**2**	**6**	**2**	**6**	**5**	**3**	**6**	**2**

The above analysis shows that the company has adopted a right strategy and therefore manages to lower its transaction costs. They are now looking to convert their call centres (which they own) online to bring down costs. Henceforth because their integration levels are optimum, they manage to bring down transaction cost and as a result enjoy an edge over it competitors.

EXHIBIT B: Compass Group Plc.

An Introduction to Compass Group Plc.

Compass Group PLC provides catering and support services to offices, factories, hospitals, care homes, schools and universities, sports venues, military facilities, offshore platforms and other remote locations. Some of its key facts are:

- They employ more than 470,000 people in around 50 countries
- They serve around 4 billion meals a year
- They work in around 40,000 client locations
- 90 of Fortune 100 companies are their clients

Source: Company Website (www.compass-group.co.uk)

Table 7: Key Figures – Compass Group

Op. Revenue (Turnover)	15.8 (Bn. £)
P/L for Period (Net Income)	774 (Mn.£)
Total Assets	9.4 (Bn. £)
No of Employees	471,108
Market cap. (15/08/2012)	13.3 (Bn. £)
No of recorded subsidiaries	697

Source: Fame - company report of Compass Group PLC

An Introduction to the Global Food Industry

The global food and beverage (F&B) sector, which comprises farming, food production, distribution, retail and catering, were valued at $5.7 trillion USD in 2008. This industry has witnessed consistent growth historically and is one of the major contributors to economic growth. The industry is expected to increase at a CAGR of 3.5 % to $7 trillion USD by 2014. The industry is highly fragmented and the top players such as—Nestlé, Kraft Foods, Unilever and Cargill and Compass Group—account for less than 5 % of the overall value.

Europe accounts for the largest share in the global F&B industry, generating revenues of $1.4 trillion USD in 2007 and employing 4 million workers, followed by the US, which contributed $1 trillion USD. However emerging markets such as china and India are majorly contributing to the development of this industry by providing raw materials. India's F&B market was valued at $182 billion in 2007-08 while the food-processing sector alone was worth $72 billion in 2008 followed by China's food processing sector, which increased by 13.6 % from $44 billion in 2007 to $50 billion USD in 2008.

The economic downturn had an impact on the overall food and beverage industry. The biggest issues for this sector today are raising transportation cost due to an increase in the oil prices followed by a reduction in consumer spending. However this industry has been fairly unaffected as compared to other industries such as banking and financial services that have been severely hit by the economic downturn. This is mainly attributed to the fact that food products continue to be essential to consumers in spite of the slowdown.

Vertical Integration in the Food Industry – A modern paradigm

The organization structure within the agricultural sector has undergone massive change in the last few decades. For instance, poultry production has been completely industrialized while vertical integration and production marketing contracts have become prominent in other agricultural sectors. Barkema, Drabenstott and Welsh have observed an increase in the vertical coordination trends for various products between 1960 and 1990. For instance, fed cattle under this arrangement, produced in 1960 was only 16.7% as compared to 22.5% in 1990. Similarly, hogs produced under such an arrangement in 1960s were only 0.8% and by 1990 it was 14.5%. Drabenstott reports similar vertical coordination trends over this period for fresh vegetables, from 45% in 1960 to 65% in 1990 and processed vegetables from 75% to 95% respectively.

Barkema argues that there are two main reasons for this phenomenon – The modern consumer is demanding more and more processed food due to increase in stress and limited time to eat food. Therefor the demand to move food out of the kitchen to a more centralized location is increasing. Similarly the demand for more specialized food such low-caloric and ethnic foods is increasing (Kinsey, Mercier and Hyberg, p.38). However, technological advancements have allowed the food industry to deliver processed food to the consumer in the modern times requiring a qualitatively homogeneous supply of raw materials (Barkema, Drabenstott and Welsh)

Streeter, Sonka and Hudson also address the interaction between increasingly fragmented demands and information flow. They argue that the traditional approach of Marketing has the retailer expending resources to manipulate customers taste and preferences (Packard). They contrast this with a perspective more in sync with the information driven modern markets (Rapp and Coullins). In the modern paradigm, information structures are used to discover product characteristics and consumer demands. To illustrate the relevance of the more modern paradigm, Streeter, Sonka and Hudson cite the examples of companies like Pioneer Hybrid and Frito-Lay based on the contractual agreement they require from their suppliers emphasizing the importance of information sharing along the marketing channel thereby increasing the scope of vertical integration.

Compass Group's Strategy: Leading to competitive advantage

Their objective is to deliver value to their shareholders and customers by leveraging the benefits of being a Group to deliver structured and sustainable organic growth and achieve our vision to be a world-class provider of food and support services. To achieve these goals the strategy focuses on:

- Developing existing expertise and strengths in contract foodservice and a range of support services in those sectors and countries that have real prospects for growth, as well as providing the global capability necessary to support our growing international client base.
- Delivering the highest quality and service performance, whilst at the same time relentlessly driving to be the lowest cost, most efficient provider.
- Establishing a strong performance culture, based on a global performance framework, MAP (short for Management and Performance), which concentrates on the five key drivers of our performance:
    - Client Sales & Marketing
    - Consumer Sales & Marketing

    - Cost of Food
    - Unit Costs
    - Above Unit Costs
- Setting the highest standards for corporate governance and responsible business practice, including all aspects of business conduct, health, safety and environmental practices.

Source: Company Website (www.compass-group.co.uk)

MAP is the Group-wide framework they use for managing their business. MAP is fundamental to driving consistent performance across the Group and the discipline it brings to the way they run the business. MAP continues to be embedded deeper in the organization, not only providing them with the intensity of focus that is driving their performance, but also a common language and agenda, enabling everyone to think, act and behave as 'one Compass'.

MAP focuses on the key drivers of their performance:

- **Client Sales & Marketing**. Growing their markets and their new and existing client relationships.
- **Consumer Sales & Marketing**. Earning ongoing consumer loyalty to grow volume, participation and spend.
- **Cost of Food**. The optimal quality and range for our customers delivered at the lowest cost with the most efficient in-unit production.
- **Unit Costs**. Delivering the right service in the most efficient and cost-effective way.
- **Above Unit Costs**. Creating the simplest organizational model with the fewest layers and reduced bureaucracy.

Source: Company Website (www.compass-group.co.uk)

Competitive Position of Compass Group

Compass Group provides the widest portfolio of foodservice solutions along with a variety of support services in the world. They offer a range of their own developed food offers as well as a range of high street brands such as Costa Coffee. They claim that their talented executive chefs can create a range of bespoke solutions or the customer can choose from their Core Concepts food programme, offering the customer a range of our own concepts. This programme differs from those of their competitors in that it has been carefully developed to meet customer's needs. They conducted surveys over 30,000 customers every year to understand how as a company they could deliver the best solutions to fit the latest culinary trends in the industry. The company's Innovation Centre provides a real life experience of the latest brands and concepts available to help them identify the right solutions for the customer. Using innovative products, systems and technology, the company ensures that customer receives the very best food offers as well as other support services in the market.

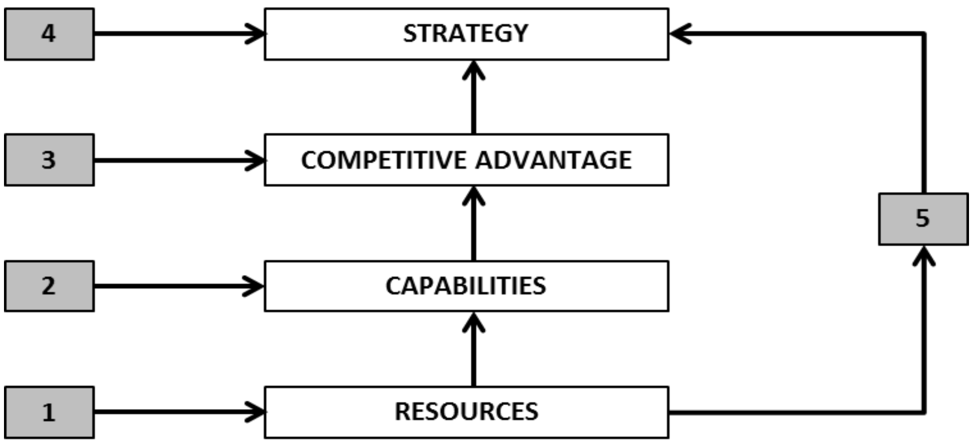
Source: Company Website (www.compass-group.co.uk)

Analysis

Analysis 1: Resource Based View

As mentioned earlier, there are two fundamental reasons for making the resources and capabilities of the firm the foundation of its strategy. First, the internal resources and capabilities provide the basic direction for the firm's strategy and, second, resources and capabilities are the primary source of the firm's profit.

Figure 15: A resource-based view of strategic analysis – Compass Group



Source: R.M Grant, 1991

Compass Group's resources can be divided into four broad categories – Financial Capital, Physical Capital, Human Capital and Organizational Capital.

Table 8: Compass Group Resources

CATEGORY	DESCRIPTION
Financial Capital	Market capitalization = 13.3 Bn. £ ; Revenue = 15.8 Bn. £ ; Net Income = 774 Mn. £ ; Cash and near cash items = 1.1 Bn. £ ; Total Assets = 9.6 Bn. £
Physical Capital (Technology, plant, equipment, location, access to raw material)	675 Mn. £ Fixed assets ; 95% of the RM being sourced from UK,
Human Capital (Training, expertise, judgment, intelligence, relationships and insights of managers and workers)	471,108 employees (5000 chefs) – rigorous evaluation and selection procedure; high training levels through e-learning, higher skills than competitors; Application of Management & Performance (MAP) framework.
Organizational Capital (Brand Value, Organizational structure, planning, controlling and coordinating systems, informal relations among groups within the firm and with outside groups)	Brand value = 13.3 Bn. £; Number of subsidiaries = 697, Global presence, good corporate image within the local communities.

Source: Fame - company report of Compass Group PLC; Bloomberg, 2012

Applying Barney's (1991) VRIN framework can determine if a resource is a source of sustainable competitive advantage.

Table 9: VIRN Framework – Compass Group

Resources	Valuable	Rarity	Imitability	Non Substitutable	Competitive Implication	Perform-ance
Physical Capital	Yes (+)	No (-)	Yes (-)	No (-)	Yes (+)	Good (+)
Financial Capital	Yes (+)	No (-)	No (+)	Yes (+)	Yes (+)	Yes (+)
Human Capital	Yes (+)	Yes (+)	No (+)	Yes (+)	Yes (+)	Good (+)
Organizational Capital	Yes (+)	Yes (+)	No (+)	Yes (+)	Yes (+)	Good (+)

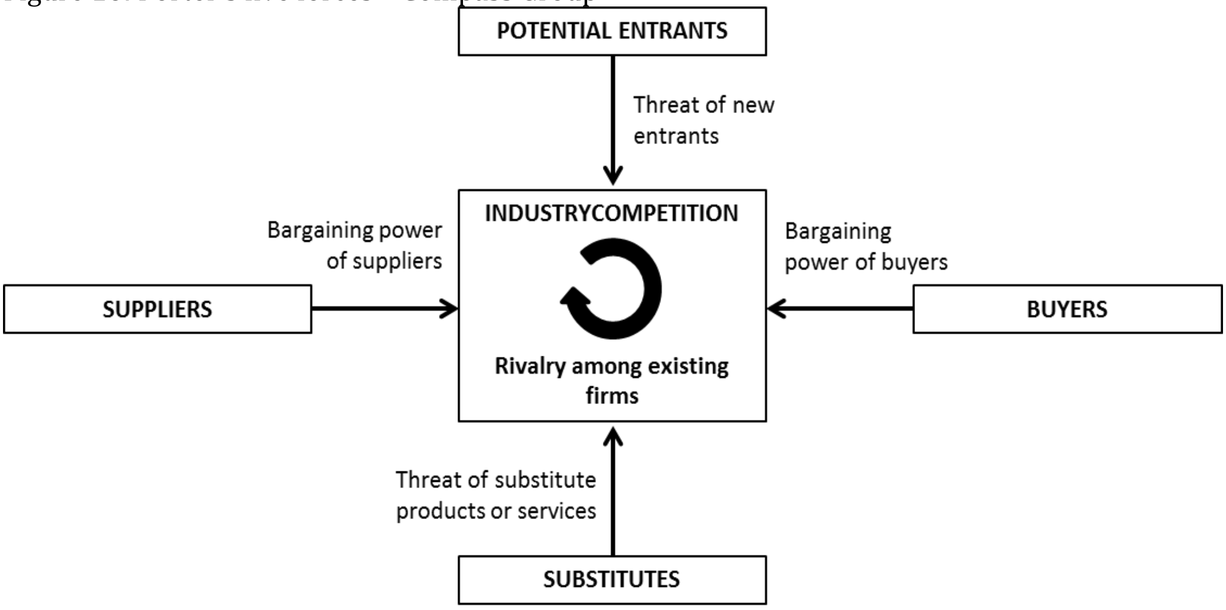
Table 10: Sources of sustainable competitive advantage and strategy formulation

Resources	**Capabilities**	**Core competence**	**Strategy**	**Justification**
Physical Capital	Lower logistics costs	Cost effectiveness	Cost leadership	Compass Group sources 95% of its raw materials from UK allowing it to lower logistics cost. The location of its..
Financial Capital	Differentiation and diversification (facilities management), exploration of emerging market	Economies of scale and economies of scope	Differentiation, Diversification and Internationalization	Financial capital allows it to diversify and invest in new service lines, or to invest in a new market (emerging markets) thereby enabling it to achieve economies

				of scale and economies of scope.
Human Capital	Product and Service differentiation, quality and efficiency	Human resource efficiency	Keeping employees under direct payroll rather than outsourcing	High training levels of chefs and management, allowing maintenance of quality and efficiency. MAP framework to improve performance.
Organizational Capital	Secure major contracts	Brand value	Differentiation, Diversification and Internationalization	The brand value of the organization allows the company to mobilize major contracts in different parts of the world. It also allows the company to think on lines of diversification

Analysis 2: Porter's Five Forces

Figure 16: Porter's five forces – Compass Group



Applying the porter's five on Compass Group the following results are obtained:

Table 11: Porter's Five Forces (summary) – Compass Group

Category	Risk	Result	Justification
Potential Entrants	Threat of new entrants	High (-)	Small business within the catering industry can emerge.
Substitutes	Threat of substitute products or services	High (-)	Catering services for B2B have competition form cafe's, fast food joints, restaurants, hotels etc.
Buyers	Bargaining power of buyers	High (-)	Demand is driven by corporate profits and consumer incomes
Suppliers	Bargaining power of suppliers	Low (+)	Many suppliers in the UK for fish, milk, meat, vegetables, fruits, etc.
Industry Competition	Rivalry among existing firms	High (-)	Catering services market is relatively fragmented

The threat of potential entrants is high as the market for catering services is still fragmented. The catering industry does not require huge amount of capital injection. Even though there are bigger players like Compass yet the differentiation and the low cost competition adapted by the smaller players can lead to potential threats to new entrants, This makes the threat of entrant within this industry high and the success depends upon differentiation in services offered as well as keeping the prices at competitive levels.

The threat of substitute products or services is high as there are many options available to the customers – from restaurants to fast food cafes, hotels, in-house canteens and cafes homemade food. Therefore Compass group will always face a threat from its substitutes. Again the in order to sustain the competition the company must come up with a differentiation strategy that will increase customer value.

The bargaining power of buyers is high as the demand is driven by corporate profits and customer incomes. Therefore there is a price war and only the companies that enjoy economies of scale like Compass have a greater chance to sustain competition. The bargaining power of the buyers depends on the type of Industry the buyer operates in. For example if the catering services are being offered to 'business and industry' the power of the buyers is high as there are many options available. Similarly if the buyer is a large hospital, the options available to the hospital in terms of 'healthy' food sourcing are comparatively limited thus making the bargaining power relatively lower. For compass since most of the business is generated from 'business and industry, the threat of higher bargaining power of the buyers exists for the business.

The bargaining power of the suppliers is low. The size and the scale of Compass' operations allow the suppliers to maximize their revenue and thus have a sustainable growth. Besides Compass group has a wide options to source materials (meat, eggs, milk, vegetables, fruits, fish, bread etc.) within the UK and also from the overseas suppliers. The following table shows the bargaining power of each supplier according to the product.

Table 12: Product wise analysis of bargaining power

Product	Number of suppliers	Bargaining Power
Meat	Several[1]	Low
Bread	60	Low
Egg	1	High
Milk	82	Low
Fish	Several	Low
Vegetables	Several	Low
Fruits	Several	Low

Source: Company Website (www.compass-group.co.uk)

As per the available data, conclusion can be drawn by saying that the bargaining power of the egg supplier (Oakland Farms – supplies 39 million annually) will be higher than the suppliers for other products since he enjoys the advantage of scale over the other suppliers. Compass groups sourcing strategy focuses on sourcing only from UK farms and thus promoting the welfare of its suppliers and enjoying a higher bargaining power over them.

The degree of competition for compass group is subject to the industry it competes in. There are several industries that Compass Group Competes in. Their competition within the industries can be explained with the help of the table below:

Table 13: Industry wise competition analysis

Industry	Degree of Competition	Justification
Catering Services	High (-)	Fragmented market – Pricing and differentiation strategies are of high importance
Security Services	Low (-)	Few players in the market
Bars and Night clubs	High (-)	Many players and competition on price and quality

[1] The Exact number of suppliers in this category is not mentioned.

Security System services	Low (+)	Hi-tech industry, capital requirements, few players in the market
Restaurant bars and Food services	High (-)	Many players and competition on price and quality
Facilities management	High (-)	Fragmented market and competition on price and quality of services

Source: IMAP report, 2010

The above analysis suggests that the industry Compass Group operates in is a highly competitive industry mainly because of existence of a number of small firms providing similar services. In an industry like this the pricing and the differentiation strategy and the quality of services provided plays a crucial role. This makes the overall industry extremely competitive. However for a company like Compass can easily sustain the competition due to its economies of scale and its brand image.

By applying Porter's Generic strategy we can conclude that Compass is a neither a complete cost leader nor a complete differentiator. It is adapting to a mix of both these strategies to gain a sustainable competitive advantage. It is also using this combination to diversify and internationalize into emerging markets to spread out it geographic mix to gain economies of scale and scope.

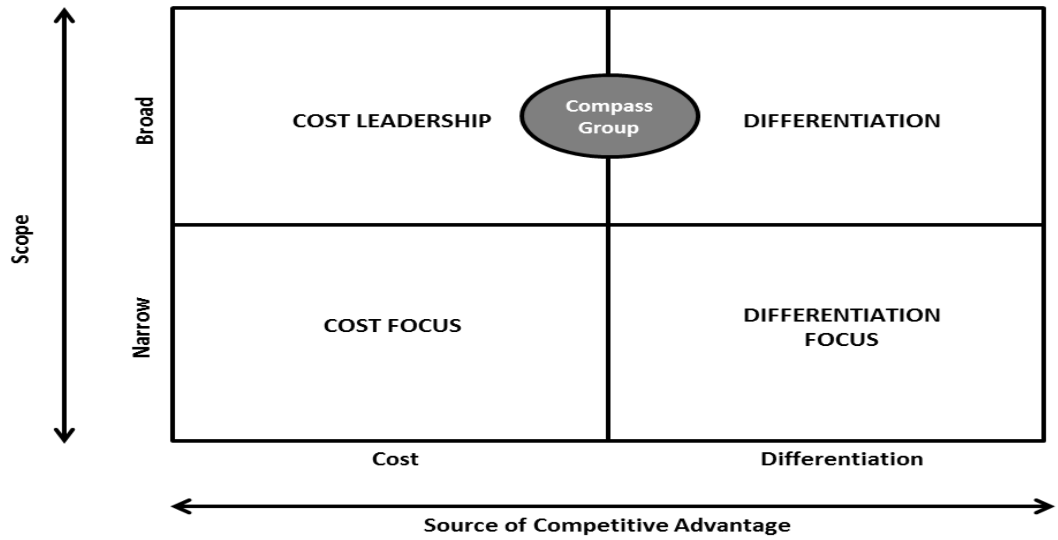
Analysis 3: SWOT

Table 14: SWOT - Compass Group

STRENGTHS	WEAKNESSES
1. Large scale operations provide competitive edge to Compass 2. Robust revenue growth from North America-Compass' largest market 3. High revenues as compared to competitors 4. Management and Performance (MAP) framework has reduced costs	1. Unfunded employee post retirement benefits
OPPORTUNITIES	**THREATS**
1. Strategic acquisitions likely to drive growth Strong growth opportunity in health care sector 2. An expanding food service industry to provide market penetration opportunities 3. Vegetarianization strategy within the food industry 4. Manufacturers of meat-free products are largely based in Western Europe and North America, not in emerging markets. Hence an opportunity to enter emerging markets 5. Vertical Integration	1. Group exposed to currency risk fluctuations 2. High labour costs could increase the operational costs

Analysis 4: Porter's Generic Strategy

Figure 17: Porter's Generic Strategy - Compass group



Analysis 5: Make or Buy

Table 15: Make (M) Vs. Buy (B) - Compass Group

ECONOMIC PARAMETERS	Meat		Bread		Eggs		Milk		Fish		Veg.		Fruits		Chefs	
	M	B	M	B	M	B	M	B	M	B	M	B	M	B	M	B
Economies of Scale	+	-	+	-	+	-	+	-	+	-	+	-	+	-	+	-
Number of Firms	-	+	-	+	-	+	-	+	-	+	-	+	-	+	+	-
Asset Specificity	-	+	-	+	-	+	-	+	-	+	-	+	-	+	+	-
Firm-specific Knowledge	-	+	-	+	-	+	-	+	-	+	-	+	-	+	+	-
Uncertainty	-	+	-	+	-	+	-	+	-	+	-	+	-	+	-	+
Scope for Opportunism	-	+	-	+	-	+	-	+	-	+	-	+	-	+	+	-
Monitoring Costs	+	-	+	-	+	-	+	-	+	-	+	-	+	-	-	+
Complexity of Production	+	-	+	-	+	-	+	-	+	-	+	-	+	-	+	-
TOTAL	**3**	**5**	**3**	**5**	**3**	**5**	**3**	**5**	**3**	**5**	**3**	**5**	**3**	**5**	**6**	**2**

Table 16: Make vs. Buy Summary – Compass Group

Category	In-house (score)	Outsource (score)	Justification
Raw Material	21	35	Firm specific knowledge and number of firms available in the market.
Labor (Chefs)	6	2	Asset Specificity and Economies of scale

DISCUSSIONS & FINDINGS

Summary- TUI travels

Table 17: Summary of Key findings – TUI Travels

Framework	Findings
Resource Based View	Core capabilities arise from its various resources, training levels of employees and top management experience and commitment, allowing maintenance of profitability and competitiveness. The company is an established one and has managed to sustain themselves through a tough period by utilizing their resources suitably and developing strategies in keeping with the need of the hour.
Porter's Five Forces	The travel industry is moderately competitive and highly susceptible to macroeconomic changes. Latest trends in distribution and volatile economy have led to changes in the industry operations. However incumbent players have an advantage in terms of being established and enjoy economies of scale. The role of the customers has also evolved due to the increased penetration of internet and social media.
SWOT	TUI has utilized its strengths to remain an established player in the market and sustained its leading position. They are working on opportunities available to them like emerging markets and online sales channels. However some threats do exist which are more to do with government policy. This has led to TUI expanding their source markets and not being dependent on the mature European market alone.
Porter's Generic	Though TUI's dominant strategy is that of differentiated products, they do work towards achieving cost efficiencies as well. They have divided their customers as price driven and product driven. Product driven customers look for experiential holidays and prefer unique product offerings. On the other hand price driven customers are served by offering value for money. This mixed strategy seems to be working well for TUI as they are able to cater to customer needs efficiently.
Make or	TUI has a vast range of tourism products, which works in their favour.

Buy	Besides giving them control over their value chain, it allows them to respond to customer needs and requirements well. It also gives them a competitive advantage and creates a formidable entry barrier for new entrants.

Summary- Compass Group

Table 18: Summary of Key findings - Compass Group

Framework	**Findings**
Resource Based View	Core capabilities arise from its resources, training levels of chefs and management, allowing maintenance of quality and efficiency. This allows the company to differentiate its products from the market giving them an edge over their competitors.
Porter's Five Forces	The bargaining power of the suppliers being lower therefore raw materials can be outsourced and as a result it can lead to lowering transaction costs which allows the company to maintain a competitive edge over its competitors.
SWOT	Large-scale operation allows Compass to source materials at a lower cost from the market. The 'Management and Performance (MAP)' framework allows compass to improve performance of its employees and thereby reduce transaction costs and thereby by enjoying a competitive edge.
Porter's Generic	Compass is neither following a complete cost leadership strategy nor a complete differentiation strategy. They adapt to a mix of both the strategies and as a result they enjoy competitive advantage.
Make vs. Buy	The Make or Buy analysis shows that Compass Group Plc. has adopted an optimum strategy by outsourcing the raw materials such as meat, bread, eggs, milk, fish, vegetables and fruits. On the other hand its decision to employ 5000 chefs is also the right decision instead of depending on the market as that would increase transaction costs and impact the profit margins of the company. As a result of lower transaction costs it enjoys a competitive edge.

CONCLUSION

In our research we explained why differentiation is a necessary, but not sufficient condition to earning superior profits. Literature suggests that a company should either follow a ‘cost leadership’ or ‘differentiation’ strategy. However using the examples of TUI and Compass we can conclude that sometimes in order to provide customer and enjoy competitive advantage, certain companies might benefit by adopting a mixed strategy.

“Differentiation is when a firm/brand outperforms rival brands in the provision of a feature(s) such that it faces reduced sensitivity for other features (or one feature), though not having to provide these other features the firm has an avenue to save costs. The firm benefits from the reduced sensitivity in terms of reduced directness of competition, allowing it to capture a greater degree of exchange value”. (Sharp and Dawes, 2001).

Thus differentiation and cost leadership are two important factors to improve the bottom line of a company but may not be sufficient if adopted in isolation. We have also further explored the concept of vertical integration and how a firm’s decision to produce in house or outsource may impact its performance. The concept of ‘transaction cost’ economics is more than just a new set of terms for describing the multinational enterprise.

The recognition of Compass group’s core competence can be basis of its decision to provide a product or a service itself or outsource it. Its focus on its competencies that is providing low cost and differentiated ‘catering and support services’ has allowed it to earn higher profits within the industry even though the rivalry is intense. Further its brand value allows it to secure major contracts and allow the company to think on lines of internationalization and diversification. As a result, the company enjoys a higher net margin of 6.4% as compared to the industry average of 5.3% (Fame - company report of Compass Group PLC). The aim of the company is to focus on its core competencies as the basis of achieving a sustainable competitive advantage, and as a result it has outsourced all the other activities such as having its own farms for bringing raw material because it does not fall under its core competencies. The decision is made intrinsically with the understanding of the activities contained within the firm's value chain and as a result, it enjoys a higher profit margin as compared to even some of the other companies similar in size from different industries.

TUI has managed to maintain its competitive position globally as well as continued to be a market leader in Europe. They have clearly attributed their success to their differentiation strategy which has remained their main focus. But they have not lost their vision of even catering to their price conscious customers by achieving economies of scale and maintaining cost efficiencies. Vertical integration has also been efficiently worked into their strategy as they own a varied portfolio of brands covering many tourist products. We saw that this company has adapted themselves and modified their business model in keeping with macroeconomic changes. All their efforts have led to their overall success in the market.

APPENDICES

This section of the dissertation contains work done with the client as a part of the management project scheme over a period of 3 months. The brief of the project is as under:

Client: **TATA Consultancy Services**

Timeframe: **mid-June to mid-September 2012**

Project Title

A detailed analysis of market & business strategies of key market players of travel, transportation & hospitality (TTH) companies in UK.

Project Details

To investigate in depth the travel, transportation & hospitality industry together with detail market and business strategy analysis of 5 market players from this industry.

The internship will be basically based on following parameters:

1. Empirically grounded research
2. Market and Customer Understanding
3. Business Acumen

Elements of the project could include:

- Strategic PESTLE analysis of TTH industry
- Management Analysis e.g. SWOT Analysis, Porter's 5 Force Analysis etc. of target organisations
- Organization structure and other organisation details (Relationship Matrix)
- Financial analysis, forecasting, Key Performance Indicators etc.

- Target organisations people skill set including details of key individuals
- Detailed business strategy of the target organisations together with their business strategy for India, current interest exposure etc.
- Competitive landscape analysis among the target companies and other important related market players
- Each target companies business problem or pain areas. A detailed view on what the company is looking at for solutions to their business problems.
- Exposure of target companies to Tata especially TCS, are they doing business with Tata Industrial Services Limited (TISL), Tata Steel? Detail of the exposure in terms of what is it, contacts etc.
- Details of any major change programmes, what their targets are, and how they thing they are going to achieve it.

Client Information

With over 4800 professionals working across 65 client sites, TCS offers business solutions to over 170 commercial and public organizations in UK and Ireland. Another 8600 TCS associate's work from other offshore locations for UK customers like British Airways, BT, National Grid, Somerfield and United Utilities. Apart from a network of offices, TCS has also set up an innovation lab in Peterborough in 2007, which focuses on developing solutions that bring real benefits to UK and Ireland customers.

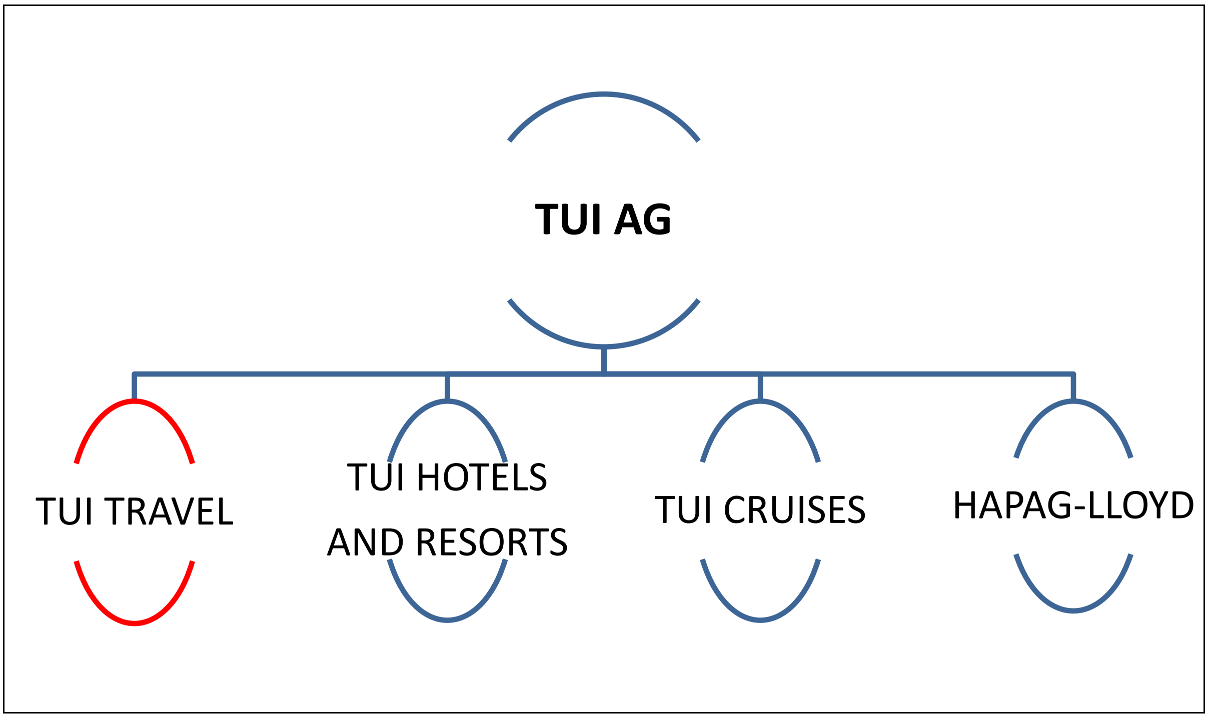
URL: www.tcs.com

OUTPUT:

- Detailed project report and presentation (format as agreed after discussion)
- Recommendation of business value proposition for each target organization and industry

APPENDIX A: TUI TRAVELS PLC.

Company Structure



TUI Travel PLC (TUI) is one of the world's leading leisure travel companies, with over 200 brands in 180 countries and more than 30 million customers. It offers diverse travel experiences through its portfolio of individual and market leading brands, employs approximately 53,000 people and operates in 31 key source markets worldwide.

Registered Office

TUI Travel House

Crawley Business Quarter

Fleming Way

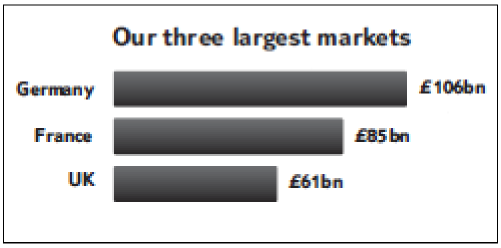
Crawley

West Sussex RH10 9QL

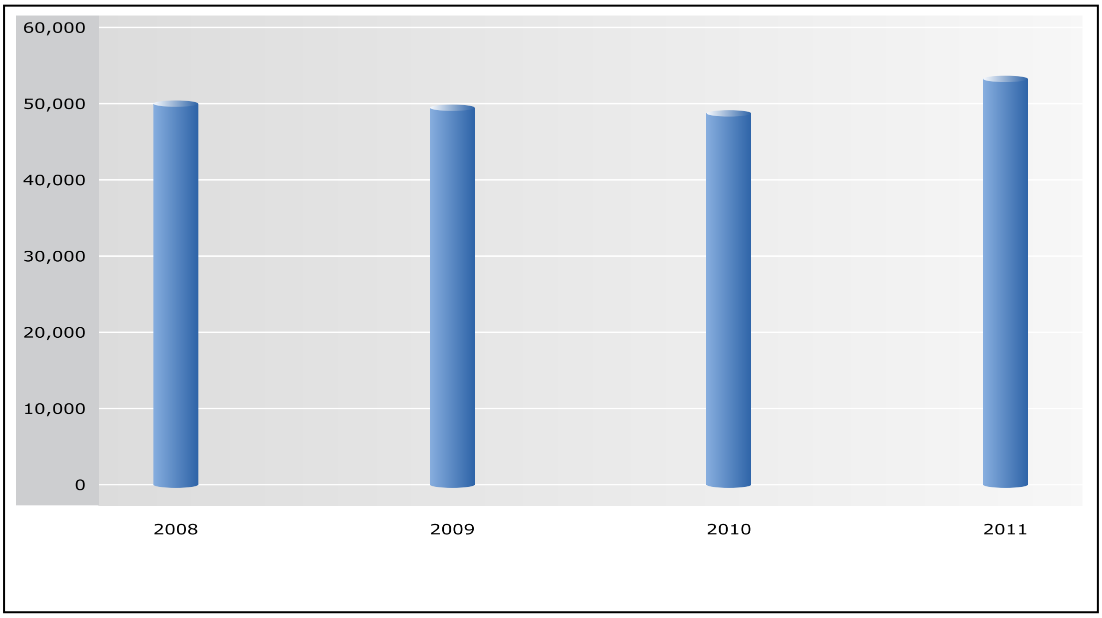
Date of Incorporation - 29/01/07

Ultimate Holding Company - TUI AG (HQ in Hanover, Germany) **Previous Name and Date of Change** – Coppereagle Plc (21/06/07) **Principal Activities** - A group engaged in the provision of a broad range of leisure travel experiences

Customer Numbers



Number of Employees



TUI Travel

In 2011 TUI Travel was divided into four sectors for operational ease. The sectors are as follows –

Mainstream– this is the largest sector in scale, scope, financial performance and number of employees. It is further divided into three operational divisions:

- **Northern region** – responsible for distribution, tour operating and airline in UK, Ireland, Nordic countries and Canada. The Nordics have the number one or two brands in all its markets.

Top selling brands*
Thomson, First Choice and Fritidsresor

Customer numbers
6.9 million (excluding Canada)

Top three destinations*
Spain (including Tenerife and the Balearics), Greece and Turkey

- **Central Europe** – comprises business in the source markets of Germany, Austria, Czech Republic, Slovenia and Switzerland. Germany is the largest market and TUI is the leading brand here and in Austria.

Top selling brands*
TUI, I'tur and 1-2-FLY

Customer numbers
7.3 million

Top three destinations*
Germany, Spain and USA

- **Western Europe** – consists of tour operators and airline business in Belgium, Netherlands and France; and a further two operators in Spain and Italy. TUI has the leading position in Belgium, France and Netherlands.

Top selling brands*
Marmara, Jetair, Arke, Holland International, Nouvelles Frontières and Sunjets

Customer numbers
6.1 million

Top three destinations*
Spain, Turkey and Morocco

Accommodations and Destinations– these businesses provide hotels, transfers, tours and excursions, meetings and events and cruise handling services to operators, agents, customers and corporate clients worldwide. Its four business lines are – accommodation online travel agents, destination services, cruise handling and accommodation wholesale.

Top selling brands*
Hotelbeds, LateRooms, Bedsonline, AsiaRooms, Intercruises and TUI España

Customer numbers/roomnights
12 million passengers (wholesale accommodation and destination services brands)

21.4 million roomnights (accommodation brands)

Top three destinations*
Spain, UK and USA

Specialist and Activity - the ethos of this sector is 'if you can dream it, we can take you there'. It comprises over a 100 global travel businesses to fulfil the travel needs of customers with a range of interests and passions. Its six divisions are – adventure, education, marine, North America specialist, sport and specialist holiday group.

Top selling brands*
Crystal, Hayes & Jarvis, The Moorings, Educational Tours Inc, USA, Brightspark and Le Boat

Customer numbers
1.5 million

Top three destinations*
USA, France and Italy

Emerging Markets– this portfolio focuses on the source markets of Brazil, Russia, China and India. A tour operator exists in Russia and CIS and TUI is currently exploring their strategy for Brazil, China and India.

Top selling brands*
TUI Russia & CIS
Customer numbers
0.5 million
Top three destinations*
Egypt, Turkey and Spain

Revised Business Model

TUI has recently revised its business model to be able to respond to the evolving trends in the industry.

Global Market Trends– TUI has identified the following as crucial market trends to look out for:

g) Customers seek value
h) 'Go online', search, compare, book and share
i) Individualisation
j) New business model online travel agencies, search engines, low cost carriers
k) Increased demand for experiential holidays
l) Demand from emerging markets

Customers– TUI customers are divided as product driven or price driven.

Product – product offerings vary depending upon the customer category; whilst product driven customers look for differentiated and exclusive products, price driven customers are more likely to book online commodity packages.

Key Success Factors

a) Unique and innovative concepts and products
b) Supplier relationships
c) Cost relevant

d) Commitment and yield management

e) Product knowledge

f) High volume

g) Competitive pricing

h) Range and diversity of hotel stock

i) Lowest cost

Brands Operated in UK Market

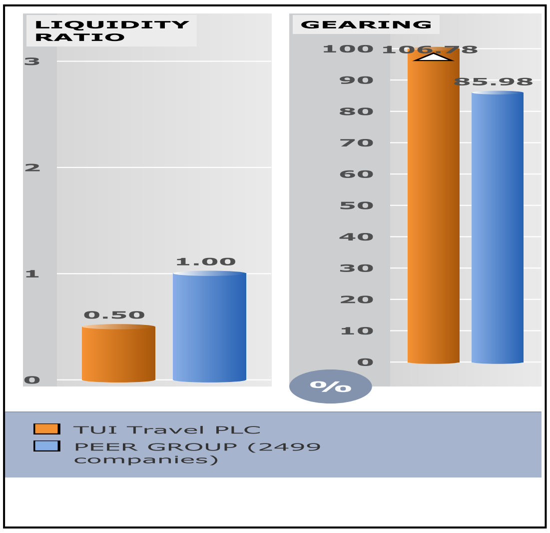
- 2wentys
- Adventure Quest
- Aeolos Travel
- Aitken Spence Travels
- Austravel
- Bedsonline
- Bookitalyonline.com
- Bookmalta.com
- Citalia
- Class Adventure
- Crystal Holidays
- Crystal Ski
- Crystal Summer
- Dakshin Routes
- Danubius Travel
- Destination Services
- EAC
- Edwin Doran Sports Tours
- Emerald Star
- Emirates Live
- Events International
- Exodus
- Fanatics
- First Choice
- Flexible Flights
- Flexi Conferencing & Incentive
- Flexiski
- Footloose Sailing Charters
- Gecko's Adventures
- Grand American Adventures
- Guerba
- Gulliver Premium
- Gullivers Sports Tours
- Gullivers Sports Travel
- Gulliver Travel
- Hayes & Jarvis
- Headwater
- Holiday Travel
- Hotelextras
- Hotelopia
- Hotels-London
- Hotels-Paris
- HTS (Hourmont Total Ski)
- HTS School Tours
- iExplore UK
- ILOVETOUR
- Indian Routes
- Inspired Breaks
- Intercruises Shoreside & Port Services
- International Academy
- International Expeditions
- Intrepid Connections
- Intrepid Suntrek
- Intrepid Urban Adventures
- Island Cruises
- i-to-i TEFL
- i to i Volunteering
- JCA (Junior Choice Adventure)
- Jetsave
- LateRooms.com
- Le Boat
- Le Passage to India Tours & Travels
- Lima Tours
- Lodges & Mountain Hotels
- LPTI (Le Passage to India)
- Luxe India
- Malla Travel & Trek Services
- MasterClass Sports Tours
- Meon Villas
- MicronNexus
- Mintcentive
- Off The Piste

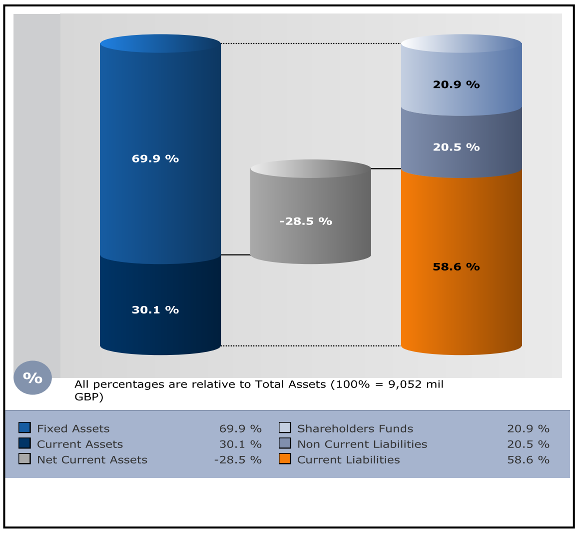
- Off The Piste Holidays
- Oz Experience
- Pacific World
- Pash India
- Peregrine
- Pollman's Tours and Safaris
- PureQuest Adventures
- Quark Expeditions
- Ranger Safaris
- Real Gap
- Simply Travel
- Ski Alpine
- SkiBound
- SkiClass
- Skytours
- Sovereign Luxury Travel
- Sport Abroad
- Sportsworld
- StudentCity
- Student City UK
- SummerTimes
- Sunsail
- TCS & Starquest
- Teamlink Sports Tours
- The Adventure Company
- The Moorings
- Thomson
- Thomson Airways
- Thomson Cruises
- Thomson Lakes & Mountains
- Thomson Ski
- Thomson Tailormade
- Thomson (UK) Sport
- Travelbound
- Travelmood
- Trek America
- TUI Bulgaria
- TUI China
- TUI Dominicana
- TUI España
- TUI Hellas
- TUI Portugal
- TUI Türkiye
- Tunisie Voyages
- Western Xposure
- World Challenge
- Zegrahm Expeditions

Financial Assessment

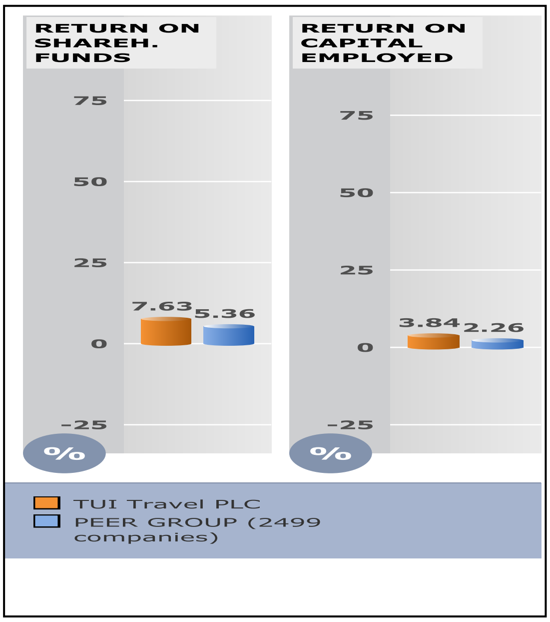
- TUI Travel Plc. (TUI) ended the year with strong results and total revenue of £14.9 billion at the year-end September 2011 up 9% from 2010.
- The performance was directly related to a strong focus on improving differentiated product offerings and boosting online presence in key European markets.
- The financial difficulties of Thomas Cook helped TUI attract more travelers and increase online bookings.
- Struggling with high debts of £338 million in 2010, TUI was able to reduce this to £249 million in 2011. Cost-cutting strategies and improved underlying operating profit which stood at £471 million in 2011 compared to £399 million in 2010 contributed to this result.
- In 2011 TUI reinforced the objective to increase online bookings and expand in Australia through online travel agency (OTA) LateRooms.com and a number of countries in Asia through AsiaRooms.com.

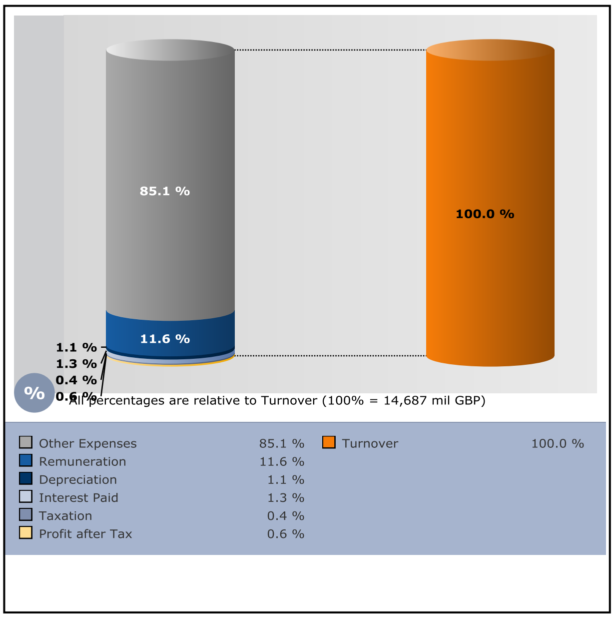
Balance Sheet



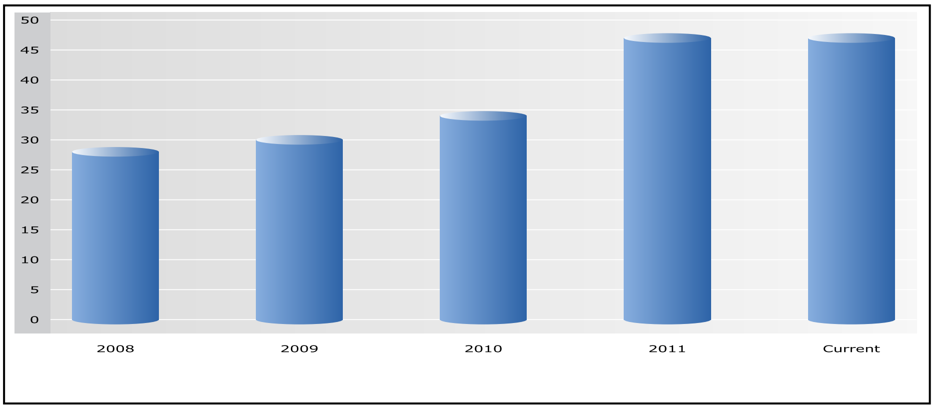


Profit and Loss

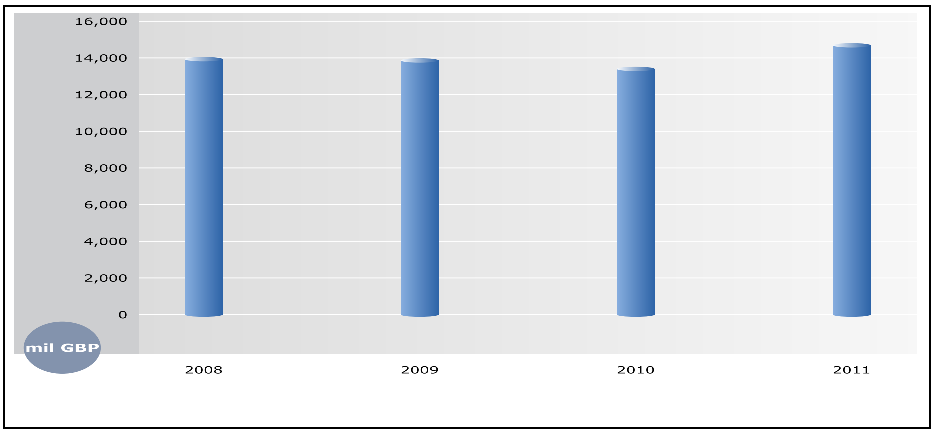




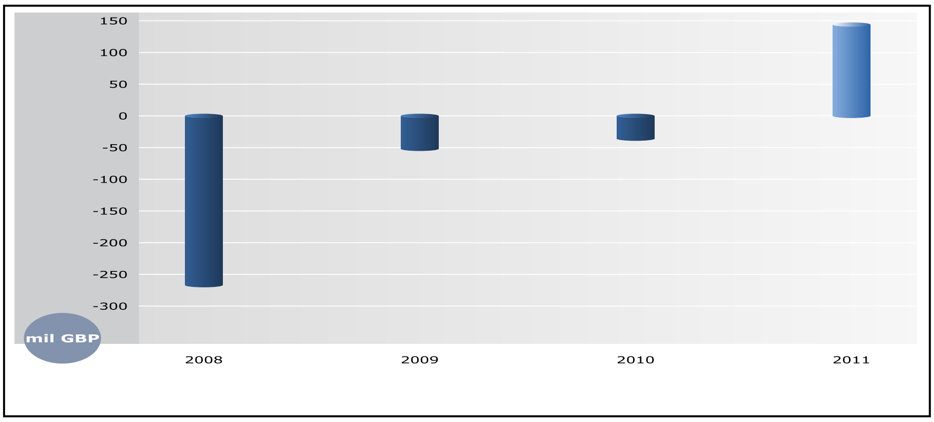
QuiScore



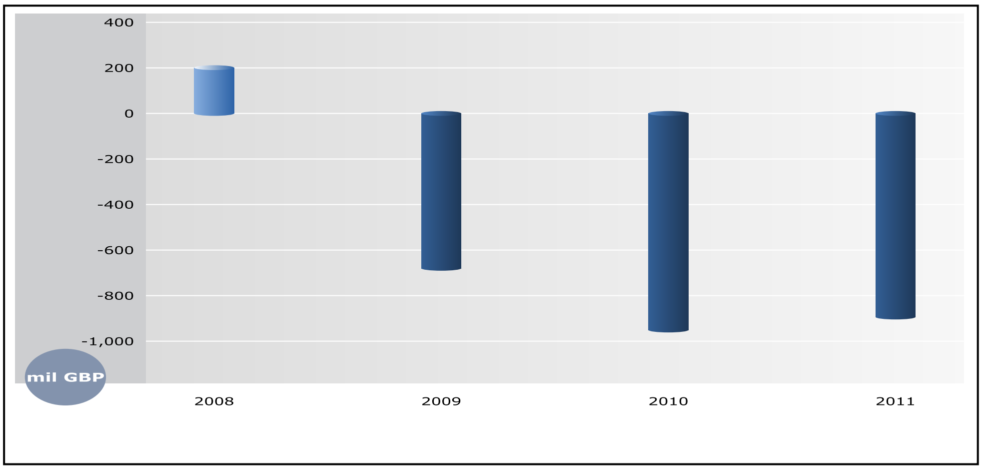
Turnover



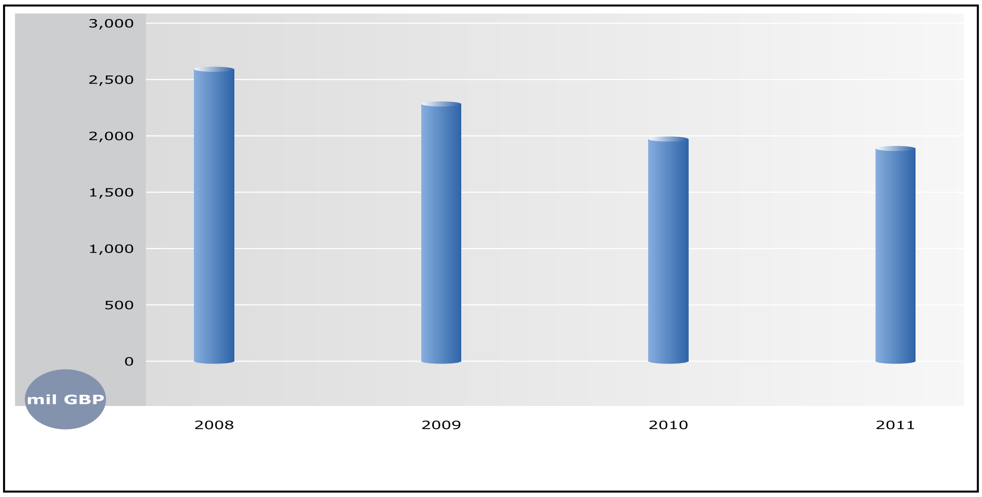
Profit before Tax



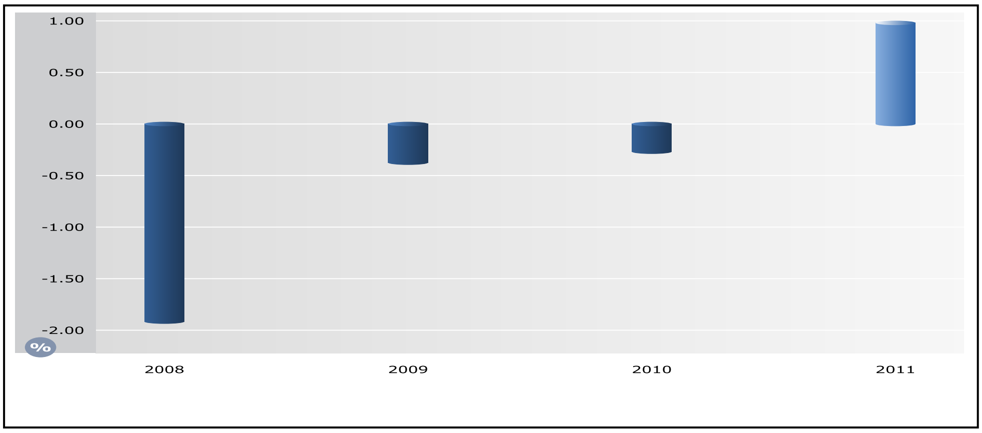
Net Assets



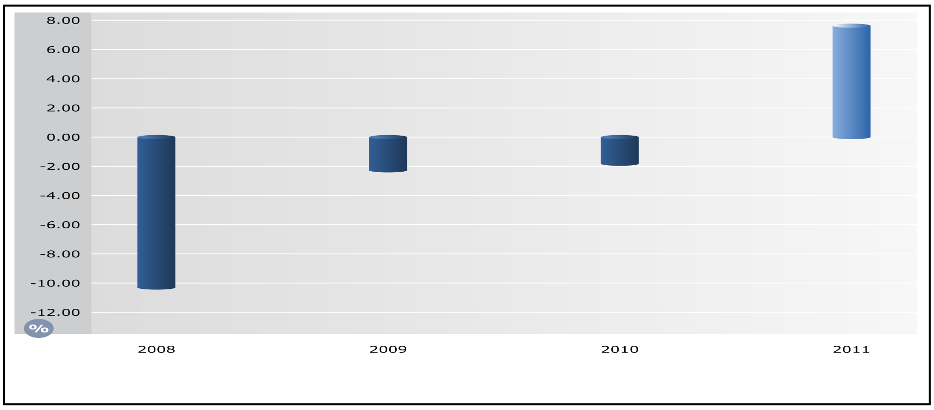
Shareholders' Funds



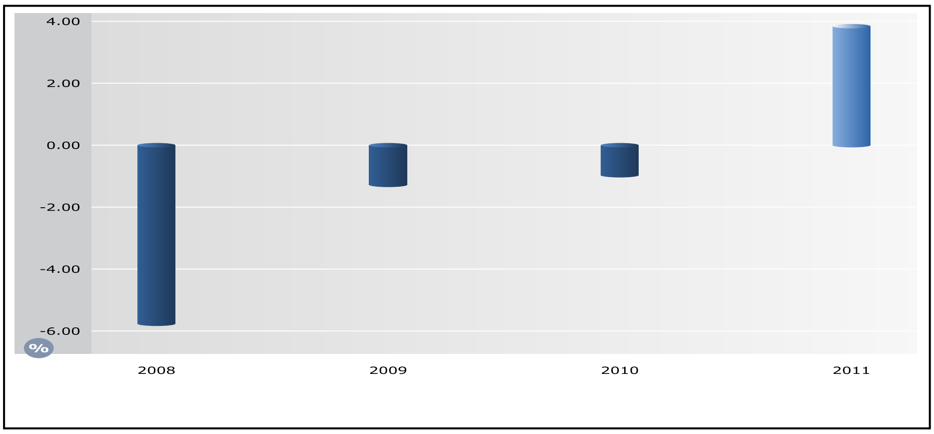
Profit Margin



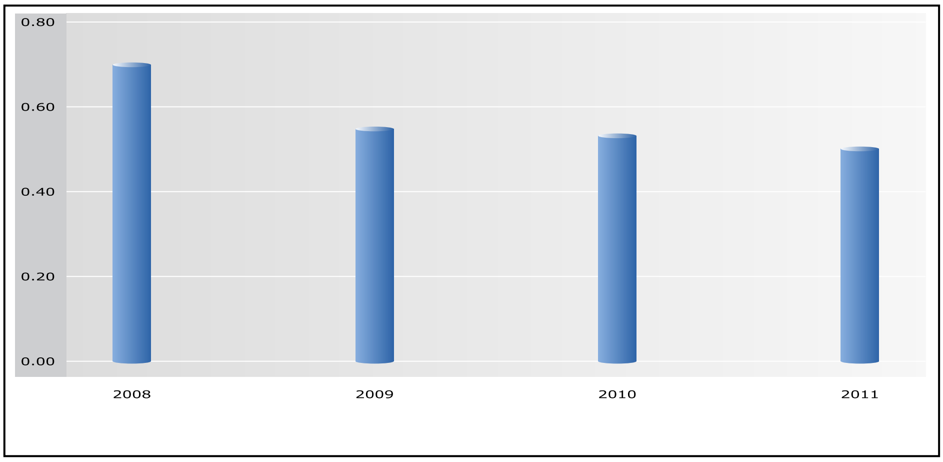
Return on Shareholders' Funds



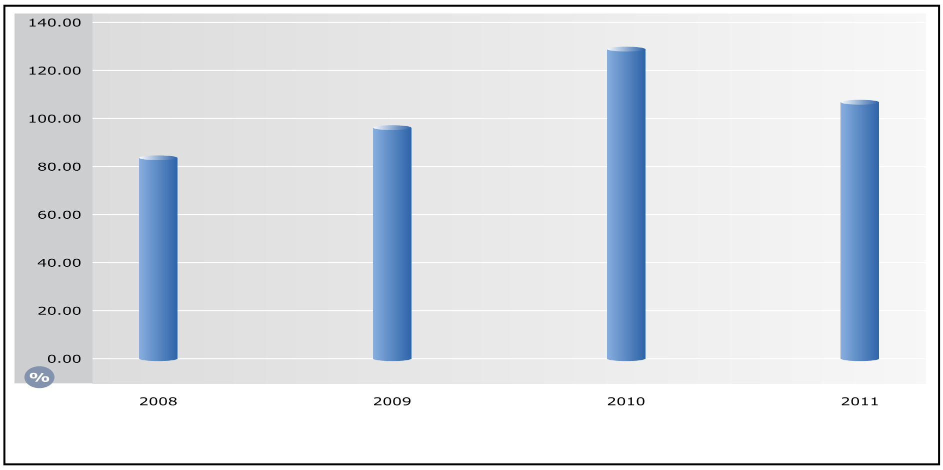
Return on Capital Employed



Liquidity Ratio (x)



Gearing (%)



SWOT ANALYSIS

Strengths

3. **Top European leader** – TUI has maintained its top position in Europe in 2011, with 30mn customers.
4. **Brands** – the diversity of its 200 brands (119 in UK) allows TUI to respond promptly to customer demands and tastes.

Weaknesses

1. **Challenging consumer** – diminished consumer confidence and reduced spending has had a negative impact on TUI's performance.
2. **Online players** – leading online players like Expedia and Booking .com are posing a challenge to TUI.

Opportunities

3. **Emerging markets** – emerging markets like China are the key to the company's growth and therefore they are striving to establish their presence in such markets.
4. **Tap into intra-regional** – TUI will have a first-mover advantage by providing services between Russia and Asia. There is an increased between the two regions due to airlifts and trade.

Threats

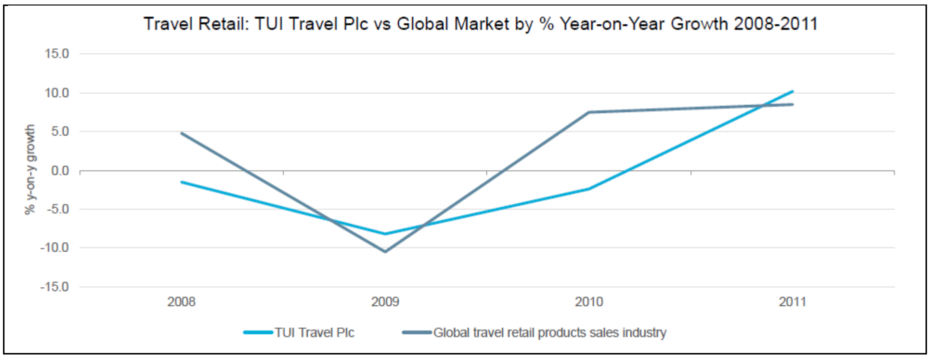
3. **Eurozone** – the volatile situation in various Eurozone countries is threat to TUI as majority of its growth comes from this mature market.
4. **ETS** – besides the air passenger duty taxes, the EU emissions trading scheme will be an additional financial burden on TUI.

Competitive Performance

Global

TUI registered poor performance in 2010 as compared to global players. This was mainly due to the recession in Europe which is the company's core market. 2011 saw a resurgence in positive figures as TUI focussed on differentiated product offerings and strengthened its online presence.

The Arab Spring and floods in Thailand also negatively impacted the company's performance in 2011. TUI reacted by shifting capacities to Mediterranean countries.



Source – Euromonitor

Travel Retail: Top 10 Global Companies by Value 2007-2011

Company	5-year share trend	2006	2007	2008	2009	2010	2011	% share 2011
Carlson Wagonlit Travel Inc	↑	1	1	1	1	1	1	4.2
Expedia Inc	↑	4	5	4	3	2	2	3.8
TUI Travel Plc	↓	-	2	2	2	3	3	**3.2**
American Express Co	↓	2	3	3	4	4	4	3.2
Priceline.com Inc	↑	17	12	10	10	7	5	2.8
Thomas Cook Group Plc	↓	-	4	5	5	5	6	2.6
JTB Corp	↑	6	6	6	6	6	7	1.9
Sabre Corp	→	7	7	7	7	8	8	1.7
Orbitz Worldwide Inc	→	-	8	8	8	9	9	1.5
BCD Holdings NV	↑	9	9	9	9	10	10	1.4

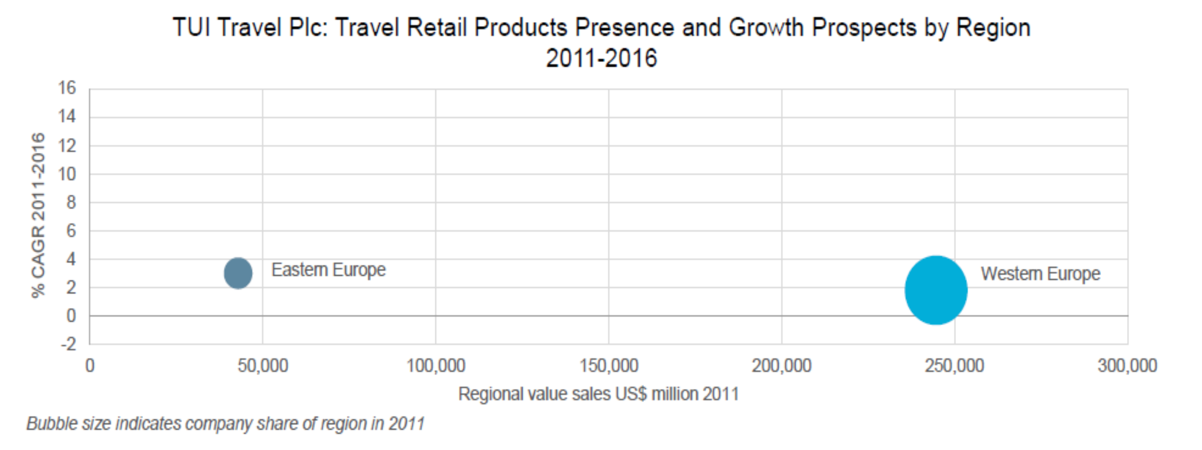
Source – Euromonitor

TUI places third in global travel retail; with a 3% value share in 2011.It dominates the European market as the top retail travel operator.

Firms compete more on price since travellers are more tech savvy and are able to compare prices online. The increased penetration on online bookings and smartphone apps has reinforced the position of players like Expedia and Priceline, in the travel market.

Travel retailers are expected to continue declining in profitability due to increased competition in the market. They are forced to reduce package prices as inflation rates go higher and direct online sales by providers such as airlines and hotels increase.

Regional



Source- Euromonitor

Western Europe accounted for 10% of TUI travel retail sales in 2011. Nordic countries continued to be successful in 2011 due to strong focus on boosting online bookings and sales. TUI Nordic operates in Norway, Denmark, Sweden and Finland and recorded an operating profit of £70 million in 2011.

TUI strengthened its position in Eastern Europe, and specifically emerging markets of Russia and Ukraine, through its joint venture S-Group in 2011. Online sales in travel and tourism are growing rapidly in Russia. Increase in internet usage and the impact of the recession encouraged travellers to look for bargains online, which TUI aims to tap into through its joint venture.

Key Challenges

1. The recent move of players such as Expedia and Travelocity to affiliate with high street operators to cater for customers who want assistance in using online travel services puts additional pressure on TUI.
2. After a positive year in terms of tourism flows in Europe, the outlook for 2012 is negative. This will lead to weak consumer demand which could have a financial impact. The economies in Eurozone countries such as Italy, Spain, Ireland, Portugal and Greece

are expected to be in recession and the stronger Northern European economies are facing stagnation due to the contagion effect.

Key Performance Indicators

AREA	STRATEGY	TARGET
Financial	Main strategic objective is to improve the Group's profitability and free cash flow and to deliver enhanced returns on investment. Invest in the future of business for the benefit of shareholders, colleagues and customers.	Continuous improvement in Group return on invested capital (ROIC) and cash conversion of at least 70% of profit before tax.
Product	Increasing the proportion of products which are different to those offered by competitors is key to TUI's strategy. Differentiated products have earlier booking curves, higher customer satisfaction and retention and superior margins. These products are difficult for competitors to replicate and TUI has a significant competitive advantage due to existing	Targeting a differentiated product mix of greater than 50% as a proportion of total Mainstream Sector holidays.

	brand loyalty and experience of designing and operating new concepts.	
Distribution	Increasing direct distribution mix, with a focus on online sales, is a key driver of reducing distribution costs and enhancing customer relationships. Direct distribution typically represents the most efficient distribution method and allows TUI to provide even better value to customers. In addition, customer trends support a shift towards the online channel and multi-media product marketing provides the opportunity to incorporate richer content, driving higher conversion rates.	Targeting a controlled distribution mix of greater than two thirds and an online distribution mix of greater than 40% in Mainstream Sector.
Operational Efficiency	To be as cost efficient as possible without	Further £107m of business improvement opportunities

	compromising customer experience. TUI has identified a number of business improvement opportunities within Mainstream source markets which centre around legacy airline and systems costs. Within Mainstream, TUI targets overheads of less than 5% in each source market. In addition, they are focused on making cost savings in other Sectors, for example, through centralisation of back office functions where appropriate.	over the next three years to be delivered in broadly even tranches.
Non-mainstream growth	The Specialist & Activity and Accommodation & Destinations Sectors enjoy higher margin and growth characteristics. These operations are difficult to replicate as TUI has crucial first-mover advantage. Having a relevant position in the independent travel markets that are served by these Sectors is strategically	Average organic growth rate of approximately 10% per annum in the S&A and A&D Sectors in the next three years.

	important and a key differentiator and growth driver for the Group. Organic growth will be the key driver of profit growth in these sectors.	
Responsible leadership	Greater consumer awareness of sustainability has led to the belief that creating more sustainable holidays will help protect the product into the future and also support product differentiation, brand loyalty, customer satisfaction and competitive advantage.	Airlines to reduce per passenger carbon emissions by 6% by 2013/14 (against a baseline of 2007/08).

Strategic Activities

China

Emerging nations, with their strong economies enable a large number of consumers to travel. China remains the world's economic powerhouse, with real GDP growth outstripping most other world economies.

TUI AG established a partnership in 2012, with the Turkish Ministry for Culture and Tourism. The aim is to market Turkey as a preferred destination in China, through aggressive marketing. As part of this cooperation the visa process will be simplified and the number of flights between China and Turkey will be increased. The move is important for Turkish tourism and will help increase the number of visitors from China as well as the average spend by Chinese travellers. The competitive advantage of this partnership is a license that TUI obtained from the Chinese National Tourism Authority, to organise international trips for Chinese travellers, thus becoming the only European company to have such a permit.

France

TUI's Nouvelles Frontières, Club Marmara, Tourinter and Adventura operating units merged on 1st January 2012 to create one consolidated business, TUI Travel France. This will help achieve lower overhead costs and will become one of the leading travel retail groups in the country with a combined turnover of €1.8 billion, almost the size of Thomas Cook. TUI Travel France targets profitability in three years. This move will lead to increased competition in the French travel market in terms of price and service quality. Travel operators that will be able to offer the best quality/price relationship are expected to have a competitive advantage.

Austria

In 2011, TUI Reisecenter GmbH led travel retail with a 38% value share, as the company managed to also be very active online, offering trips and last-minute deals. The company offered different search functions for package trips, charter flights, schedule flights and hotels. Due to its successful positioning, the company also posted the biggest increase in value share in 2011, of over one percentage point.

Brand Strategy

In 2011 TUI decided to transform First Choice, into a brand offering only all-inclusive holidays, with the aim of achieving better brand differentiation between First Choice and Thomson. The move might help customers to distinguish between the brands leading to improved brand loyalty.

All-inclusive package offers allow tourists to budget their holiday spend in advance and are hence more attractive, especially in times of financial crisis. The all-inclusive holidays accounted for 65% of the brand's sales, which further reinforced the decision to change focus.

LateRooms and AsiaRooms were very active throughout 2011 with strong expansion in the UK and Western Europe. AsiaRooms has been targeting organic growth in Asian markets such as Thailand, Malaysia, Singapore, Indonesia and Hong Kong. Asia Pacific remains the strongest performing region, with 6% growth in arrivals expected for 2012. The increasing numbers of Chinese travellers tend to stay close to home, with Asian destinations benefiting from their arrival. Regional destinations remain popular as independent travel is not mainstream, and only limited international itineraries are available through online travel agents. This represents a market segment which AsiaRooms seeks to explore.

Social Media

To stay competitive in such a challenging environment, companies need to rethink their business models. Although TUI has embraced social media to promote its offerings, the company needs to adopt more aggressive approaches to position itself on the social media market and attract more customers to book through such channels. Currently, TUI's various campaigns in social media are more one-offs rather than long-term strategies.

One of TUI's recent initiatives was to boost the participation of some of its divisions in social media. In particular, the Specialist Holidays Group has launched a platform to facilitate communication between tour operators and agents. Exchange of information on product offerings such as promoting deals or last-minute and real-time sales or other issues related to the company's activity are discussed through the enterprise social network, Yammer. In 2011 TUI released the soundtrack to one of its TV campaigns for Thomson Holidays brand – Sunday Girl - through iTunes. The move indicates its aim to appeal to a wider customer base, but also adopt more innovative ways to achieve brand awareness.

Focus on Sustainability

Despite the uncertain economic outlook and increasingly budget-conscious travellers, the demand for green travel continues to grow. Tourism businesses are conscious of environmental issues when offering products and services.TUI established a label called 'EcoResort' in 2005, to maintain a high sustainability standard for the hotels within its portfolio.

The company has reinforced this label by launching the construction of Castelfalfi resort in Tuscany in 2011. The project aims to preserve the natural environment in this part of Italy, with high sustainability standards.

The adoption of sustainable energy systems or the introduction of services that encourage guest spending are viable alternatives to help push revenue margins in the upcoming years. Implementing sustainable practices can help TUI to attract guests and capitalise on future cost-saving opportunities.

TUI is also among the first group of global tourism corporations along with Amadeus, Melia, Royal Caribbean Cruises Ltd, Sabre Holdings to publicly commit to promoting sustainable tourism products and services recognised by the Global Sustainable Tourism Council (GSTC). The GSTC Criteria are the worldwide minimum requirements for tourism businesses of all sizes to approach sustainability.

Selling Stake in Hapag-Lloyd

An agreement has been reached in 2012 by TUI AG to sell 17.4% stake in the container shipping firm Hapag-Lloyd to Albert Ballin Group. The aim is to boost its financial standing, strengthen its liquidity by raising EUR475m through this deal to fund further expansion.In addition, the move is in line with TUI AG's ambition to solely focus on travel and tourism activity, and its strategy to become debt-free, which could entail exiting the container shipping sector altogether.

2011 saw strong growth in arrivals from emerging economies to Europe, especially Russia, China and Brazil. It is hoped that this trend will continue throughout 2012 and that TUI can capitalise from this development and expand more strongly in emerging markets such as Russia, Ukraine, India and China.

Restructuring

TUI has carried out restructuring in some of its businesses to rationalise its operations. The main reasons were the economic conditions in the Eurozone and the strategy to boost online competitiveness.

TUI Germany announced 550 job cuts in late 2011 to achieve cost savings. Management reshuffling was also identified as a factor important for the restructuring process.

GET 2015 is a new programme aimed at differentiating better between the company's premium holiday offerings and its budget products.

Product Differentiation

In 2011 there was a trend towards the diversifying tourism products away from the ever popular "beach and sun" destinations which TUI adopted as part of its strategic approach.In 2011 the company's French arm and in particular its Club Marmara division has been the top performer in the Group reaching 62% differentiated and exclusive product sales in line with its global strategic approach closely followed by the Nordic region.
There has been a greater integration of sustainability into mainstream travel and tourism. For example, TUI Germany introduced in 2011 a new hotel concept – Viverde Hotels. This

new hotel chain will be small (maximum of 250 rooms per hotel), environmentally-friendly and in line with TUI’s strategy for sustainability. TUI plans to build 15 hotels by 2015 with two properties expected to be launched in 2012 in Turkey and Italy. In terms of exclusive hotels, TUI Germany’s ambition is to reach 136 properties by 2015.

Boost Online Sales

TUI’s strategic approach is to boost its online performance and cut distribution costs. There were an estimated 2.1 billion Internet users worldwide in 2011. In addition, the total global online sales for travel retail amounted to US$207bn in 2011 and TUI aims at taking advantage of this trend.

TUI Germany, for example, plans to grow its online business with the aim to become a market leader by 2015 in all-sales channels. Overall, TUI’s objective is to differentiate its online offerings from its competitors, such as providing high margin and childfree holidays.

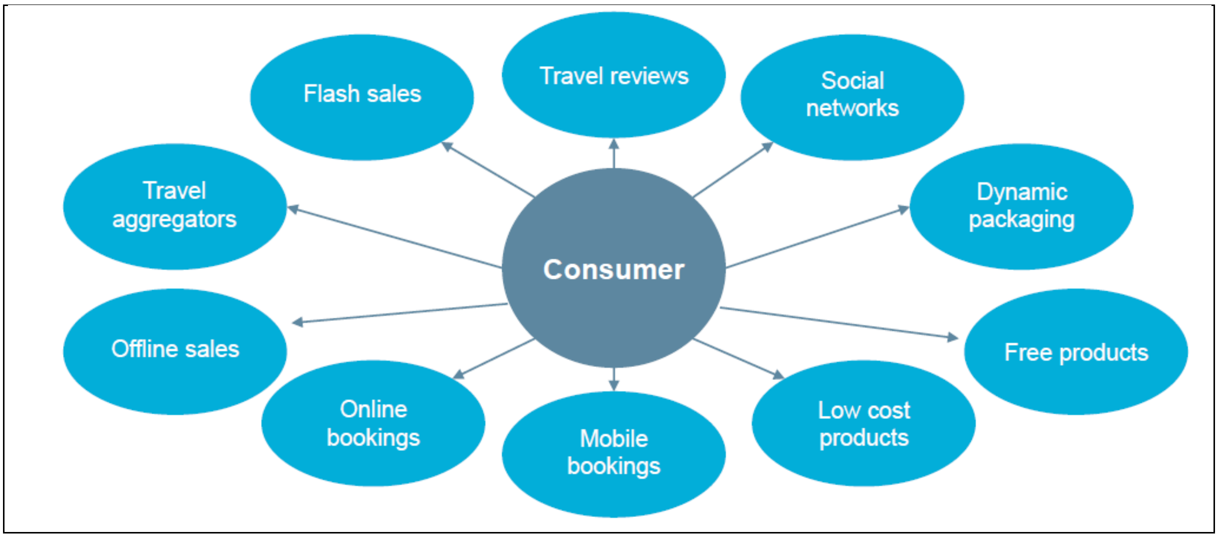
In 2011 the Nordic region successfully expanded its online exposure by recording 61% online sales, followed by the UK with 39%.TUI Nordic has actively promoted its online offerings by replacing the paper holiday brochures with online versions.

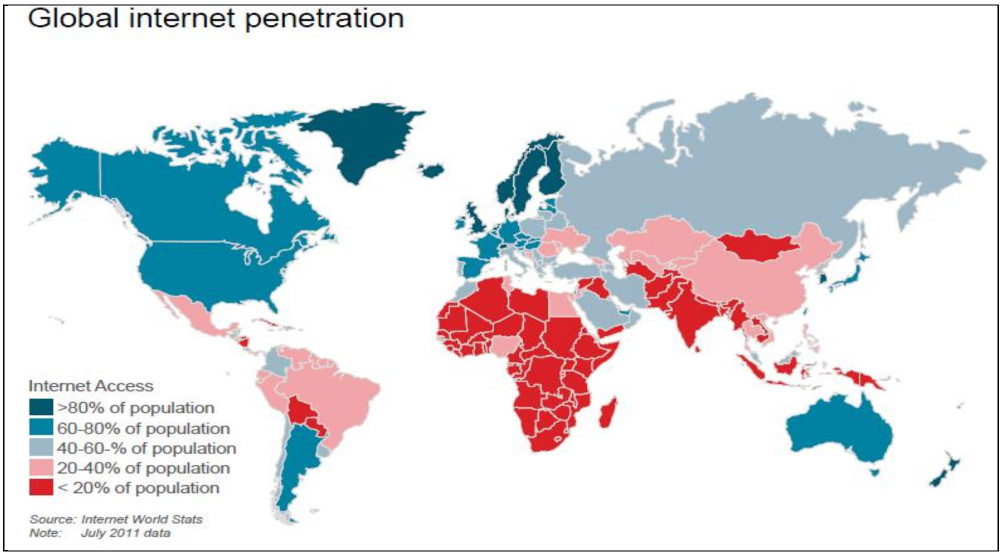
Business Case

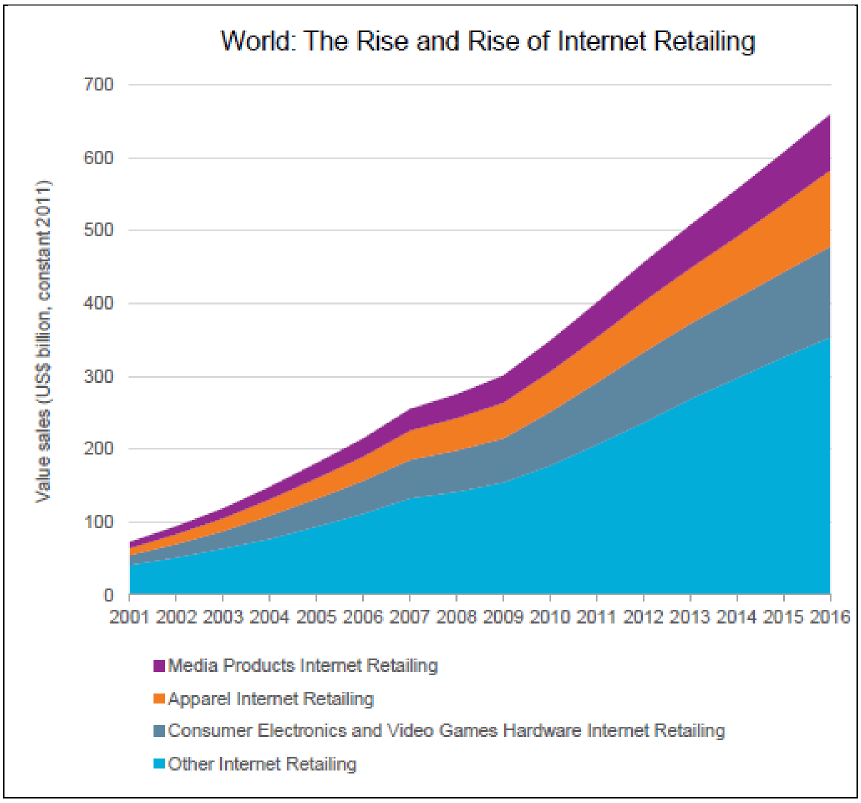
Online Sales

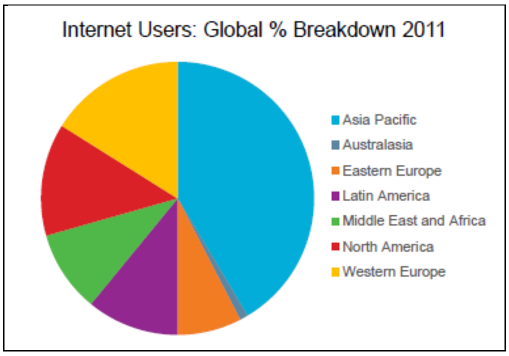
As mentioned above, TUI is committed to increase their share of online sales. This is with the aim of reducing distribution cost as well as keeping up with the increasing internet usage by travellers. As customers become more active, travel companies can no longer depend solely on their product but need to focus on customer preferences and engagement as well.

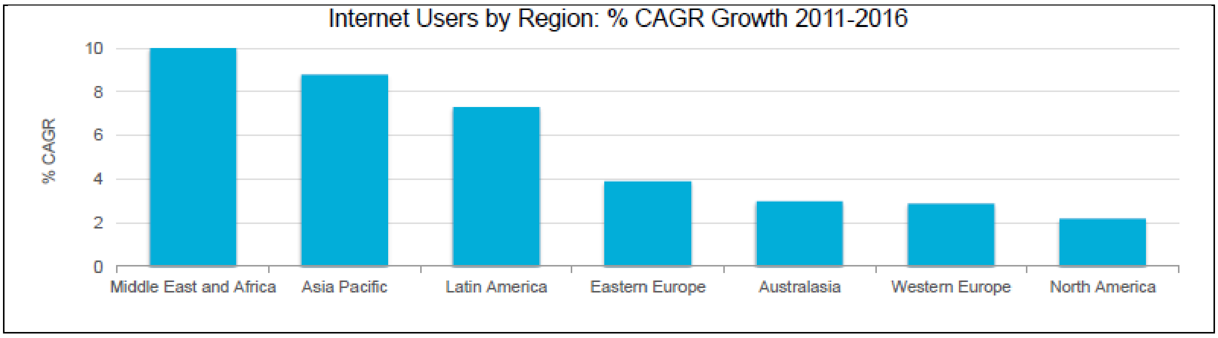
As per Keynote report (2012) the online travel revolution which has taken place in the last 10 years has led to substantial changes in the travel industry's competitive environment. These are so significant to force companies re-think their business models. In particular, consumers now play a much more central and active role, while technology players have become essential partners for travel companies. Customer knowledge and social interaction are key requirements to compete successfully in this new environment.



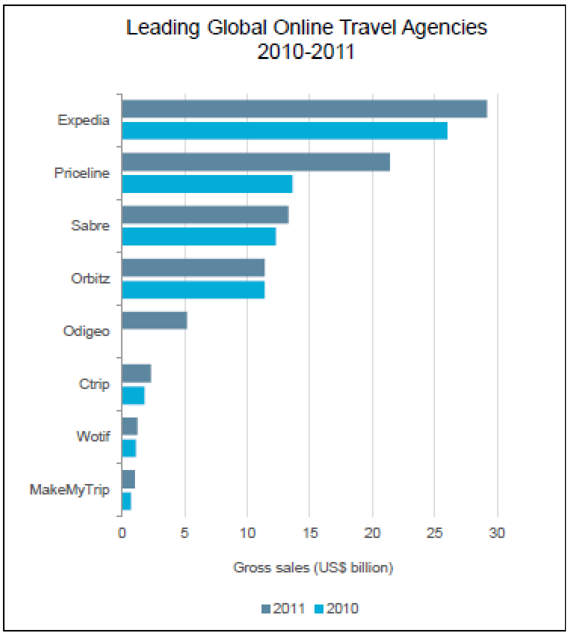



World: The Rise and Rise of Internet Retailing
Value sales (US$ billion, constant 2011)
700
600
500
400
300
200
100
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
Media Products Internet Retailing
Apparel Internet Retailing
Consumer Electronics and Video Games Hardware Internet Retailing
Other Internet Retailing


Internet Users: Global % Breakdown 2011
Asia Pacific
Australasia
Eastern Europe
Latin America
Middle East and Africa
North America
Western Europe


Internet Users by Region: % CAGR Growth 2011-2016
% CAGR
10
8
6
4
2
0
Middle East and Africa
Asia Pacific
Latin America
Eastern Europe
Australasia
Western Europe
North America

- There were an estimated 2.1 billion internet users worldwide in 2011.
- Asia Pacific had the largest absolute number of internet users in 2011, reaching 886 million.
- The highest growth over the next five years is expected to come from the emerging economies, particularly in the Middle East and Africa and Asia Pacific regions. Many countries in these regions have young populations, boosting online activity.
- On the other hand, mature regions in terms of internet penetration such as North America and Western Europe will grow less quickly.



Market Leader – Expedia

- Expedia is the world's leading online travel agency, with a wide portfolio of brands providing travel retail services across the globe. In terms of global performance, it has overtaken TUI in the past couple of years.
- Key OTA brands include Expedia, Hotels.com and Hotwire.com. Expedia owns sites in 20 countries, including India.
- In 2008, Expedia bought Venere.com, an Italian online travel agency specialising in hotel sales. Venere.com has a global reach, with offices in Rome, London and Paris.

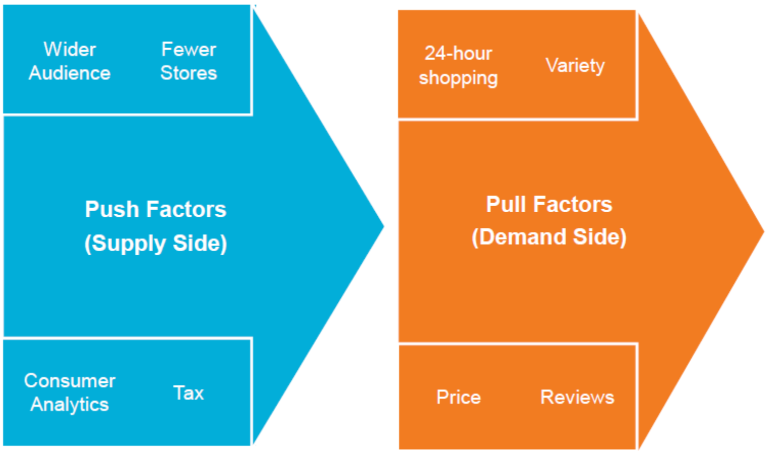
- In 2011, Expedia cemented its commitment to the Chinese travel market by acquiring two 8% stakes in eLong, the China-based OTA. These two acquisitions gave Expedia a 64% control of eLong.
- Expedia also owns corporate travel agency Egencia, luxury travel company Classic Vacations, travel concierge services company Expedia Local Experts, and travel review site TripAdvisor.
- Expedia has recently been focusing on the development of successful applications for smartphones and tablets, such as the Expedia Hotels app, which has been downloaded 2 million times since its launch in the spring of 2011.
- To strengthen its position in mobile travel bookings, in 2010 Expedia bought mobile travel applications developer Mobiata.
- Expedia has created a large Facebook online community, which currently has over 1.1 million followers. The company regularly organises contests and discounted sales for this online community.

Regional Distribution of Online Travel Retail Sales by Value 2011

REGION	VALUE
Asia Pacific	**14.3**
Australasia	**15.5**
Eastern Europe	**4.3**
Latin America	**8.7**
Middle East and Africa	**8.4**
North America	**56.3**
Western Europe	**24.0**

Figures refer to online percentage of total value sales and are Euromonitor International estimates

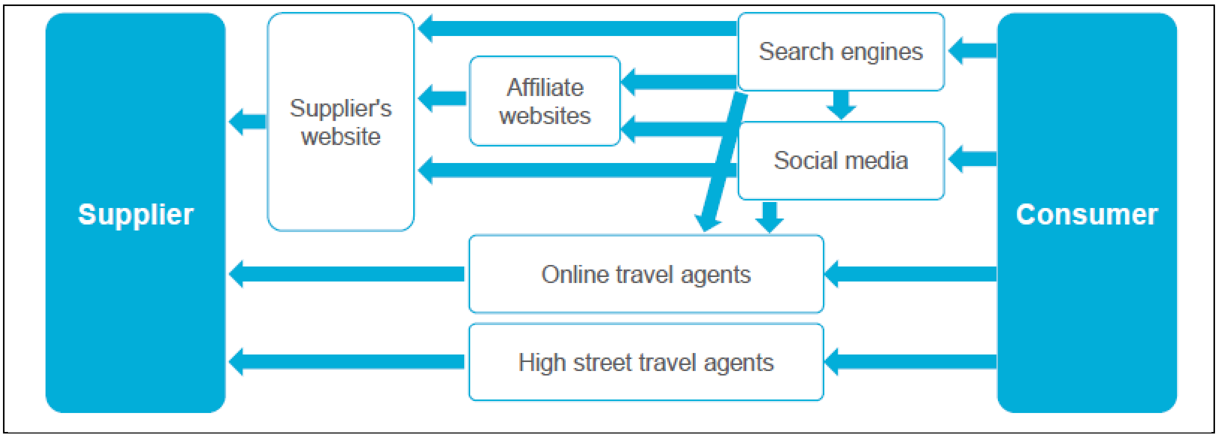
Total global online sales for travel retail amounted to US$ 207 billion in 2011, up by 7% from 2010 with North America leading the way, with a value of US$ 118.8 billion. Other regions have significant room for growth. Certain reasons for developing internet retailing are -



New Multi-Channel Model

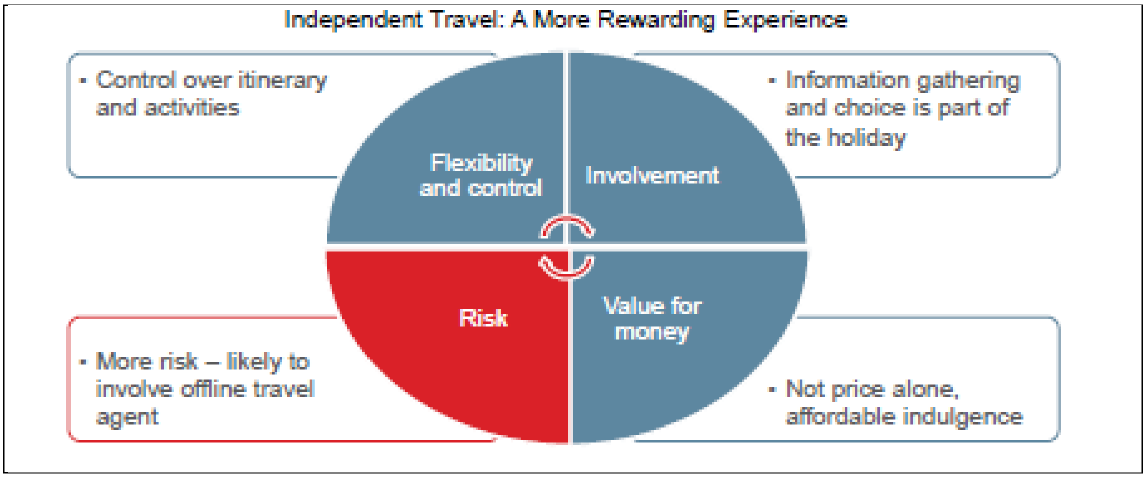
The advent of the internet has marked a revolution in travel retail, resulting in:

- Increase in direct sales through travel websites;
- Key role played by online travel agents;
- Gradual move by travel retailers towards online sales;
- Travel agents, increasingly acting as travel consultants and/or specialising in niche products;
- Importance of search engines in promoting travel services;
- Social media's role in promoting travel services, as well as being a customer service tool.



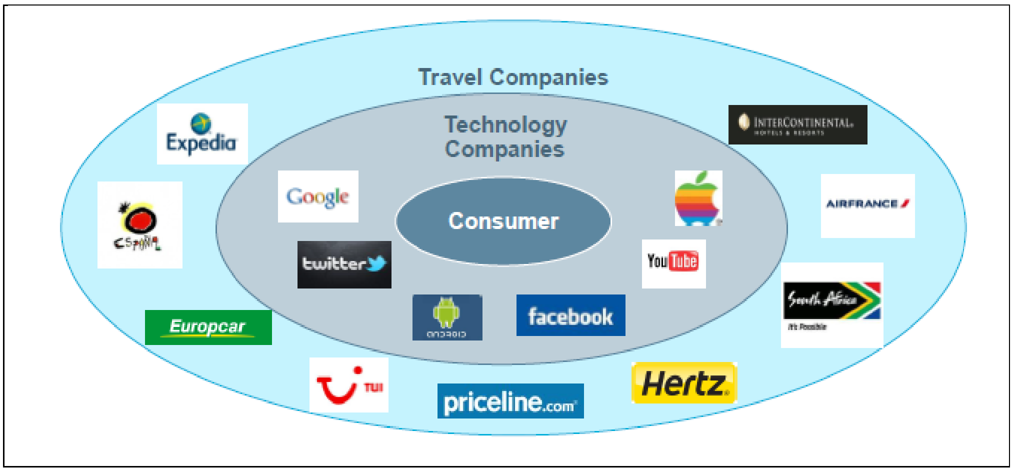
Increase in Independent Travel

There has been a surge in independent travel for the past decade. After deregulation, the airline industry in Europe saw a rise in LCCs (low cost carriers), who adopted internet bookings in order to remove agency and distribution costs. The growth of online travel agencies led to a decline in high street agencies and traditional travel retailers responded by developing their own online services. A wide selection of tourism products is now available and can be booked on the internet. The rise of independent travel created a need for reviews and advice, which is satisfied by social media.



Partnering with Technology Companies

Due to the rise in consumer knowledge and of engaging customers in a relationship with the brand, technology companies have emerged as a key factor in this industry. They hold a lot of information about consumer preferences and profiles as consumers are constantly in touch with through online searches, mobile application usage and social media interaction. This makes it critical for travel companies to work together with technology players.

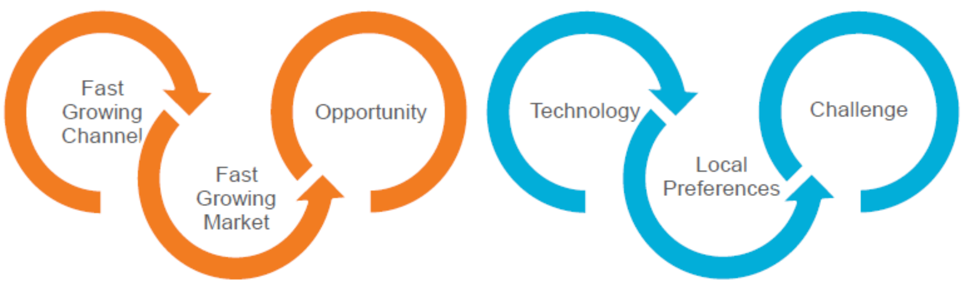


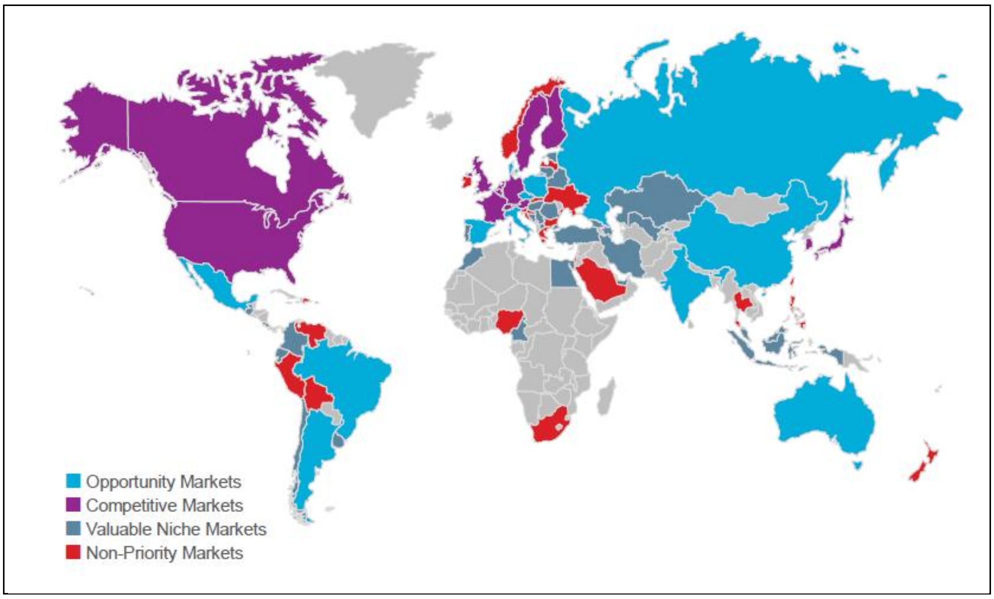
Higher internet usage translates into greater interactivity in social media sites in the future. Therefore, TUI needs to have strategies in place to be able to quickly respond to all types of "tweets", Facebook posts or online comments, particularly as travel communities are increasingly accessed via mobile devices such as tablets and smartphones, and play a more dominant role in people's decision making. Views expressed via Twitter and Facebook will take precedence over holiday brochures or other traditional forms of marketing, and will make consumers more informed than ever before.

TUI needs to provide offerings more actively through social media in order to capture growing consumer interest. For example, the BRIC nations are very active in social media, which the company can utilise in its strategy.

Flash sales have huge potential. As a result, the number of specialist companies in travel flash sales is growing. TUI needs to tap into these sales in order to achieve competitive advantage.

Emerging Markets





1. **Opportunity markets** - Countries continuing to grow quickly and generate large amounts of additional sales.
2. **Competitive markets** - Countries generating large amounts of sales, but the sales growth has started to slow as internet retailing begins to mature.
3. **Valuable niche markets** - Countries growing quickly but generating smaller amounts of additional sales due to factors like a small population or limited penetration of internet access for consumers.
4. **Non-priority markets** - The pace of sales growth is slow and additional sales are only being generated in limited amounts.

As per the IMF's October 2008 outlook, the GDP of emerging and developing countries, measured in Purchasing Power Parity terms (PPP is a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services, thus allowing a more accurate comparison of living standards), is set to overtake that of advanced economies in 2013. Consumer markets in the developing world present opportunities for investors and businesses, especially at a time when developed economies are facing recession.

The biggest emerging economies are China and India, accounting for 11.4% and 4.8% of world GDP in PPP terms in 2008 respectively. Their combined share is set to reach 20.3% in

2013. Other major emerging economies are Russia (3.2% of GDP in 2008), Brazil (2.8%), Mexico (2.0%), Turkey (1.4%) and Indonesia (1.3%).

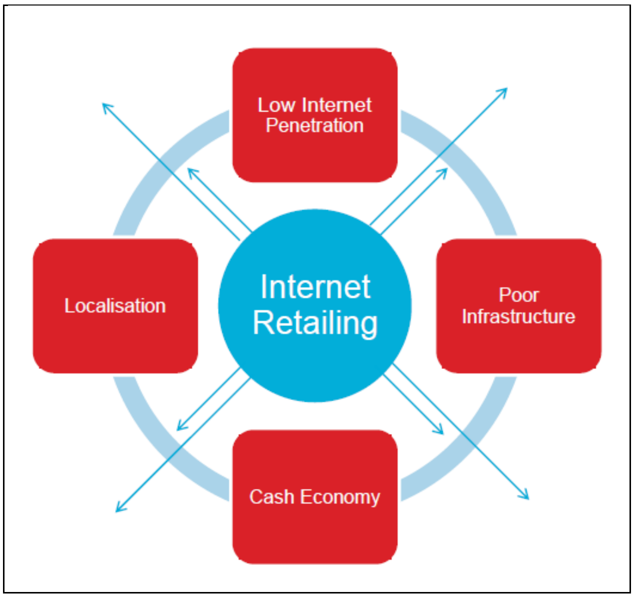
TUI needs to continue to work on its expansion to fast-growing emerging markets to reduce its reliance on sluggish mature markets. The company could look to enhance its presence in Latin America to create a more balanced geographic footprint.

Consumer markets in the developing world present strong opportunities, especially when consumers in developed economies are reining in expenditure. The rapidly rising number of middle class households and the young population in most of the developing world are benefits for retailers and distributors of consumer goods and services.

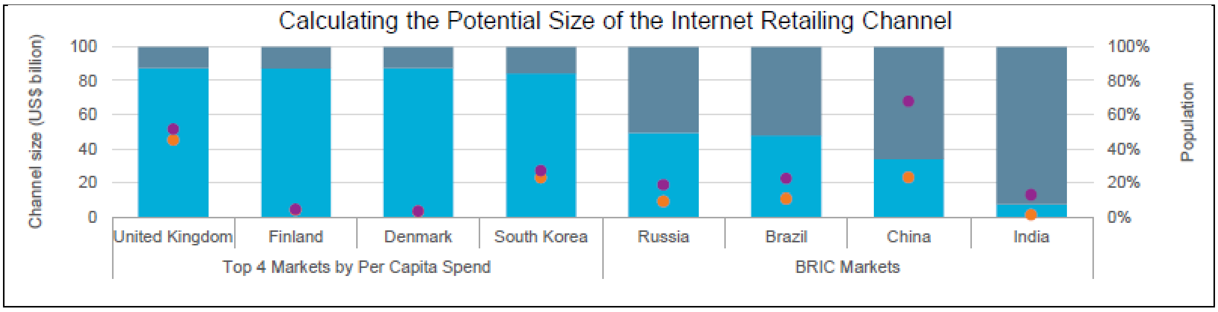
Yet as the financial crisis unfolded in the last quarter of 2008, the risk of a global recession proved more serious. While emerging economies are expected to fare better, their success depends on their ability to sustain economic and political stability.

As developing economies overtake advanced economies, consumer markets in the emerging countries will rise in importance. From tourism to household appliances, consumer goods and services companies are expected to shift their attention to new consumers.

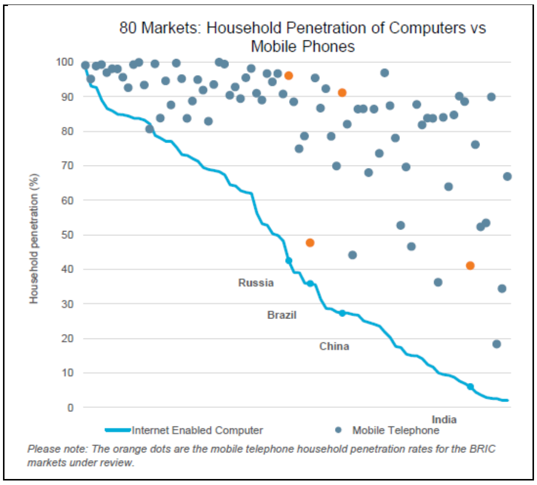
However there are certain challenges within the BRIC markets which make it difficult to establish internet retailing there.



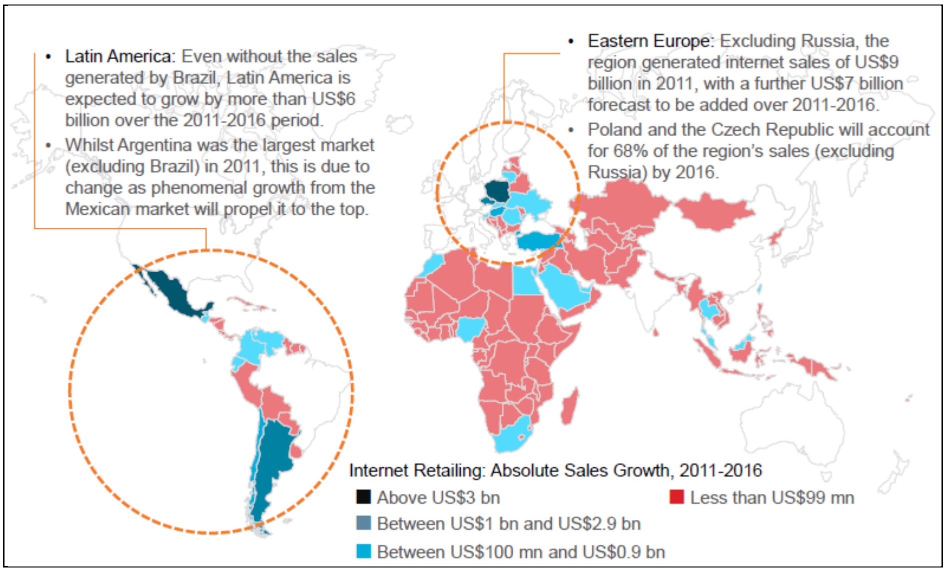
In all the BRIC markets, the number of internet users as a percentage of the population is below 50%. However internet retailing over mobile phones presents an opportunity for the future.



Mobile phones are considered a safer web browsing option as compared to a public computer at work or in an internet cafe as well. More households own mobile phones as compared to internet access at home in emerging markets.



Besides the BRICs there are other potential source markets which can be explored.



The opportunity of growing in the emerging markets comes with its own set of challenges. As more consumers get access to the internet a rapid growth is seen in the long term.

People

TUI employs circa 53,000 people worldwide, who share the company's core values of Customer Obsessed, Playing to Win, Value Driven and Responsible Leadership. They are an equal opportunity employer and out of 250 of the top management, 1/4th consists of women. Within the organisation as well 42% managers are women and the company aims to have 25% female representation on the Board by 2015.

Regular employee opinion surveys are carried out which helps the management in forming strategies and decisions. A Leadership Voice survey was carried out in 2011 involving the core senior managers. Some of the highlights of the survey findings were as follows –

- 97% are willing to work over and above what is normally expected to help TUI Travel succeed.
- 96% fully support TUI Travel´s values
- 96% are personally motivated to help TUI Travel be successful
- 95% understand how their contribution influences TUI Travel
- 93% agree that, in their sector, they have the freedom to constantly find ways to improve their customer offering

Company Culture

1. A diverse organisation
2. Involvement and communication
3. People plans key to strategy and success
4. Leadership capability development
5. Attracting and nurturing young talent
6. Employee safety
7. Customer safety

Executive Management

Peter Long – Chief Executive

Peter Long joined the Board of TUI Travel PLC on 28 June 2007 as Chief Executive. In November 1996 he was appointed Group Managing Director of First Choice Holidays PLC and became Chief Executive in September 1999. Prior to joining First Choice, he was Chief Executive of Sunworld Holidays.

From February 2001 to June 2005 Peter was a non-executive director of RAC Plc, and from April 2006 to July 2009 he was a non-executive director of Debenhams plc. Peter was appointed as a non-executive director of Rentokil Initial Plc in 2005 and is currently the Senior Independent Non-Executive Director.

William Waggott – Chief Financial Officer

William Waggott joined the Board of TUI Travel PLC on 28 June 2007 as Commercial Director. He was appointed Chief Financial Officer of TUI Travel PLC on 30 November 2010. Will spent the early part of his career with Coopers & Lybrand and Courtaulds Textiles Plc, where he performed various senior group finance and divisional director roles.

He entered the leisure travel industry when he joined AirtoursPlc and held a number of positions including UK leisure group finance director, prior to joining Thomson Travel Group in 2001. He then went on to become Chief Financial Officer of TUI Tourism in 2006.

Johan Lundgren – Deputy Chief Executive

Having worked in the tourism industry for twenty five years, Johan is the Deputy Chief Executive of TUI Travel PLC responsible for the Mainstream Sector and was appointed to the Board of TUI Travel PLC on 21 December 2007. Prior to his appointment as Deputy Chief Executive in October 2011, he was Managing Director of the Northern Region of TUI Travel's Mainstream Sector which includes source markets, UK and Ireland, Canada, Sweden, Norway, Denmark and Finland. Prior to the merger of First Choice Holidays PLC and the Tourism Division of TUI AG, Johan was Chief Executive of TUI Nordic and also took responsibility for tourism sales in the source markets of Italy and Russia.

Dr Volker Böttcher - Managing Director, Central Europe

Volker Böttcher joined the Board of TUI Travel PLC on 19 June 2007 and is responsible for Central Europe in the Mainstream Sector. After an early career in law, Volker joined Touristik Union International in 1987 as a legal advisor.

Having occupied various management positions, he became head of TUI's Special Programmes Division in 1996 which included responsibility for long-haul destinations, city tours and the Eastern Mediterranean. In 2003 Volker was appointed Chairman for Central Europe for TUI AG, being responsible for all tourism activities in the source markets of Germany, Austria, Switzerland and Poland. He was appointed to the board of TUI Deutschland GmbH in April 2000. Following the restructuring of TUI's business model in Germany, he was appointed CEO of TUI Deutschland GmbH in July 2001.

Bart Brackx - Managing Director, Western Europe

Bart Brackx started his professional career at the tour operator Jetair and in 1994 went on to become Managing Director of Internal Affairs. Since 2001, he has held the position of Chief Executive Officer and President of the Board of Directors of Jetair.

In 2004, Bart was appointed Chief Executive of TUI Belgium and went on to become divisional director of TUI AG in charge of the Western Europe source market prior to becoming Managing Director - Mainstream Western Europe at TUI Travel PLC.

John Wimbleton - Managing Director, Specialist & Activity

John Wimbleton is Managing Director – Specialist & Activity Sector. Prior to this, John was at First Choice and became Managing Director of the Activity Holidays Sector in July 2006, having been with the Company since 1990.

From 2000 to 2005 he was Managing Director of UK Distribution at First Choice and prior to this he held the position of Deputy Managing Director of First Choice Holidays for five years.

Joan Vilà - Managing Director, Accommodation & Destinations

After developing his professional career in the Destination Services Division of the Barceló Travel Group, Joan Vilà was appointed Managing Director of the Division in 1999, which was integrated into First Choice Holidays PLC (First Choice) in 2000. In November 2002, he became a member of First Choice's Group Management Board. Joan is currently the

Managing Director of the Accommodation & Destinations Sector of TUI Travel PLC and is also on the Group Management Board.

He has an MBA from IESE, a degree in Economics from the University of Barcelona and has completed international business school programmes with Columbia Business School and IMD.

Andrew John - Group Legal Director and Company Secretary

Andrew John is a Solicitor who practised with the City law firm of Coward Chance prior to taking up a career in industry. He held the post of Director, Legal Affairs at Unisys Limited followed by various senior legal and commercial positions at Vickers PLC, which culminated in his appointment to the Vickers Board in 1994 as Commercial Director and Company Secretary.

In that role he led several high profile acquisitions and disposals. Prior to his current role at TUI Travel PLC, Andrew had been at First Choice since December 2000.

Jacky Simmonds - Group Human Resources Director

Jacky Simmonds joined First Choice Holidays PLC (now First Choice Holidays Limited) as Human Resources Manager in 2000 from The National Magazine Company Ltd (Hearst Corporation). She has progressively held senior positions across the Mainstream Sector and Group.

In 2007, as HR Director of TUI UK & Ireland, Jacky played a vital part in the integration of Thomson and First Choice. In 2009, she was appointed to the role of Group Deputy HR Director where her remit was extended to include Northern Europe. Jacky was appointed Group HR Director and member of the Group Management Board in October 2010.

Corporate Governance

Dr Michael Frenzel

Non-Executive Chairman (Age 64)

Dr Michael Frenzel joined the Board of TUI Travel PLC on 28 June 2007 as Non-Executive Chairman. Michael studied law at Ruhr University in Bochum and completed his doctorate whilst working at the university as a scientific assistant. He joined Westdeutsche Landesbank (WestLB), Düsseldorf, in 1981 where he was promoted to various managerial positions and became manager of the Industrial Holdings Department in 1983 and overall manager of West LB's Equity Holdings Division in 1985 – including holdings in banking, leasing and real estate. In 1988, he became a member of the Preussag AG executive board, being responsible for Trading and Logistics. Michael has held the position of Chief Executive and Chairman of the Executive Board of TUI AG (formerly Preussag AG) since January 1994, overseeing its extensive acquisition programme in the late 1990s, which resulted in the acquisitions of TUI AG's stake in Hapag-Lloyd and of leading tourism businesses such as

Thomson Travel and Nouvelles Frontières. Michael is also currently a member of the supervisory board of a number of companies including AXA Konzern AG, AWD Holding AG and Volkswagen AG.

Sir Michael Hodgkinson

Non-Executive Deputy Chairman and Senior Independent Director (Age 67)

Sir Michael Hodgkinson joined the Board of First Choice Holidays PLC as a Non-Executive Director in January 2004 and became Chairman in March 2004. He joined the Board of TUI Travel PLC on 28 June 2007 as Non-Executive Deputy Chairman and is the Senior Independent Director. Following an early career in the automotive industry, he was appointed Chief Executive of Grand Metropolitan's European Food Division in 1986 and in 1992 he joined BAA Plc, becoming Chief Executive in 1999, a post from which he retired in June 2003. Sir Michael was Senior Non-Executive Director at Royal Mail and Chairman of Post Office Limited until September 2007, a director of Bank of Ireland Plc from May 2004 until July 2006 and a non-executive director of Dublin Airport until November 2011. He is currently a non-executive director of Transport for London and Crossrail Limited and was appointed Chairman of Keolis (UK) Limited on 11 October 2011.

Peter Long

Chief Executive (Age 59)

Peter Long joined the Board of TUI Travel PLC on 28 June 2007 as Chief Executive. In November 1996 he was appointed Group Managing Director of First Choice Holidays PLC and became Chief Executive in September 1999. Prior to joining First Choice, he was Chief Executive of Sunworld Holidays. From February 2001 to June 2005 Peter was a non-executive director of RAC Plc, and from April 2006 to July 2009 he was a non-executive director of Debenhams plc. Peter was appointed as a non- executive director of Rentokil Initial Plc in 2005 and is currently the Senior Independent Non-Executive Director.

William Waggott

Chief Financial Officer (Age 48)

William Waggott joined the Board of TUI Travel PLC on 28 June 2007 as Commercial Director. He was appointed Chief Financial Officer of TUI Travel PLC in November 2010. Will spent the early part of his career with Coopers & Lybrand and Courtaulds Textiles Plc, where he performed various senior group finance and divisional director roles. He entered the leisure travel industry when he joined Airtours Plc and held a number of positions including UK leisure group finance director, prior to joining Thomson Travel Group in 2001. He then went on to become Chief Financial Officer of TUI Tourism in 2006.

Johan Lundgren

Deputy Chief Executive (Age 45)

Having worked in the tourism industry for twenty five years, Johan is the Deputy Chief Executive of TUI Travel PLC responsible for the Mainstream Sector and was appointed to the Board of TUI Travel PLC on 21December 2007. Prior to his appointment as Deputy Chief Executive in October 2011, he was Managing Director of the Northern Region of TUI Travel's Mainstream Sector which includes source markets, UK and Ireland, Canada, Sweden, Norway, Denmark and Finland. Prior to the merger of First Choice Holidays PLC and the Tourism Division of TUI AG, Johan was Chief Executive of TUI Nordic and also took responsibility for tourism sales in the source markets of Italy and Russia.

Dr Volker Böttcher

Managing Director, Central Europe (Age 52)

Dr Volker Böttcher joined the Board of TUI Travel PLC on 19 June 2007 and is responsible for Central Europe in the Mainstream Sector. After an early career in law, Volker joined Touristik Union International in 1987 as a legal advisor. Having occupied various management positions, he became head of TUI's Special Programmes Division in 1996 which included responsibility for long haul destinations, city tours and the Eastern Mediterranean. In 2003 Volker was appointed Chairman for Central Europe for TUI AG, being responsible for all tourism activities in the source markets of Germany, Austria, Switzerland and Poland. He was appointed to the Board of TUI Deutschland GmbH in April 2000. Following the restructuring of TUI's business model in Germany, he was appointed CEO of TUI Deutschland GmbH in July 2001.

Horst Baier

Non-Executive Director (Age 55)

Horst Baier joined the Board of TUI Travel PLC as a Non-Executive Director on 13 October 2009. He commenced his professional career in the Treasury Department of Continental AG, the German tyre manufacturer. Between 1994 and 1996 Horst was responsible for Group Financing for the Fürth-based Schickedanz Group. In 1996, he took over responsibility for the Treasury, Accounting and Tax Department at TUI AG. Since 2001, Horst has been responsible for Accounting & Reporting for TUI AG and, in November 2007, was appointed to the Executive Board of TUI AG with responsibility for the Controlling function. In February 2010, Horst was appointed Chief Financial Officer of TUI AG.

Tony Campbell

Non-Executive Director (Age 62)

Tony Campbell became a Non-Executive Director of First Choice Holidays PLC in April 1997 and joined the Board of TUI Travel PLC on 28 June 2007 as a Non-Executive Director. Tony was Deputy Chief Executive of Asda Stores Limited until March 2001. He is currently the Chairman of T M Lewin Group Limited, The White Company (UK) Limited and EAT Limited, a non-executive director of The Original Factory Shop and a director of Data Transfer & Communications Limited.

Clare Chapman

Non-Executive Director (Age 51)

Clare Chapman became a Non-Executive Director of First Choice Holidays PLC (First Choice) in March 2003. She joined the Board of TUI Travel PLC which was formed when First Choice merged with the Tourism Division of TUI AG in September 2007. Clare was also Chairman of the Remuneration Committee. She is currently Group People Director at BT Group PLC and was previously the Director General of Workforce for NHS and Social Care, Department of

Health. Before this, Clare was Group Personnel Director at Tesco. In addition, she serves on the advisory Board Member for the Judge Institute, Business School for the University of Cambridge; and is a Fellow of the Institute of Personnel. Clare was appointed as a non-executive director of Kingfisher PLC in December 2010. Clare resigned from the Board of TUI Travel Plc on 19 October 2011.

Bill Dalton

Non-Executive Director (Age 67)

Bill Dalton became a Non-Executive Director of First Choice Holidays PLC in October 2004 and joined the Board of TUI Travel Plc on 19 March 2007. Bill is also Chairman of the Remuneration Committee. He was previously an executive director of HSBC Holdings Plc, Chief Executive of HSBC Bank Plc and Global Head of Personal Financial Services for the HSBC Group. During his banking career, he has amassed a great deal of international expertise and is also a non-executive director of a number of UK and North American companies including Associated Electric & Gas Insurance Services (AEGIS), AEGIS Managing Agency Limited (UK), HSBC North America Holding Inc, Talisman Energy Inc and US Cold Storage Inc.

Rainer Feuerhake

Non-Executive Director (Age 67)

Rainer Feuerhake joined the Preussag Group (now TUI AG) in 1968 and by 1980 was responsible for group accounting. Rainer was appointed as Chief Financial Officer of Preussag AG in November 1988 and subsequently TUI AG (following a resolution to rename Preussag AG on 1 July 2002). In this position Rainer was responsible for the departments of Accounting & Reporting, Finance, Investor Relations, Tax Affairs, Mergers & Acquisitions, Destination Management and the Shared Service Centre. He resigned as Chief Financial Officer in February 2010 and is now acting as a consultant for TUI AG. He joined the Board of TUI Travel Plc on 28 June 2007.

Harold Sher

Non-Executive Director (Age 64)

Harold Sher joined the Board of TUI Travel Plc as a Non-Executive Director on 29 October 2007. He studied commerce at university and started his career as a Chartered Accountant. Harold moved to industry early in his career holding a range of executive positions before being appointed Chief Executive of Amalgamated Metal Corporation PLC in 1992, a position he still holds. He has served as president of a major North American Steel Services Group and, together with his role at Amalgamated Metal Corporation; this has provided him with broad international commercial experience.

Dr Albert Schunk

Non-Executive Director (Aged 70)

Dr Albert Schunk joined the Board of TUI Travel Plc as a Non-Executive Director on 29 October 2007. Albert studied economics at university and carried out a research project for the German Government in Latin America. After joining IG-Metall, he has served on the supervisory board of Volkswagen and other German Companies since 1976. In 1994 he became a member of the European Economic and Social Council in Brussels and has recently been advising the Riu Group in Spain.

Dr Erhard Schipporeit

Non-Executive Director (Age 62)

Dr Erhard Schipporeit joined the Board of TUI Travel PLC as a Non-Executive Director on 29 October 2007. He started his career in 1979 in the Bosch Group and in 1981 he joined VARTA AG/VARTA Battery AG, at that time a leading European battery company, where he became Chief Financial Officer in 1990 and Chief Executive and Chairman of the Executive Board in 1993. After the successful restructuring of VARTA the next move in his career brought him to the Munich based conglomerate company VIAG AG as CFO. VIAG merged in 2000 with VEBA AG to form the new E.ON AG, one of the world's leading utility companies. Erhard was CFO and Executive Board Member of E.ON from 2000 until his resignation in November 2006. He is currently a non-executive director of a number of companies including SAP AG, Deutsche Boerse AG, Talanx AG, Hanover Rueckversicherung AG and Fidelity SICAV.

Minnow Powell

Non-Executive Director (Age 57)

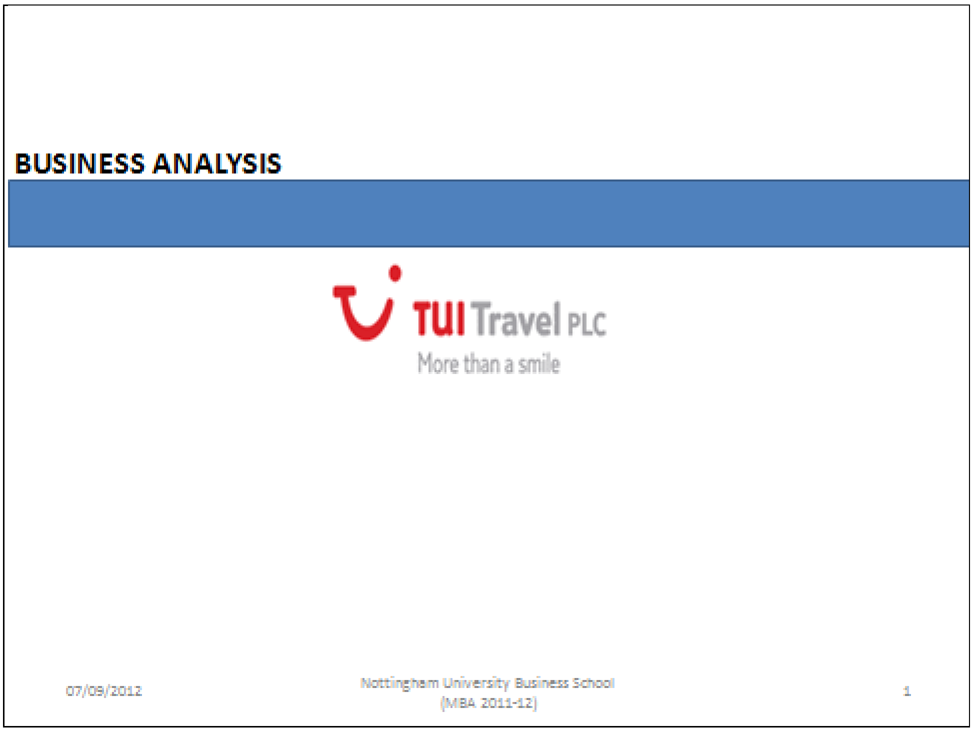
Minnow Powell became a Non-Executive Director of TUI Travel PLC in April 2011. During his 35 years at Deloitte, he became a senior partner and concentrated on looking after Deloitte's major clients including BAA, Hammerson, Reed Elsevier, Anglo American and BSkyB. He was also a member of the UK's Audit Practices Board for six years.

Coline McConville

Non-Executive Director (Age 47)

Coline McConville joined the Board of TUI Travel PLC on 21 September 2011. Her background is in management, marketing and consulting. She spent ten years at Clear Channel International Limited where, as Chief Executive for Europe, she was responsible for operations across 58 countries including the UK, France, Italy and Spain. Coline began her career in management consultancy, working with both McKinsey & Co in London and the LEK Partnership in Munich. She is a law graduate with an MBA from Harvard.

Presentation to TCS



TUI Travel PLC
More than a smile

KEY FINANCIALS FOR TUI AG...

TUI Group	
Turnover	17,5 bil. Euro
Operating earnings*	600 mio. Euro
Reported earnings*	445 mio. Euro
Group result**	118 mio. Euro
Employees worldwide***	approx. 73,700

€ million	Q3 2011/12	Q3 2010/11	Var. %
Turnover			
TUI Travel	4,563.5	4,247.3	+ 7.4
TUI Hotels & Resorts	90.6	78.9	+ 14.8
Cruises	59.3	48.8	+ 21.5
Group	4,724.7	4,387.5	+ 7.7

07/09/2012 Nottingham University Business School (MBA 2011-12) 3

TUI Travel PLC
More than a smile

BOARD OF DIRECTORS...

Dr Michael Frenzel (Non-Exec Chairman)

Sir Michael Hodgkinson (Non-Exec Deputy Chairman)

Peter Long (Chief Executive)

William Waggott (Chief Financial Officer)

Johan Lundgren (Deputy Chief Executive)

Dr Volker Böttcher (Managing Director, Cent ral Europe)

Horst Baier (Non-Executive Director)

Tony Campbell (Non-Executive Director)

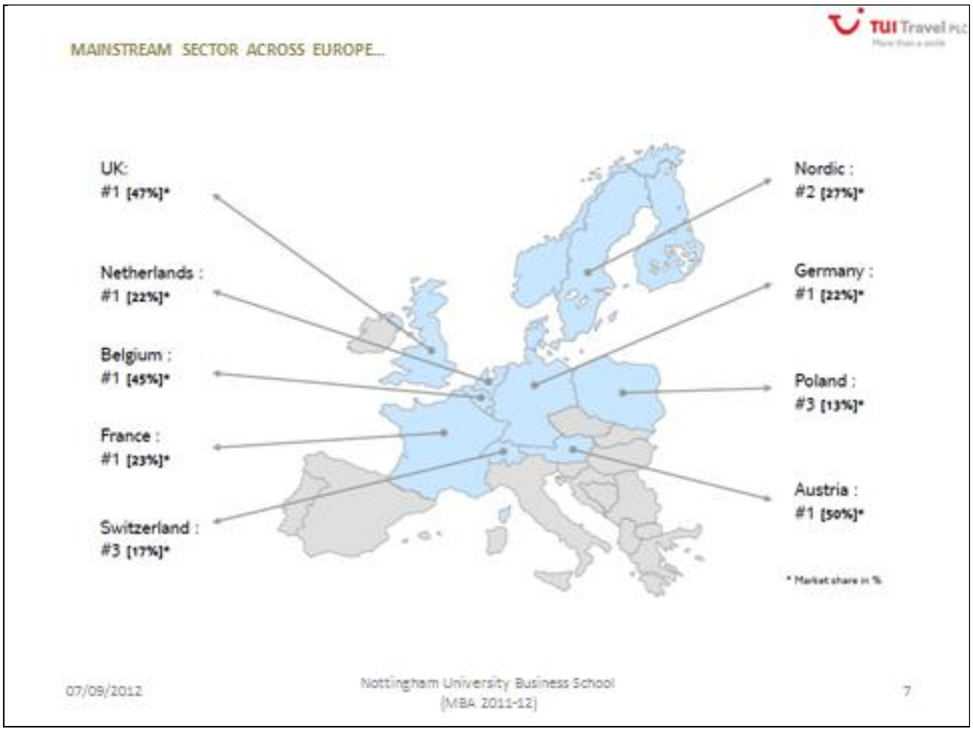
Clare Chapman (Non-Executive Director)

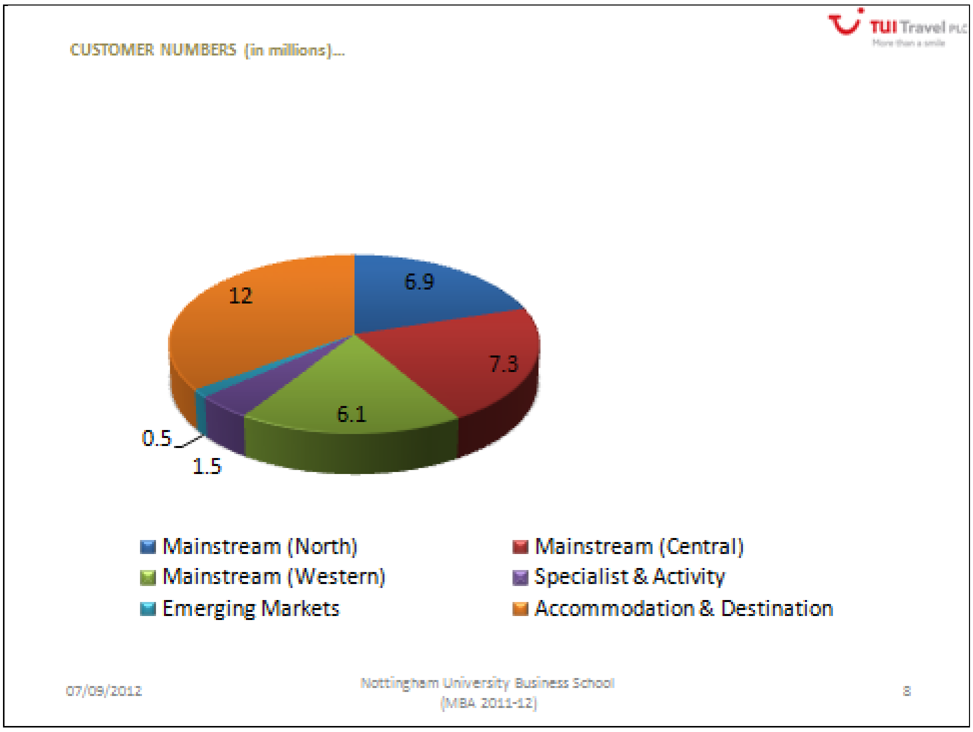
Bill Dalton (Non-Executive Director)

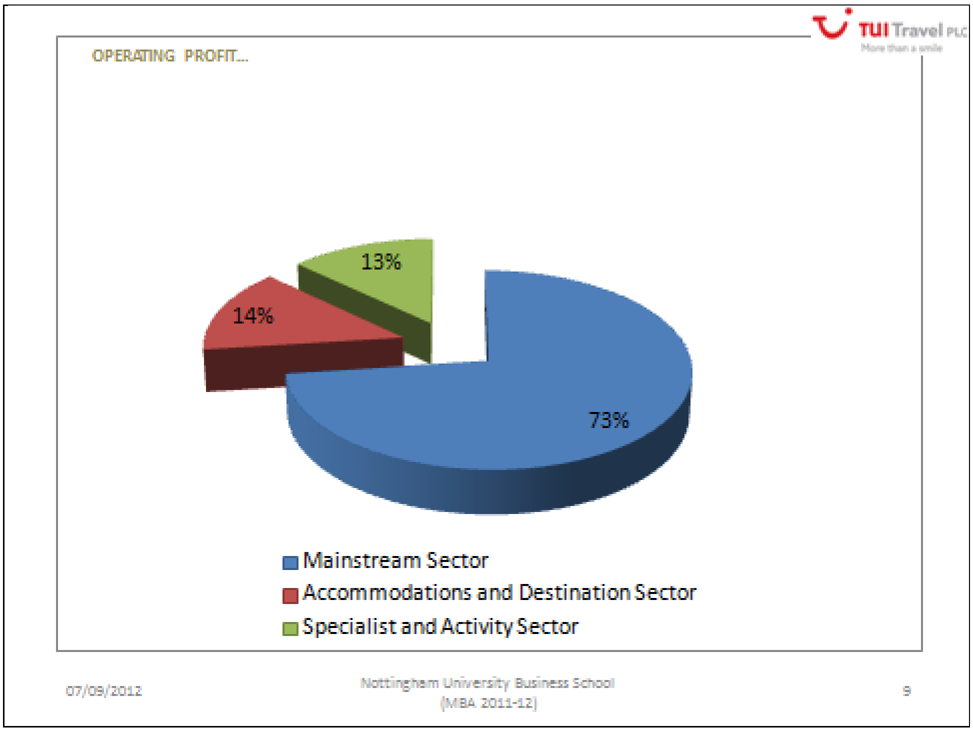
07/09/2012 Nottingham University Business School (MBA 2011-12) 4

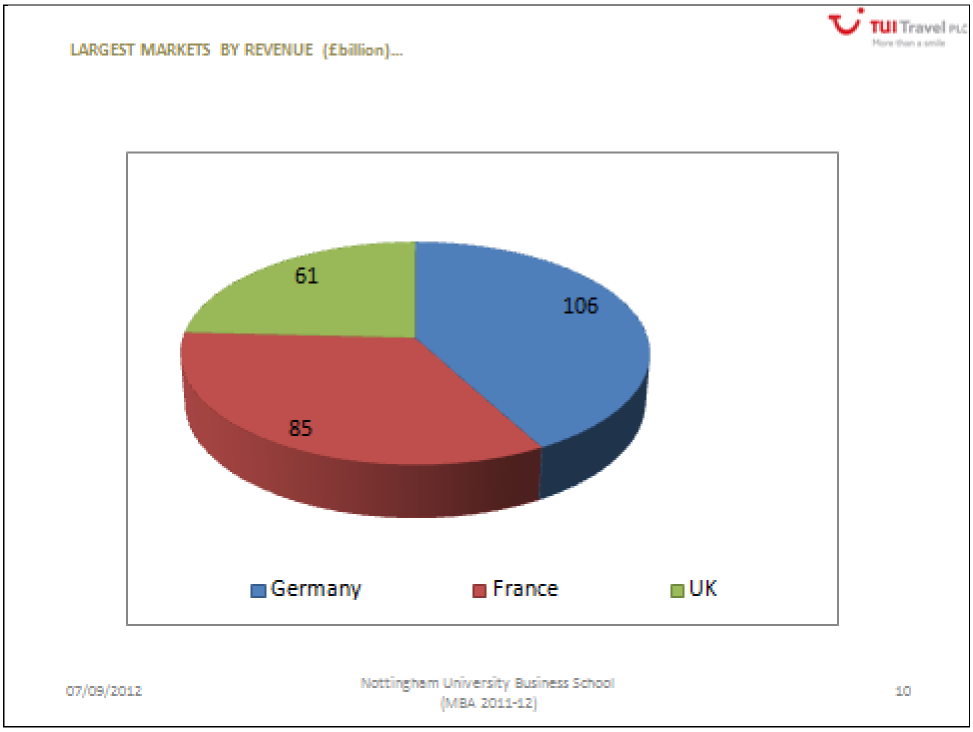

TUI Travel PLC
BOARD OF DIRECTORS…
Rainer Feuerhake (Non-Executive Director)
Harold Sher (Non-Executive Director)
Dr Albert Schunk (Non-Executive Director)
Dr Erhard Schipporeit (Non-Executive Director)
Minnow Powell (Non-Executive Director)
Coline McConville (Non-Executive Director)
Source:
07/09/2012
Nottingham University Business School (MBA 2011-12)
5

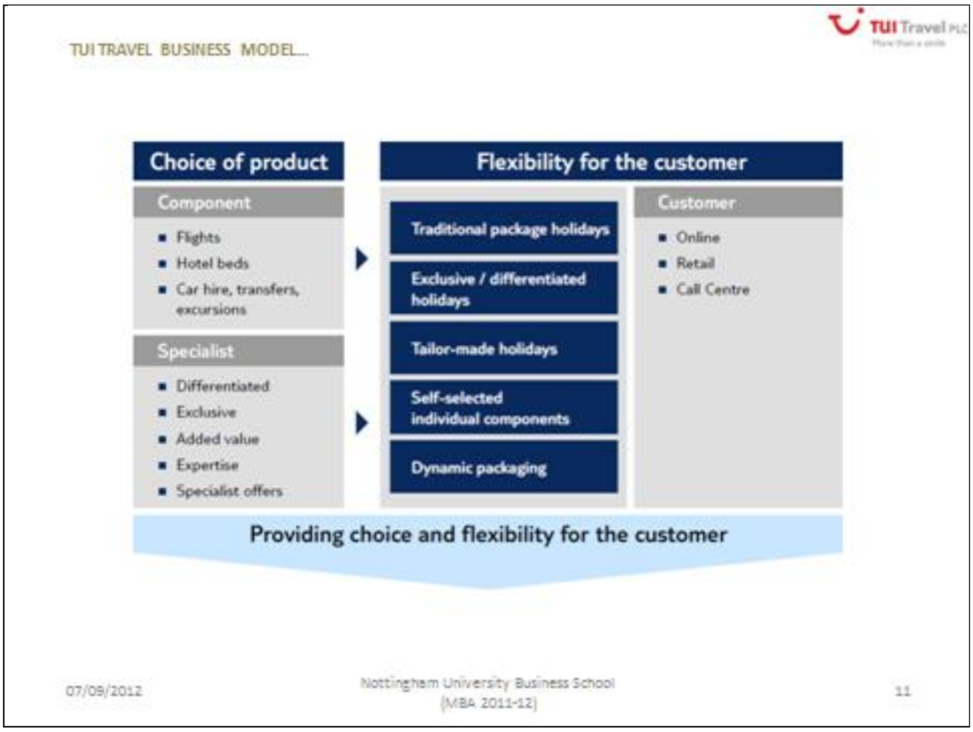

TUI Travel PLC
TUI TRAVEL OVERVIEW…
• Market leader in Europe
• More than 30 million customers from 27 source markets
• Pan-European airline with more than 140 aircrafts
• Approx 3500 retail shops in UK, Continental Europe and Ireland
• Over 58,000 employees
Mainstream
▪ Central & Western Europe, Northern Region
▪ Classic tour operator business
▪ Over 140 aircraft, 3,500 retail shops
▪ Market leadership
Specialist & Activity
▪ World's largest provider of specialist and experiential travel
▪ Over 100 brands
▪ Delivering range of unique experiences
Emerging Markets
▪ Growing portfolio of travel businesses
▪ Specific source markets: Russia & CIS, Brazil, India and China
Accommodation & Destinations
▪ 77 brands with over 50% ownership with 12m offline customers and 21.4m room nights sold
▪ Cruise handling and online accommodation market leaders
▪ Only A&D service provider with a global reach
07/09/2012
Nottingham University Business School (MBA 2011-12)
6

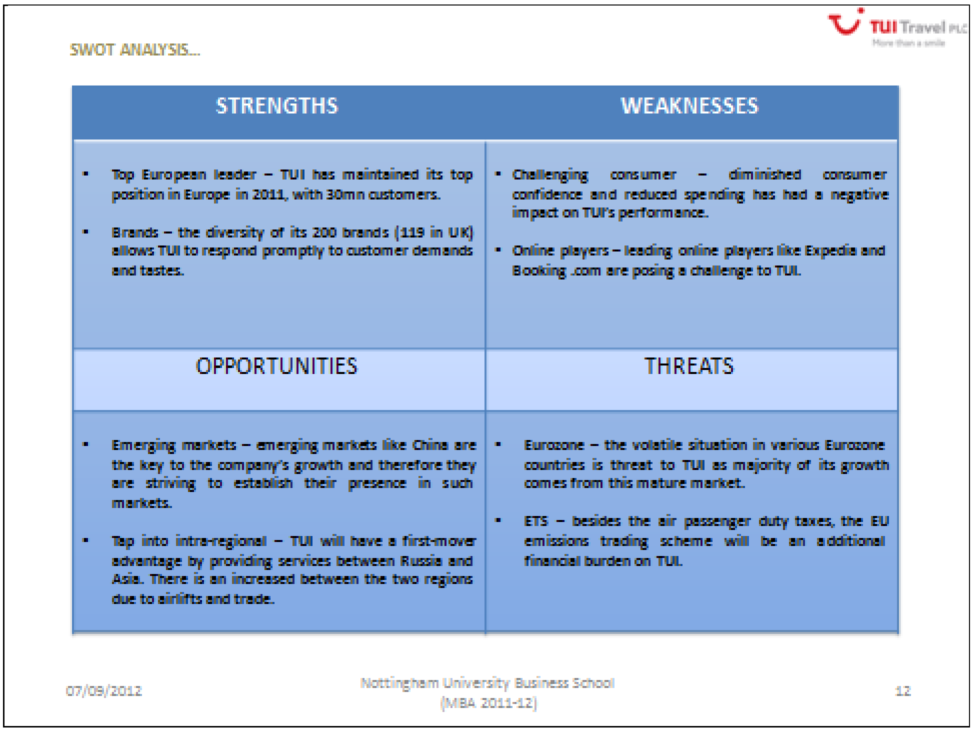

TUI Travel PLC
MAINSTREAM SECTOR ACROSS EUROPE...
UK:
#1 [47%]*
Netherlands :
#1 [22%]*
Belgium :
#1 [45%]*
France :
#1 [23%]*
Switzerland :
#3 [17%]*
Nordic :
#2 [27%]*
Germany :
#1 [22%]*
Poland :
#3 [13%]*
Austria :
#1 [50%]*
* Market share in %
07/09/2012
Nottingham University Business School
(MBA 2011-12)
7


TUI Travel PLC
CUSTOMER NUMBERS (in millions)...
6.9
7.3
6.1
1.5
0.5
12
Mainstream (North)
Mainstream (Central)
Mainstream (Western)
Specialist & Activity
Emerging Markets
Accommodation & Destination
07/09/2012
Nottingham University Business School
(MBA 2011-12)
8


TUI Travel PLC
More than a smile
OPERATING PROFIT...
13%
14%
73%
Mainstream Sector
Accommodations and Destination Sector
Specialist and Activity Sector
07/09/2012
Nottingham University Business School
(MBA 2011-12)
9


TUI Travel PLC
More than a smile
LARGEST MARKETS BY REVENUE (£billion)...
61
106
85
Germany
France
UK
07/09/2012
Nottingham University Business School
(MBA 2011-12)
10


TUI TRAVEL BUSINESS MODEL...
TUI Travel PLC
Choice of product
Component
Flights
Hotel beds
Car hire, transfers, excursions
Specialist
Differentiated
Exclusive
Added value
Expertise
Specialist offers
Flexibility for the customer
Traditional package holidays
Exclusive / differentiated holidays
Tailor-made holidays
Self-selected individual components
Dynamic packaging
Customer
Online
Retail
Call Centre
Providing choice and flexibility for the customer
07/09/2012
Nottingham University Business School (MBA 2011-12)
11


SWOT ANALYSIS...
TUI Travel PLC
STRENGTHS
Top European leader – TUI has maintained its top position in Europe in 2011, with 30mn customers.
Brands – the diversity of its 200 brands (119 in UK) allows TUI to respond promptly to customer demands and tastes.
WEAKNESSES
Challenging consumer – diminished consumer confidence and reduced spending has had a negative impact on TUI's performance.
Online players – leading online players like Expedia and Booking .com are posing a challenge to TUI.
OPPORTUNITIES
Emerging markets – emerging markets like China are the key to the company's growth and therefore they are striving to establish their presence in such markets.
Tap into intra-regional – TUI will have a first-mover advantage by providing services between Russia and Asia. There is an increased between the two regions due to airlifts and trade.
THREATS
Eurozone – the volatile situation in various Eurozone countries is threat to TUI as majority of its growth comes from this mature market.
ETS – besides the air passenger duty taxes, the EU emissions trading scheme will be an additional financial burden on TUI.
07/09/2012
Nottingham University Business School (MBA 2011-12)
12

TUI Travel PLC
More than a smile

KEY CHALLENGES…

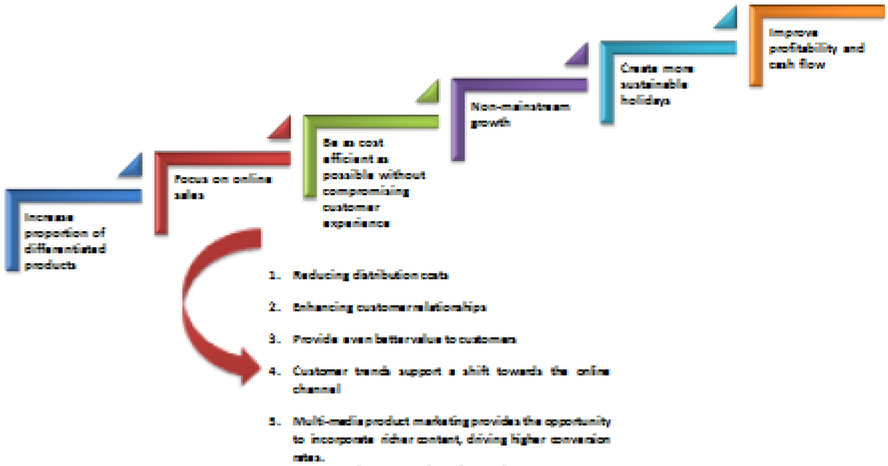
The recent move of players such as Expedia and Travelocity to affiliate with high street operators to cater for customers who want assistance in using online travel services puts additional pressure on TUI.

After a positive year in terms of tourism flows in Europe, the outlook for 2012 is negative. This will lead to weak consumer demand which could have a financial impact. The economies in Eurozone countries such as Italy, Spain, Ireland, Portugal and Greece are expected to be in recession and the stronger Northern European economies are facing stagnation due to the contagion effect.

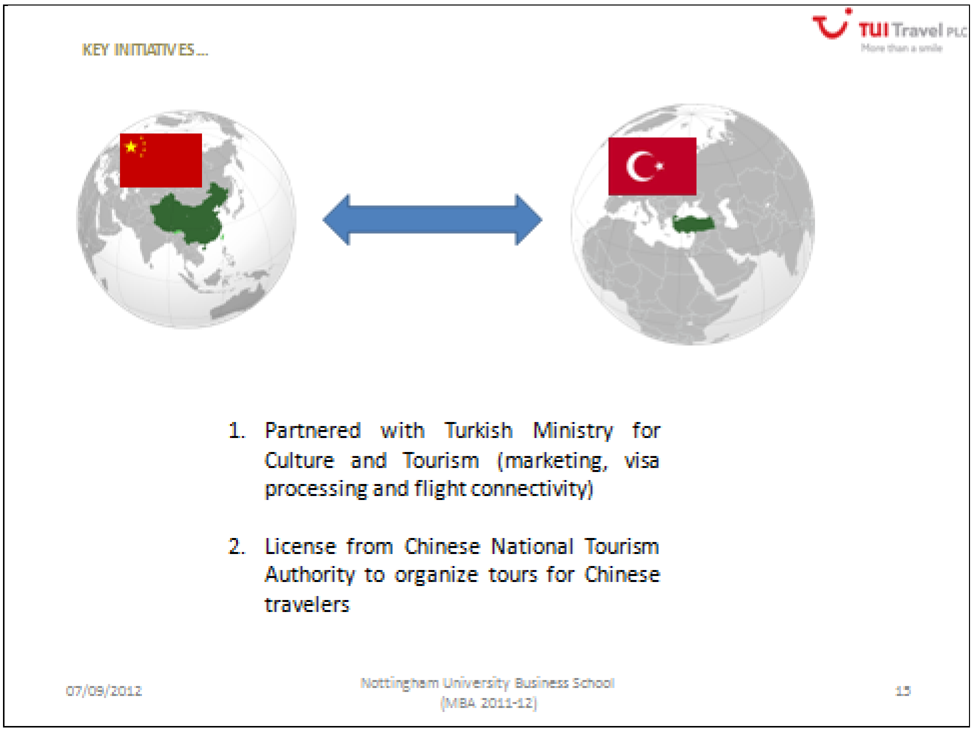
07/09/2012 Nottingham University Business School (MBA 2011-12) 13

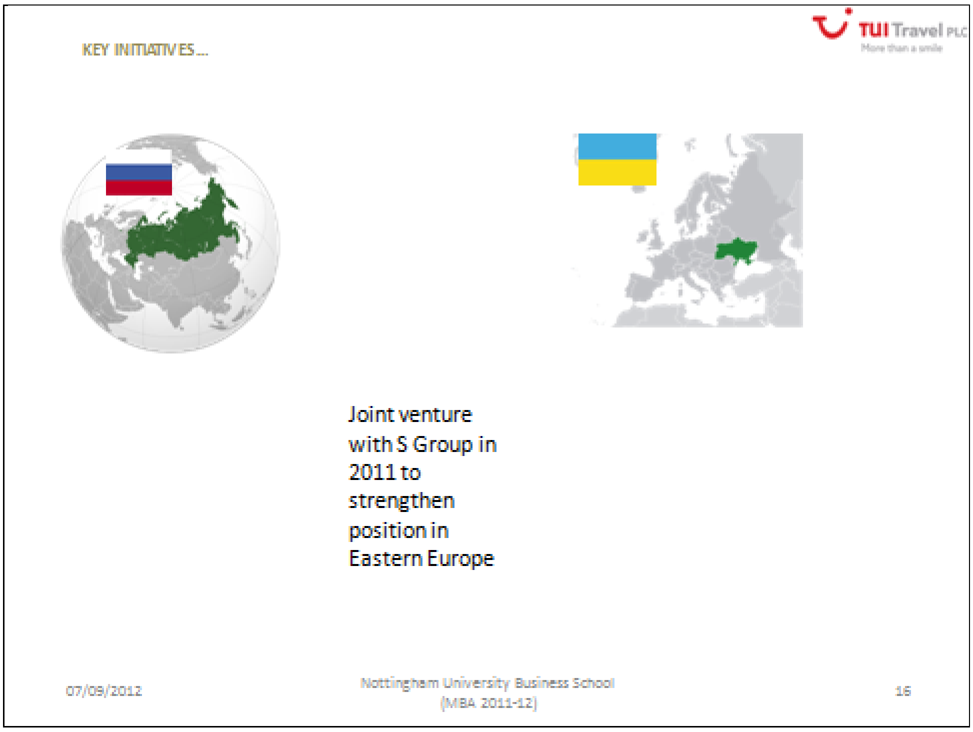
TUI Travel PLC
More than a smile

BUSINESS STRATEGY…



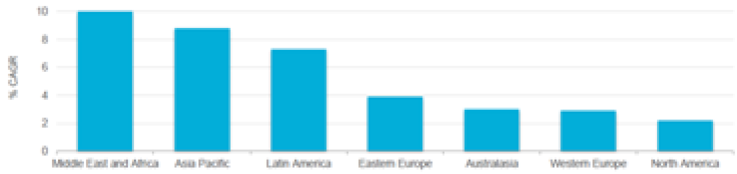
07/09/2012 Nottingham University Business School (MBA 2011-12) 14


KEY INITIATIVES…
TUI Travel PLC
More than a smile
1. Partnered with Turkish Ministry for Culture and Tourism (marketing, visa processing and flight connectivity)
2. License from Chinese National Tourism Authority to organize tours for Chinese travelers
07/09/2012
Nottingham University Business School
(MBA 2011-12)
15


KEY INITIATIVES…
TUI Travel PLC
More than a smile
Joint venture with S Group in 2011 to strengthen position in Eastern Europe
07/09/2012
Nottingham University Business School
(MBA 2011-12)
16

TUI Travel PLC

INTERNET USERS BY REGION…



ONLINE TRAVEL SALES BY VALUE 2011…

	Car rental	Transportation	Travel accommodation	Travel retail
Asia Pacific	4.3	11.1	5.3	14.3
Australasia	51.3	60.1	20.5	15.5
Eastern Europe	28.8	15.3	9.2	4.3
Latin America	3.3	8.6	3.9	8.7
Middle East and Africa	6.0	8.4	9.3	8.4
North America	44.7	52.2	36.5	56.3
Western Europe	36.0	36.2	15.4	24.0

Source: Euromonitor

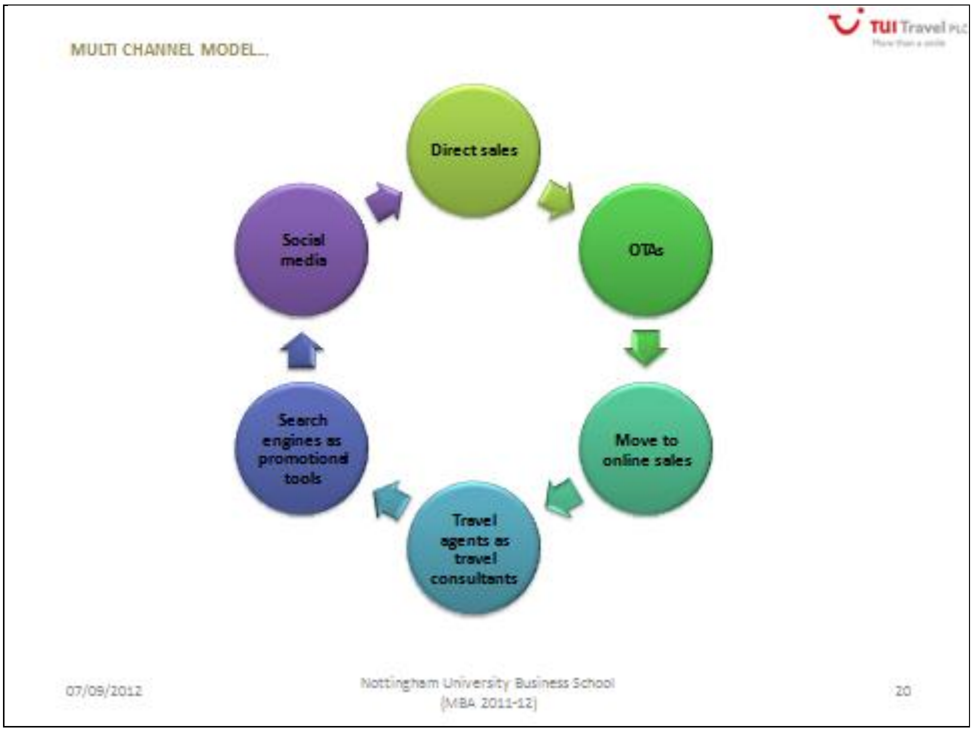
07/09/2012 Nottingham University Business School (MBA 2011-12) 18

TUI Travel PLC

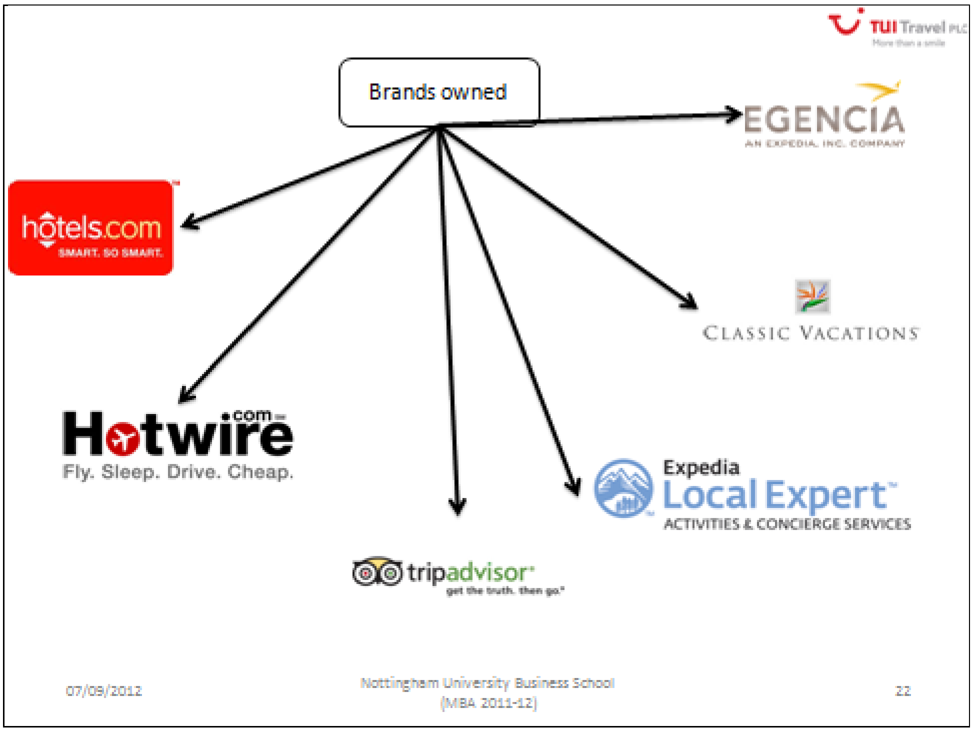
MULTI CHANNEL MODEL…

Source: Euromonitor

07/09/2012 Nottingham University Business School (MBA 2011-12) 19


MULTI CHANNEL MODEL...
TUI Travel PLC
Direct sales
OTAs
Move to online sales
Travel agents as travel consultants
Search engines as promotional tools
Social media
07/09/2012
Nottingham University Business School (MBA 2011-12)
20


SUCCESS STORY...
TUI Travel PLC
Expedia
Where you book matters.
Key acquisitions
venere.com
Find and book Hotels, B&B's, Apartments
艺龙旅行网
eLong.com
mobiata
Travel smart.
Expedia app downloaded 2 million times since launch in 2011
07/09/2012
Nottingham University Business School (MBA 2011-12)
21


TUI Travel PLC
Brands owned
EGENCIA
AN EXPEDIA, INC. COMPANY
hotels.com
SMART. SO SMART.
CLASSIC VACATIONS
Hotwire.com
Fly. Sleep. Drive. Cheap.
Expedia
Local Expert
ACTIVITIES & CONCIERGE SERVICES
tripadvisor
get the truth. then go.
07/09/2012
Nottingham University Business School
(MBA 2011-12)
22


TUI Travel PLC
1.1 million
'friends' on
Facebook
PLAY TO WIN
Choose a FriendTrip
Invite five friends to fill your plane
Choose another trip!
facebook
BOOKING.COM
facebook
Expedia
THE EXPEDIA FRIENDTRIPS
07/09/2012
Nottingham University Business School
(MBA 2011-12)
23

TUI Travel PLC
More than a smile

Travel Retail: Top 10 Global Companies by Value 2007-2011

Company	5-year share trend	2006	2007	2008	2009	2010	2011	% share 2011
Carlson Wagonlit Travel Inc	↑	1	1	1	1	1	1	4.2
Expedia Inc	↑	4	5	4	3	2	2	3.8
TUI Travel Plc	↓	-	2	2	2	3	3	3.2
American Express Co	↓	2	3	3	4	4	4	3.2
Priceline.com Inc	↑	17	12	10	10	7	5	2.8
Thomas Cook Group Plc	↓	-	4	5	5	5	6	2.6
JTB Corp	↑	6	6	6	6	6	7	1.9
Sabre Corp	→	7	7	7	7	8	8	1.7
Orbitz Worldwide Inc	→	-	8	8	8	9	9	1.5
BCD Holdings NV	↑	9	9	9	9	10	10	1.4

07/09/2012 Nottingham University Business School (MBA 2011-12) 24

APPENDIX B: STOBART GROUP

Introduction

Registered Office
Isabelle Chambers
Route Isabelle
St Peter Port
Guernsey
Channel Islands GY1 3TX

Date of Incorporation – 23/11/70

Ultimate Holding Company – Stobart Group Limited

Principal Activities–A large British multimodal logistics company, with interests in Transport and Distribution, Estates, Infrastructure and Civils, Air, Biomass, Brand Promotion and Legal Services, through operations in the United Kingdom, Ireland and Belgium.

Employing 5,500 people at more than 40 sites across the UK, Stobart Group is a FTSE 250 listed company and is a national leader in the multimodal logistics, warehousing and biomass fuel sectors, as well as operating in the property development, port, airport and civil engineering sectors. The Group is fast developing these divisions into industry leaders, and by developing assets such as London Southend Airport, Carlisle Lake District Airport and Mersey Multimodal Gateway in Widnes, is creating new business for the Group's core transport and logistics operations.

It is one of the most recognised and strongest brands in Britain, best known for its iconic Eddie Stobart trucks. It has a road haulage fleet of circa 2,280 trucks and over 7 million square feet of premium quality warehousing. By size, Eddie Stobart has the best vehicle utilisation in the industry, helping to maximise efficiency and environmental benefits.

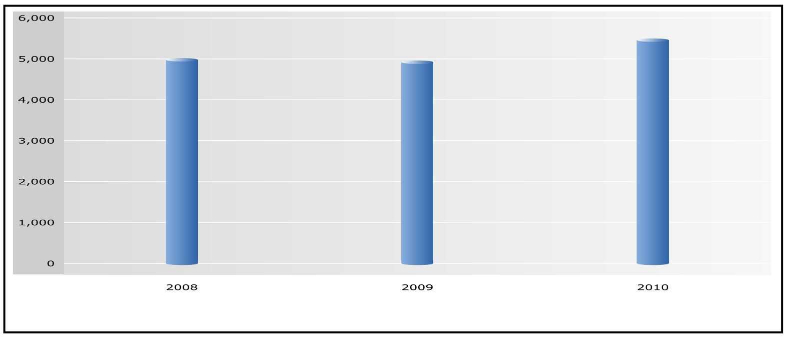
The Group has pioneered several environmental initiatives within the industry such as modal shift from road to rail with the Stobart Rail low-carbon service that brings fresh produce into the UK from southern Europe via the Channel Tunnel. It is also innovating with the creation of Stobart Biomass which reflects the Group's emphasis on sustainability. This positions the Group at the heart of the fast growing and transport intensive market for renewable energy.

Key Facts

- Stobart Group operates from 40 sites in the UK and Europe.
- Eddie Stobart is the iconic name behind a huge road haulage fleet totalling over 2,250 tractor units.
- Eddie Stobart Limited was incorporated in 1970 and celebrated its Ruby anniversary in 2010.
- Each Eddie Stobart vehicle is identified by a unique girl's name.
- Every Eddie Stobart vehicle has three little blue lights on the front to allow Stobart vehicles to be identified at night.
- The first Eddie Stobart truck was named 'Twiggy' by Edward Stobart, after the 1960s supermodel.
- An Eddie Stobart vehicle makes a delivery somewhere in the UK every 5.5 minutes.
- Eddie Stobart has a dedicated training facility in Cheshire.
- Stobart Group owns two airports, London Southend and Carlisle Lake District.
- London Southend is the closest airport in the UK to mainland Europe.
- It will take around 40 minutes from Southend Airport train station to the London Olympic 2012 venue.

- It will take around 50 minutes to get from Southend Airport train station into central London.
- Stobart Group has over six million square feet of warehousing space.
- Stobart Ports handles 150,000 containers every year.
- Stobart Ports brings goods into the UK from more than 100 countries around the world.
- Annual container movements per annum are in excess of 36,000 – 16,000 more than the largest container ship can move in one journey.
- There are 25,000 members in the Stobart Members Club.
- The Stobart brand is among the most recognized in the UK, and has been named a British Superbrand for the past seven years.
- There is over three million sq ft of new cutting-edge warehousing throughout the UK currently under development by Stobart Infrastructure.
- Stobart Rail saves in excess of 33,000 lorry movements per year by conveying goods on its trains.
- Stobart trains save 4,800 tons of carbon dioxide per year compared with road movements.

Number of Employees



Source - FAME

Company Structure

Source – Company Website

Services

Stobart Transport and Distribution - With over 2,250 vehicles and 7 million square feet of warehousing, Stobart Transport and Distribution covers all the Group's transport, storage and handling services, meeting ambient and chilled distribution, and warehousing requirements across ten business units. Operating from 40 sites in the UK and Europe, the Group's multimodal offering includes road transport, rail freight, air operations and port services.

Stobart Estates - Stobart Estates owns a diverse portfolio of properties, ranging from prestige retail sites through light industrial buildings and distribution centres, to premium office space. Stobart Group-occupied property held under the Estates division includes airports and a waterway port in addition to a network of offices, warehouse sites and depots utilised by Eddie Stobart. Estates is also responsible for the management, development and realisation of all Stobart Group land and building assets. Performance of this division is monitored by regular independent third party valuations of investment properties in the same way that any stand-alone property/asset company would be valued.

Stobart Infrastructure and Civils - Incorporating Stobart Rail Infrastructure and Civils, this division delivers internal and external infrastructure and development projects across the Group. A fully comprehensive operation, Stobart Infrastructure and Civils delivers completed projects from the design and planning stage through to hand over, covering a broad range of industrial, warehousing, freight, distribution and rail infrastructure requirements.

Stobart Air - Stobart Air is operator of two complementary airport facilities, London Southend Airport (LSA) and Carlisle Lake District Airport. The Group intends to grow Stobart Air significantly following the completion of London Southend Airport. LSA has developed new routes with major operators including easyJet with the ultimate aim of servicing over two million passengers annually.

The Group is also pursuing air freight, maintenance and airport service opportunities at LSA, including airport retail, private facilities, lounges and fees generated from the rail terminal, which provides up to eight services an hour direct to London Liverpool Street.

Stobart Biomass - The launch of Stobart Biomass Products represents a pivotal move into a rapidly developing new business sector for the Group. Stobart Biomass sources sustainable biomass, primarily life-expired timber and low-grade softwood for the generation of minimum-carbon power plants utilised both in large-scale electricity generation and smaller, on-site industrial power plants.

A significant percentage of the cost of biomass fuel relates to transport and logistics. When coupled with the fact that importation of biomass is on the increase, the Group believes that there are significant benefits and synergies between Stobart Biomass and the Group's road, rail and ports assets.

Stobart Brand - Stobart Group benefits from an exceptionally strong brand. Its high commercial value is built on the maintenance of famously strong brand values across the

Group; values that ensure exceptional service, efficiency and attention to detail; assuring clients that we will deliver their goods in full at the right cost.

The ‘Eddie Stobart’ brand is especially well recognised, reinforced in recent time by the hugely popular Channel 5 TV documentary series ‘Eddie Stobart: Trucks & Trailers’. Now into its third series, the programmes have helped to showcase the business to a whole new audience; building recognition not just amongst customers, but creating a whole new cohort of the famed ‘Eddie Spotter’ trucking fans. As a result Fan Club membership has rocketed, with Stobart Group’s merchandising team reporting record levels of branded goods sales.

Stobart Group is one of the longest continuous sponsors in the English football league, its backing of Carlisle United Football Club helping the team win a number of national trophies. Stobart also sponsors Super League Widnes Vikings Rugby team. Finally, Stobart Group also provides ongoing support to the Professional Jockeys’ Association, enabling it to introduce an insurance scheme that recompenses racing jockeys who suffer career-ending injury.

- Stobart Sport
    - Widnes Vikings Rugby League
    - Carlisle United Football Club
    - Stobart Polo
    - The Professional Jockey Association
    - Stobart Motorsport
- Stobart Club
- Stobart Shop

Strategy

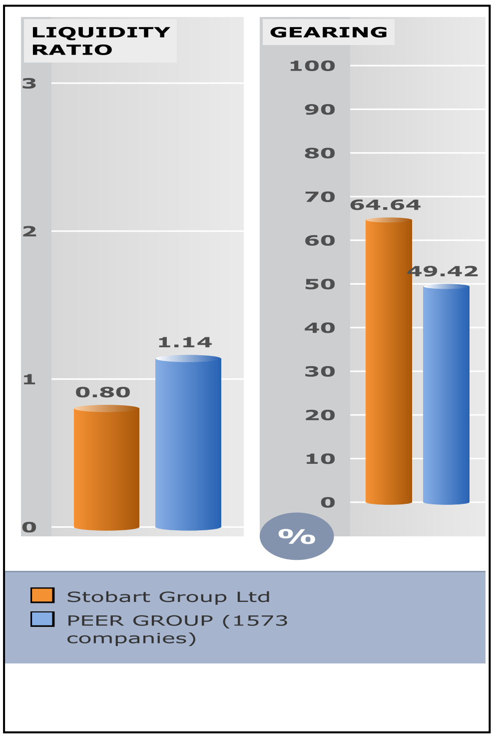
Stobart Group’s vision is to become the UK’s leading provider of multimodal transport and logistics solutions. To achieve this vision, they have developed a three year strategic programme aimed at delivering business growth and shareholder value. Under the strategy the aim is to expand all forms of transport provided by the Group; especially with the rail, sea and air sectors; and establishing operational infrastructures in the best places to service the maximum number of customers.

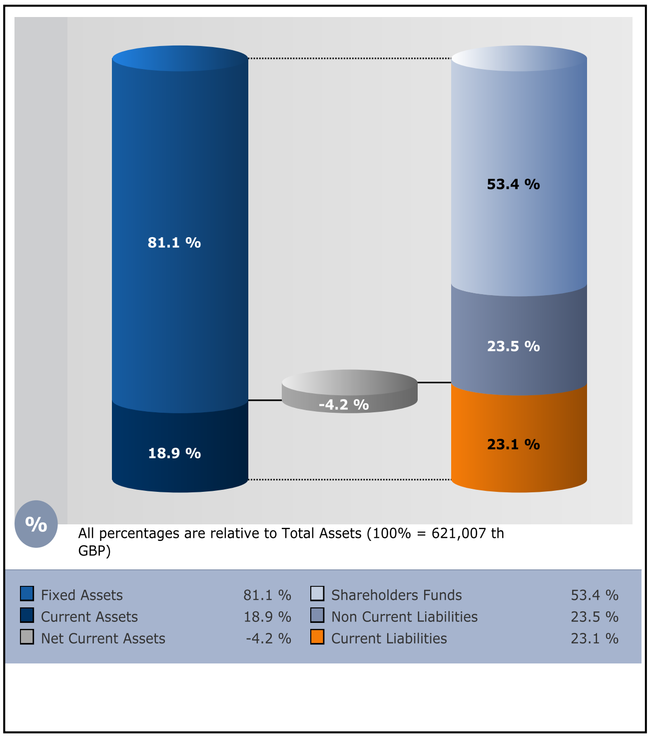
The brand, people and systems underpin their strategy:

- Forming new partnerships with customers to further drive efficiencies.
- To seize the opportunities, operationally, as the economy comes out of recession, building on key competitive advantages, such as load utilisation and pooling customers.
- To market and develop assets to customers and then sell these assets where appropriate, at a profit to be reinvested in the business.
- To develop systems and technologies that protects the business from operational and financial risk.
- To grow organically with both existing and new customers.
- To take waste out of the system.
- To increase business in the United Kingdom, Ireland and mainland Europe.
- To leverage the high value in the Stobart brand.

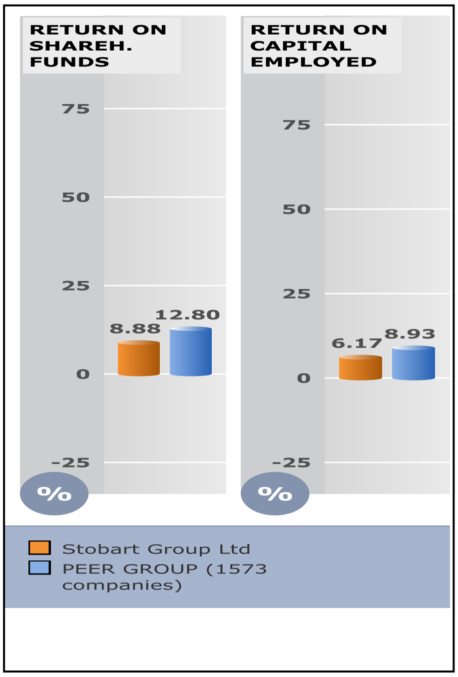
Financials

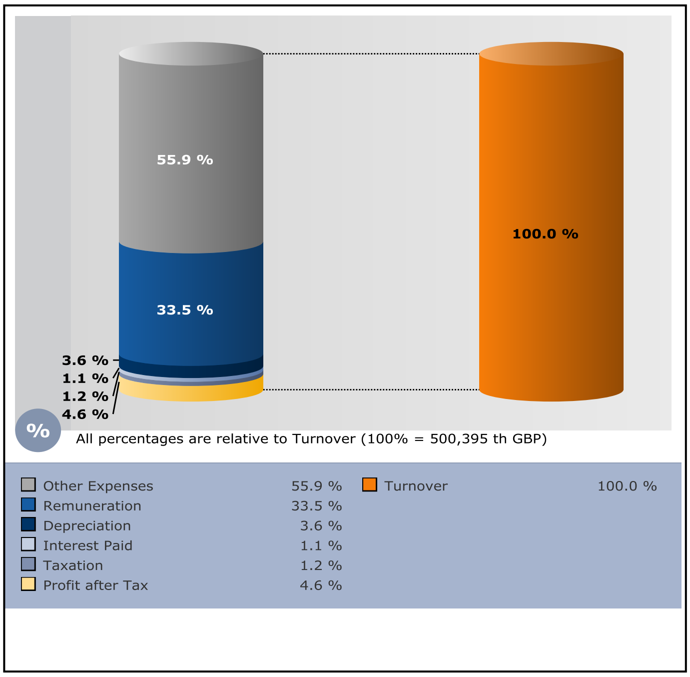
Balance Sheet



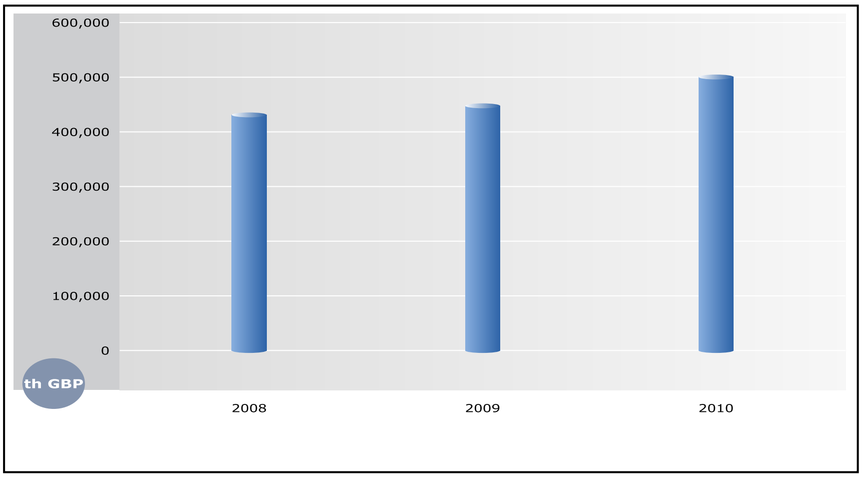


Profit and Loss

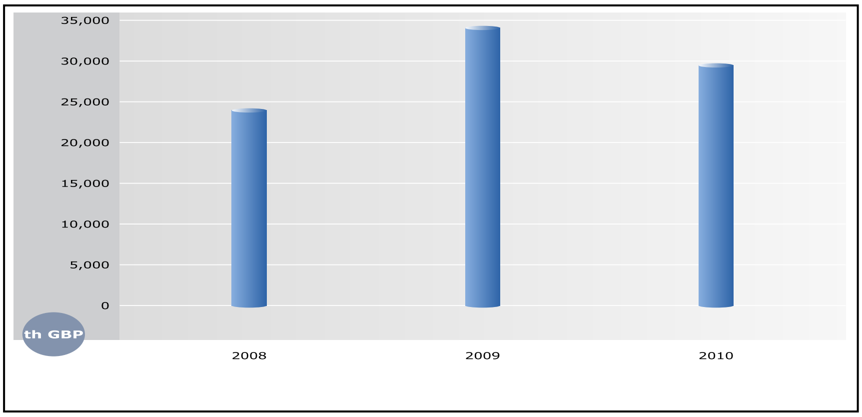




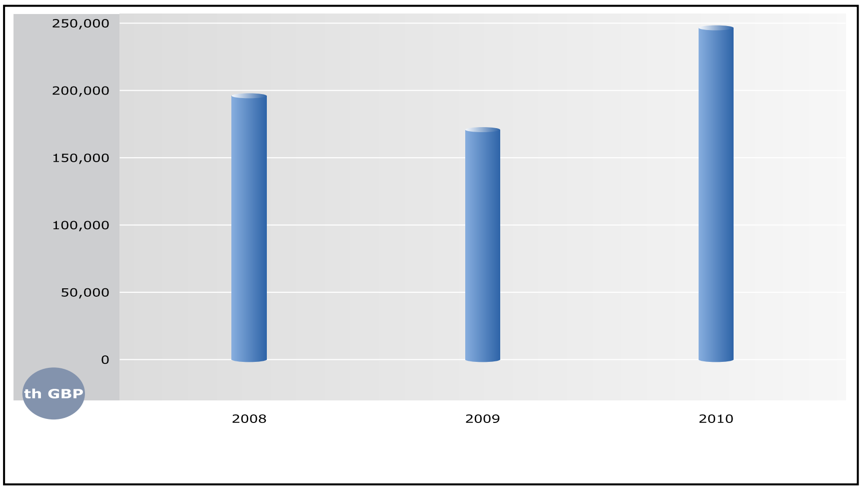
Turnover



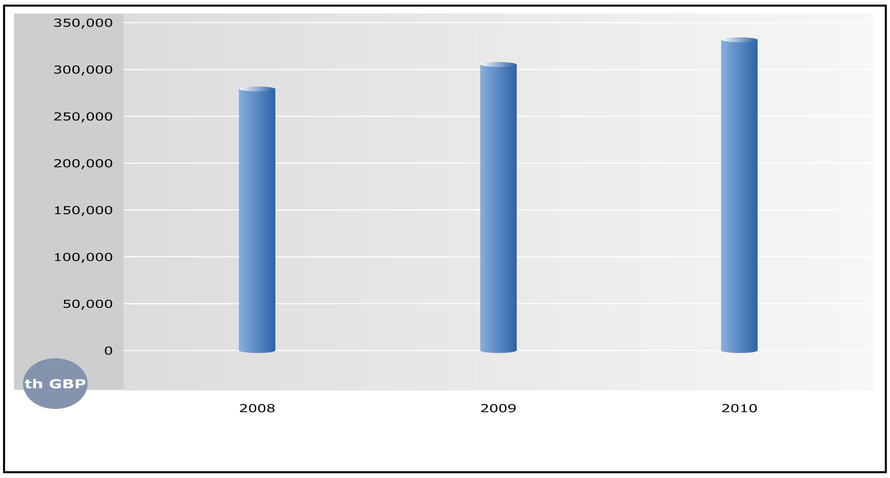
Profit before Tax



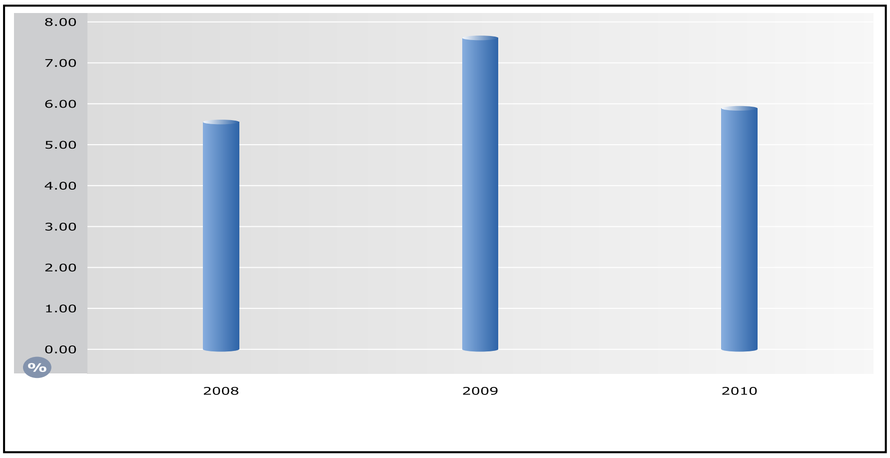
Net Assets



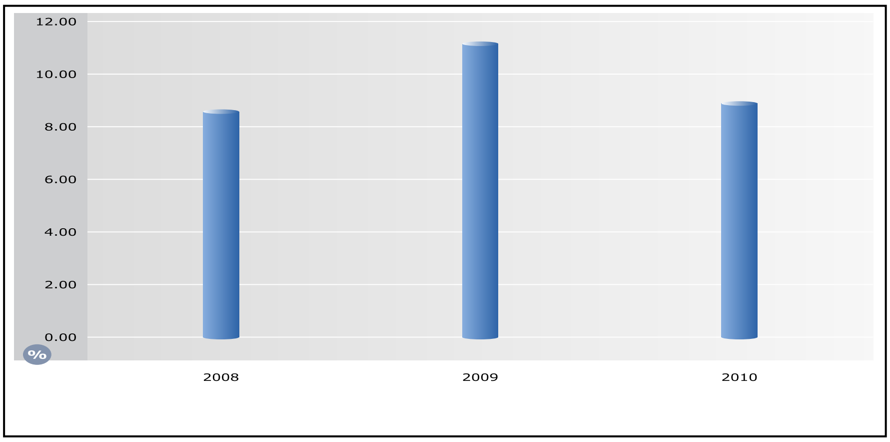
Shareholders' Fund



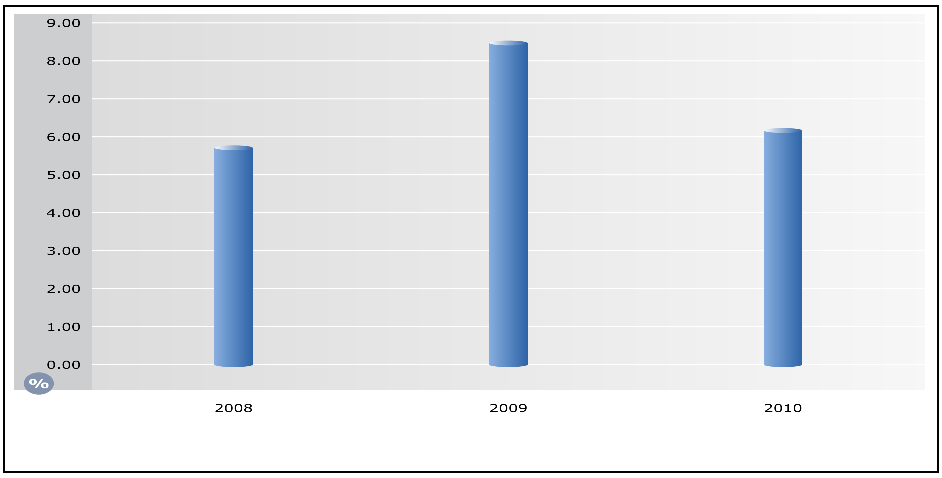
Profit Margin



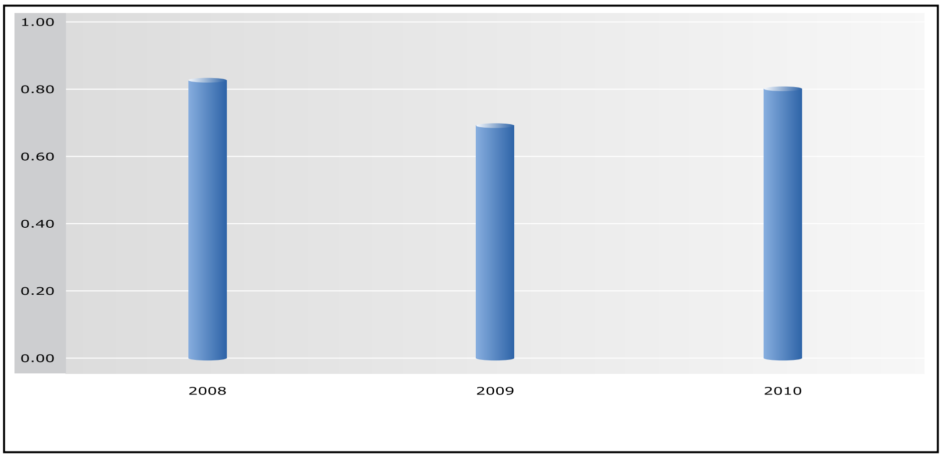
Return on Shareholders' Funds



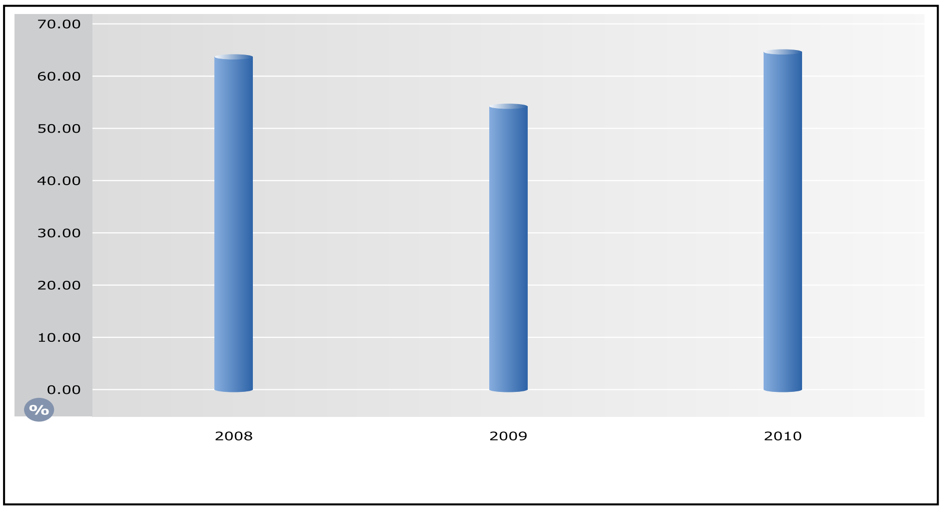
Return on Capital Employed



Liquidity Ratio (x)



Gearing (%)



Source – FAME

Stobart Transport and Distribution

Revenue for the Transport & Distribution division was £519.5 million (2011: £475.3 million) and underlying profit before tax reduced to £27.4 million (2011: £34.2 million).

Revenue growth has been driven by new and renewed contracts (including the new contract for Tesco grocery at the Daventry rail terminal), a full year of the Britvic contract and growth in transport work for Stobart Biomass.

£11.4 million of the revenue increase can be attributed to fuel price increases passed on to customers. This has a 0.2% downward impact on margins. They have incurred cost increases of circa £4 million, which have not been fully recovered through rate increases, mainly due to the increase in customers' costs.

In addition, the profitability of the division has been affected by fluctuating customer order volumes caused by a high level of retail promotions and also by reduced volumes in the chilled fleet and reduced utilisation of warehouses. The division has refocused on cost efficiency and profitability.

Stobart has greatly improved the timeliness and detail of their business information, which allows them to pinpoint where time and money is lost within the fleet and take actions to improve performance. Improved 'Time-Based Planning' systems enable them to record every element of each vehicle's journey, which is summarised in real time and analysed in detail at the end of every week. L

Improved management information led to restructuring the ambient fleet business to increase the utilisation of the vehicles and reduced costs in parts on the fleet. This had a one-off cost of £1.4 million and savings of £1 million per annum. A depot in Leeds was closed down and reduced headcount by around 282 adjusting to a more optimal ratio of tramper drivers to day-night drivers.

Restructure of the chilled transport operation is on the cards and will involve closing two existing sites and transferring operations to a new site at Magna Park in Lutterworth. This is expected to lead to a significant saving in mileage and reduction in vehicles, drivers and site staff required to service the existing work. One-off costs of site closures and new site set up costs are estimated in the region of £2.9 million and fall in the financial year to 28 February 2013. This restructuring should lead to ongoing cost savings of approximately £1.5 million per annum.

Transport & Distribution Financial Highlights and KPIs

	2012	2011
Revenue £m	519.5	475.3
EBITDA £m	44.7	53.0
PBT £m	27.4	34.2

2012 Highlights

- Ambient fleet restructured into manageable units. Ambient depot network reviewed and driver mix optimised. Ambient volume growth consolidated.
- New operational fleet management tool known as 'Time- Based Planning' introduced.
- New Bellshill chilled site comes on-stream for a major customer.
- Consolidation and reorganisation underway of chilled operation.
- Warehouse management reorganised.
- ISO 9001 quality management accreditation achieved throughout all warehousing sites.

Three Year Plan

1. **Structure:** Account management to be reorganised. Chilled network reorganisation and restructuring.
2. **Environmental:** Full proving and, if successful, large-scale, introduction of the new extended Enviro-Trailers. Development confirmation for low carbon and fuel efficiency programmes, including use of biofuels, dual fuel vehicles and further improvement of SAFED driving standards amongst the drivers. Extension of ongoing drive for road-to-rail modal-shift with both existing and new customers.
3. **Skill base:** Further improvement of workforce skilling through the Management Development Programme and First Line Management training initiatives.
4. **Efficiency:** Rolling improvement of warehouse network utilisation levels and development of capabilities to deliver additional services. Ongoing drive to reduce costs and waste from the Division, delivering further improved efficiency and achieving better returns. Automation of Traffic Planning.

5. **Marketing:** Identification and development of new markets and potential customers. Introduction of a Stobart Driver franchising programme.

Sub-Divisions

1. UK Ambient Operations

Following the restructure, these operations are separated into eight fleets with General Managers responsible for their own profit and loss. Time Based Planning software was launched and has resulted in improvements in profit of over 20% in the second half of the year compared to the first six months.

2. UK Chilled Operations

There have been some business wins, notably with Arla Foods. However, the chilled network suffered volume decline in the second half of the year impacting profit by around £3 million. Whilst still profitable, it has been materially affected compared to the previous financial year. The Time Based Planning software was introduced at the start of this calendar year and a restructuring exercise is in place to enhance profits by over £1.5 million per annum in future.

3. International and Ireland

Irish International business has continued to grow and customer sites are performing well. Stobart continues to invest in growing the general fleet and warehousing with other customers in Ireland and have incurred further business set up costs of £1.9 million in the year. In continental Europe niche service offerings in F1 and motorsport have performed very well but remain seasonal.

4. Environmental Transport

These operations were established to support the growing biomass market. The foundations are in place to support the huge growth expected in this sector.

5. Rail Freight

In 2011 Stobart Rail Freight began operation of the new rail terminal at Tesco's Daventry Grocery Distribution Centre. The new terminal offers greater control, flexibility and efficiency for every customer wishing to use Stobart rail services to and from the Midlands. The new terminal acts as a central hub, enhancing the rail solutions for distribution by rail across the UK. Potential routes are constantly in development and new services are planned in the next twelve months.

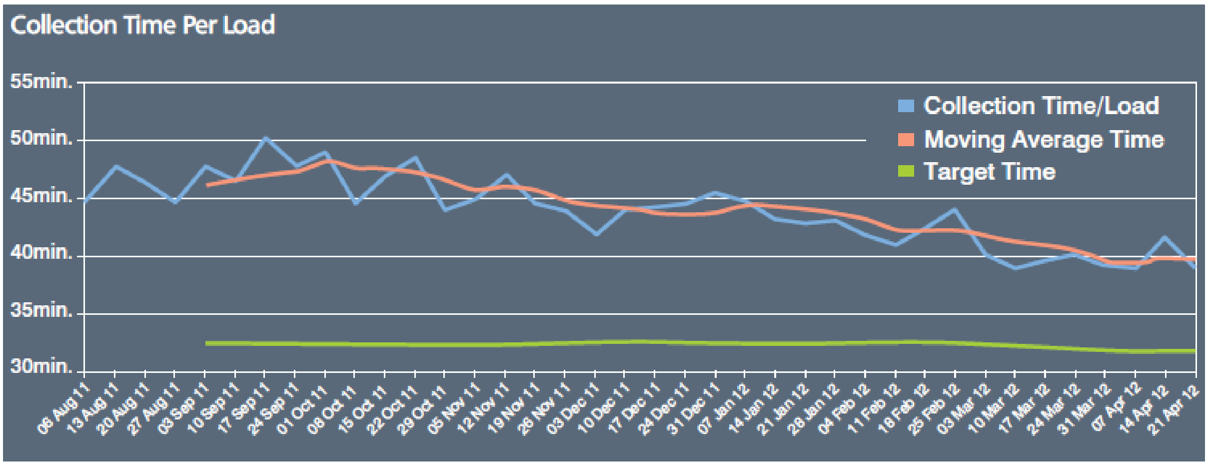
6. Warehousing

Warehousing has experienced a mixed year with growth in certain sites, including Daresbury, but some voids in other parts of the UK, particularly during the second half of the year. The majority of these have been rectified and empty space continues to be filled.

7. Port Operations

Whilst increasing the throughput at the terminal to over six trains a day, this operation has also extended its container transport offering with tramper drivers now widening the network.

Time Based Planning



Stobart's new data capture system represents an extremely powerful reporting tool, which allows haulage operations to be viewed from almost any angle; enabling them to act quickly on the results.

Time Based Planning is Stobart's unique system of capturing haulage data and analysing that data to track financial performance, operational trends and drive business improvements. At the start of each week 50,000 lines of data are downloaded from haulage planning and tracking systems detailing every delivery made in the previous week and providing information such as:

1. Time spent at each stage of the load (collection, journey, delivery and trip to the next collection)

2. Deviations of these actual times to model times for that route

3. Distance travelled to deliver the load and then empty to collect the next load

4. Revenue earned from the job

5. Details of which fleet, driver and truck carried out the run and for which customer

Hourly costs derived from weekly fleet management accounts are then applied to this time data to attach a cost to each stage of the journey. Profitability of any required subset of the data can be assessed, ranging from: the week as a whole; to a particular fleet of trucks; to a certain driver or truck; to a selected collection or delivery site. As such Time Based Planning is an extremely powerful reporting tool, allowing haulage operations to be viewed from almost any angle and enabling prompt action. By monitoring a set of key performance indicators over time, data trends can be recognised to improve profitability.

For example, by identifying particularly high collection times from a particular site and quantifying the associated cost, the cause of delays can be identified and by working with the customer Stobart can reduce it to deliver cost savings. When as little as a 5 minute reduction in collection time per load at a customer site visited 500 times a week can deliver a cost saving of £65,000 a year, the potential benefits of Time Based Planning are considerable.

Business Case

Warehouse and Carrier Management Systems

Research has shown that logistics companies are swamped with information and data, which they need to sift through in order to solve their operational issues. Information gathered needs to be linked with immediate action to respond to market threats and opportunities. There is a need for information systems to support logistics processes and companies are investing in better technology. By leveraging information, companies are able to make better decisions and improve their efficiencies; which make them serve their customers better and hence be more profitable. Information technology is being employed for various stages of logistics, like –

- Transport management
- Warehouse management
- Yard management
- Operations planning
- Scheduling

This leads to better control and cuts down on wastage, which is what Stobart aims at achieving as part of their strategy. They will need to commit their resources and capabilities in order to achieve their desired goals, as well as involve their customers.

There are many companies in the market who offer solutions to improve and optimise fleet management, transportation, warehousing and supply chain. Some of them are SAP, Manhattan Associates, Red Prairie etc.

Company Culture

Stobart Group's people form the foundation of its success. They work hard to maximise their opportunities to grow and develop within the business. The Group utilises its own highly experienced trainers, as well as leading external providers, to ensure every training course is tailored to match the business's precise needs; enabling people to apply learning directly back into the workplace, and maximising benefits to both the business and its employees.

Key Initiatives

1. 3P – developing the right people
2. Invest in people
3. Staff recruitment
4. Eddie Stobart Training Academy
5. Driver training
6. Specialist rails and civils training
7. Driver apprenticeships
8. Management safety training
9. Engaging employees in safety cultures

Executive Team

Rodney Baker-Bates
Group Non-Executive Chairman

Rodney Baker-Bates is a seasoned director of large UK PLCs with a long career in the City and international finance sector. He has held a series of senior positions across the sector, including managing director of UK banking at the Midland Bank and chief executive at Prudential Financial Services, as well as serving on the management committee of the BBC. He was formerly a Non-Executive Director of C. Hoare & Co and Deputy Chairman of Co-Operative Financial Services Ltd.

In addition to his role as Group Non-Executive Chairman of Stobart Group, his current roles include Chairman of Assura Group and EG Consulting Ltd. He also serves as a Non-Executive Director on the Boards of several other companies including Bedlam Asset Management plc and Atlas Farm Group.

Andrew Tinkler
Chief Executive Officer

A life-long entrepreneur, Andrew Tinkler's first involvement with the Eddie Stobart business was as a friend of the Stobart sons and an occasional cleaner of trucks for the company as a teenager. He later served his apprenticeship as a cabinet maker and went self employed in the mid-1980s, forming WA Tinkler Building Contractors, in Carlisle.

Following a series of successful contracts the company became WA Developments with a start-up turnover of some £600,000 a year. WA Developments became a thriving and hugely successful business, completing large civil engineering and railway infrastructure contracts across the UK and in Europe. By the late 1990s the company's turnover had grown to more than £20 million a year and Andrew's old friend William Stobart joined the business as a shareholding director in 2001.

Soon, Andrew took a renewed interest in the Eddie Stobart business, and with William Stobart, acquired the company in 2004, immediately becoming CEO. The Stobart Group now counts airports, ports, rail, biomass and estates businesses as part of the Group. Andrew is credited with turning the company around during the years following the 2004 acquisition, and is central to the strategic development and vision that forms the backbone of the Group's multimodal offering and FTSE250 listing today.

Ben Whawell
Chief Financial Officer

Ben Whawell joined the Board as Chief Financial Officer in March 2008. Ben started his career in Grant Thornton where he qualified as a Chartered Accountant and progressed to Senior Corporate Finance Manager. He joined Stobart in 2004 after advising on the acquisition of the Group by WA Developments International.

Since joining Stobart, Ben has managed the International Division, led a number of other areas in the Group, implemented financial and IT changes across the business and was involved in the merger with Westbury in 2007. Since the formation of the Company, he has overseen the acquisitions of James Irlam, Innovate Chilled, WA Developments, LSA, CLDA and more recently the Biomass business. Ben received the North West Financial Director of the Year Award in 2009.

Michael Kayser
Non-Executive Director

Michael is a fellow of the Chartered Institute of Management Accountants, and has extensive experience in major corporate transactions, both in quoted and private markets internationally.

He has held a variety of Board level finance appointments at Laporte PLC, Doncasters Ltd, Amey PLC, Lloyd's Register and Guiness Brewing Worldwide. In addition to his role as a non-executive director on the Board of Stobart Group, Michael also serves on the Board of Biome Technologies and holds a number of positions with private and charitable organisations.

David M M Beever
Non-Executive Director

David Milton Maxwell Beever is a former Vice Chairman of S G Warburg and Co. where he was Head of Financing and handled major corporate finance transactions for UK and International companies. He then joined KPMG where he was a member of the UK Board and Chairman, UK and International. Corporate Finance.

He is currently the Senior Independent Director of Premier Foods plc. He has previously been Chairman of Volex Group plc and London and Continental Railways Ltd. He was also a Non-Executive Director of Paragon Group of Companies, JJB Sports, Northern Electric, TLS Group and Servomex plc. He is a member of the Board of Trustees, University of London, and a Vice Chairman of Royal Holloway College, London University.

Appointed to the Stobart Group Board on May 23rd 2011.

Alan H M Kelsey
Non-Executive Director & Senior Independent Director

Alan Howard Mitchell Kelsey, aged 62, has forty years' experience in the City and industry, with a strong focus on the Transport sector. His banking roles included Deputy Head of Corporate Finance at Smith New Court (which became Merrill Lynch) and Co-Head of Corporate Broking and Global Head of the Transportation Industry Group at WestLB Panmure. He spent fifteen years at RBC Dominion Securities International and Kitcat and Aitken and in that time was the top ranked investment analyst for the Transport sector.

He was Group Corporate Development Director at National Express Group PLC, where he was one of the executive directors and was a non-executive director at PD Ports PLC where he was the senior independent director. He is currently Chairman of Nord Anglia Education Ltd (having previously been Chairman of Nord Anglia plc) and is a Fellow of the Chartered Institute of Logistics and Transport.

Appointed to the Stobart Group Board on May 23rd 2011.

Paul Orchard-Lisle, CBE
Non-Executive Director

Paul David Orchard-Lisle, aged 72, has nearly fifty years' experience in the property sector. He joined Healey & Baker in 1961 where he was Head of Investment between 1986-1998 and Senior Partner between 1987-1999. He oversaw the Company's merger with Cushman & Wakefield in 1998, forming a global company, covering the entire commercial property spectrum with a turnover in excess of $700m.

Paul was previously President of The Royal Institution of Chartered Surveyors and Chairman of Slough Estates (now Segro plc) and executive chairman of the Falcon Property Trust. He is Chairman of Standard Life Investments Property Income Trust and a Director of Powerleague Limited, as well as Chairman of Apache Capital LLP and a Senior Advisor to Patron Capital.

Appointed to the Stobart Group Board on May 23rd 2011.

William Stobart
Chief Operating Officer

A member of the Eddie Stobart family, William started his career with the haulage company as a teenager, carrying out a broad spectrum of roles during three decades in the business, including HGV driver, planner and distribution manager. This comprehensive early experience at the heart of the UK transport and logistics sector provided William with an in-depth knowledge and understanding at every level in the business.

In 2001 William joined Andrew Tinkler at WA Developments as a shareholding director to pursue other entrepreneurial interests, and in 2004, following the pair's acquisition of Eddie Stobart Limited, he returned as Chief Operating Officer.

As COO William focuses his extensive experience and leadership skills on the core operations of the group with a particular responsibility for the transport and distribution division.

Richard Butcher
Deputy CEO and Company Secretary

Deputy-CEO and Company Secretary for the Group, Richard Butcher heads up the Stobart Estates division and brings a long track record of asset management and financial expertise to the Executive Board. He has been part of the Stobart business since 1997, when he joined following 14 years in senior positions within HSBC Corporate Finance.

As one of the longest serving Stobart leaders on the Executive Board, Richard has held a number of key positions within the company including managing director of Eddie Stobart Limited. More recently Richard has played a key role in the development and leveraging of the company's property assets, such as the Group's extensive land and commercial interests in the North West. He has also concentrated on other property purchases and disposals across the Group, as well as continuing the Stobart tradition of building close and lasting relationships with customers. Richard is also responsible for managing the Group's extensive insurance requirements

Allan Jenkinson
Chief Executive Stobart Biomass

Founder of AW Jenkinson Forest Products, Allan started in business in the mid-1960s by collecting the unwanted sawdust from mills around Penrith in Cumbria and selling it on to local farms to meet the demand for bedding in cattle sheds.

A pioneering environmentalist, Allan's business expanded across the North West and into Scotland, with the growth of new emerging uses for timber by-product such as bark for garden mulch and peat-free compost preparations. Today, demand for such products worldwide is enormous, with timber by-product used on an industrial scale for board manufacture and fuelling new carbon neutral power stations.

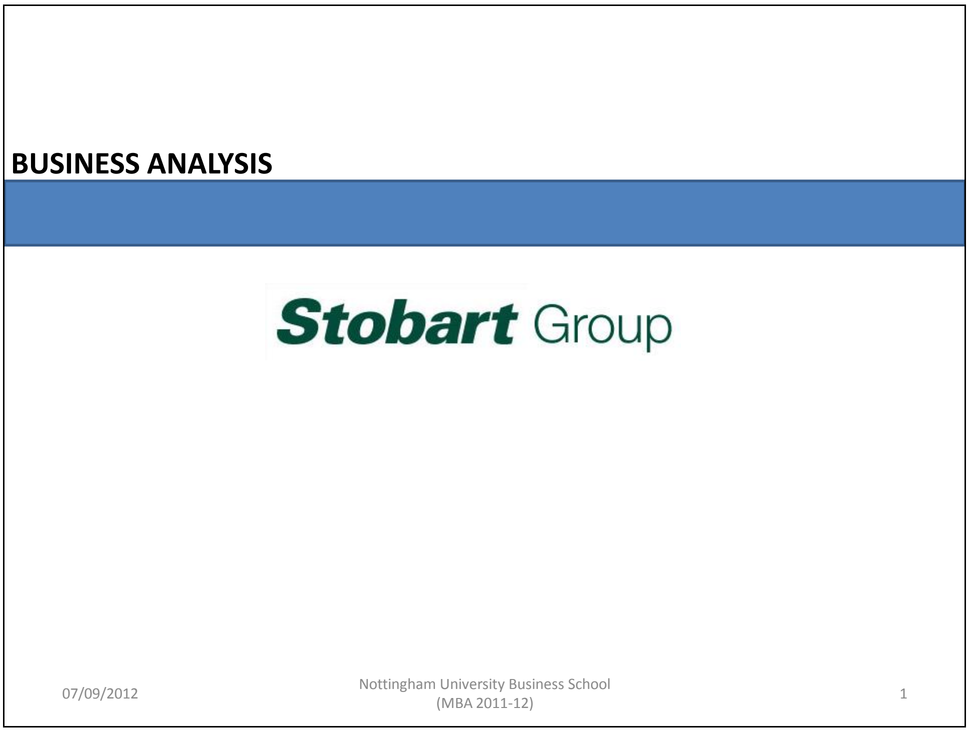
In partnership with the Stobart Group, the business has grown further still, now handling several million tonnes of timber by-product a year and running a fleet of some 500 specialised vehicles to manage the substantial haulage and logistics operation. AW Jenkinson Forest Products services link forestry, sawmilling, wood processing, building and wood recycling sectors with the demand for pulp, paper and panel manufacture, agriculture, horticulture and amenity markets in an environmentally responsible cycle that makes maximum use of forest resources. The partnership with Stobart Biomass services the rapidly growing market for renewable energy generation.

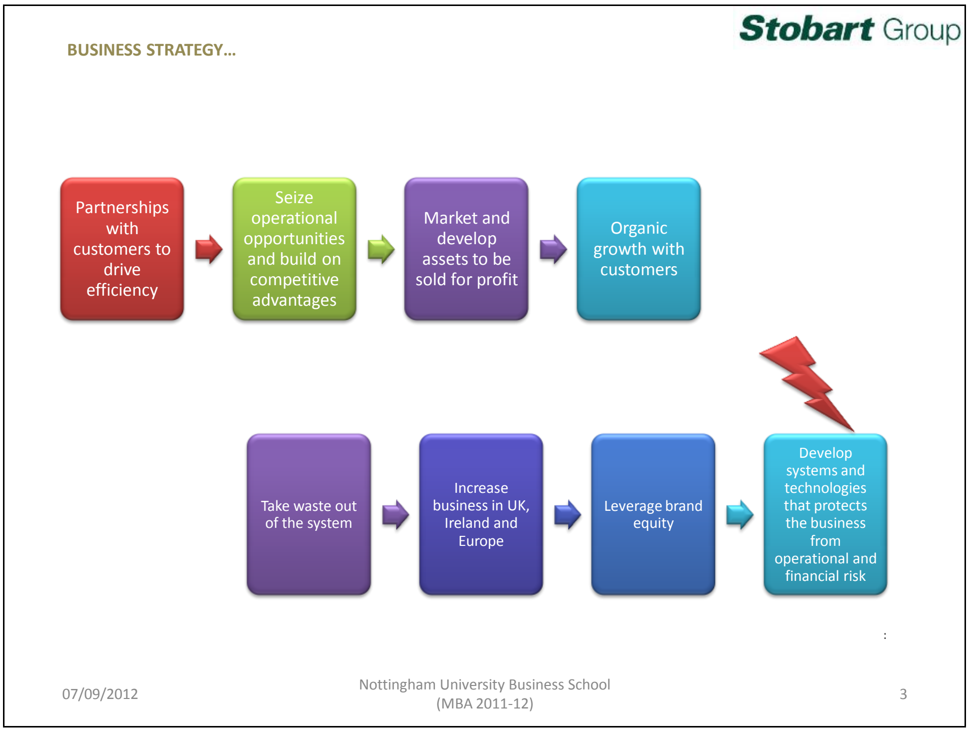
Charles Egerton
Director Stobart Biomass

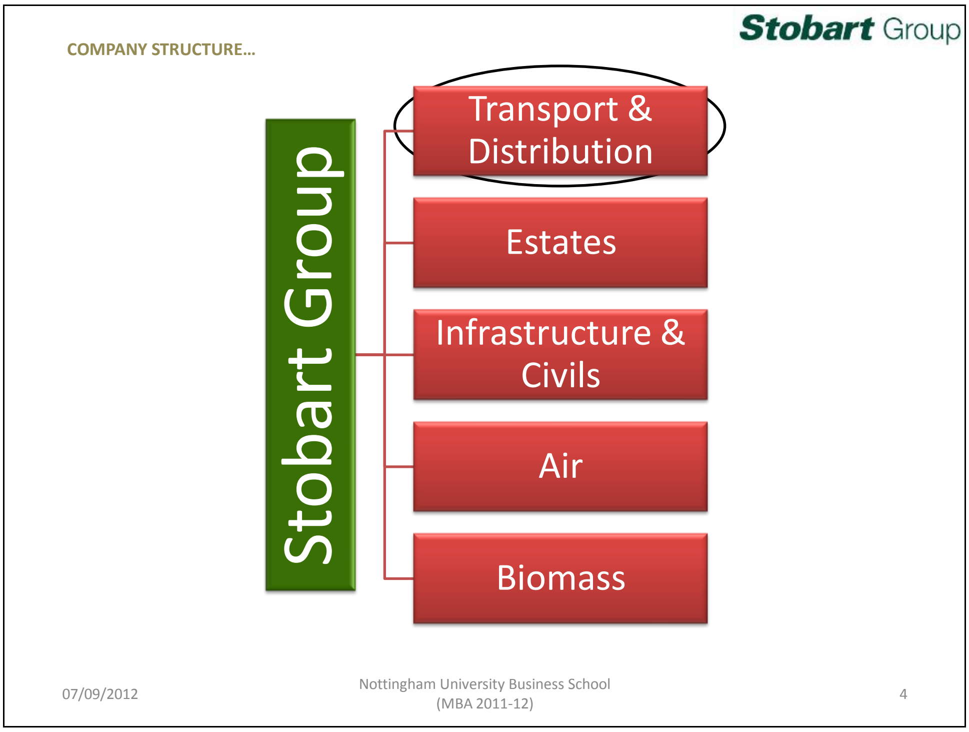
A qualified chartered accountant, Charles has spent the last 11 years in the biomass industry, initially with A.W. Jenkinson Forest Products as finance director, and now also as a director of the Stobart Biomass business. Charles was instrumental in orchestrating the partnership between Stobart Group and A.W. Jenkinson in 2009, and has very successfully helped grow the joint venture since then.

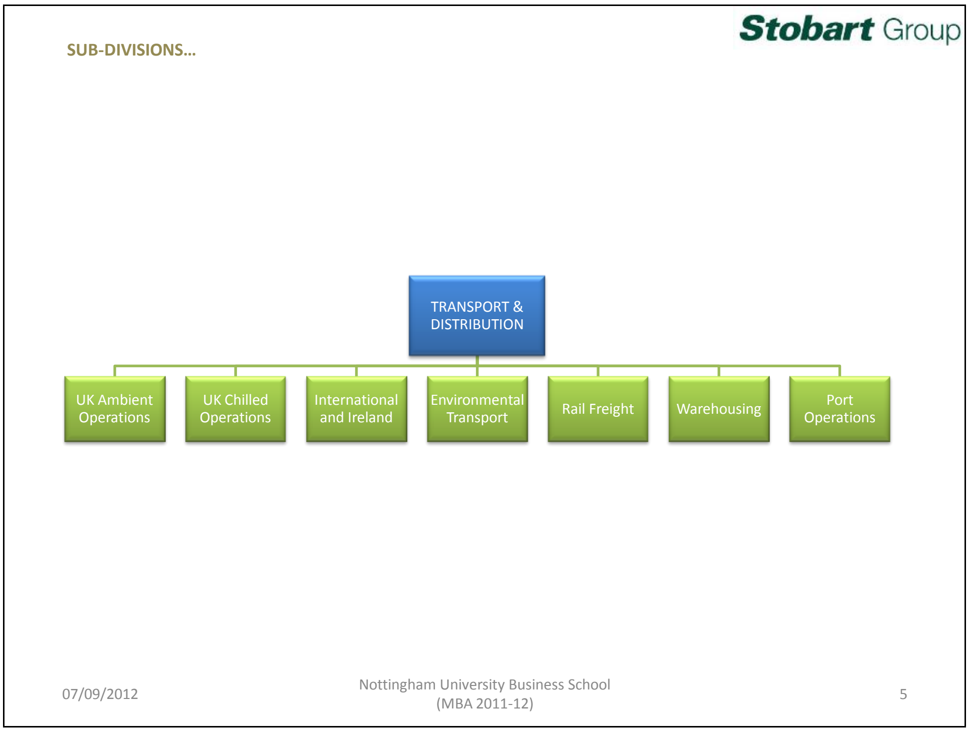
Charles completed his accountancy training with KPMG in London in 1974 and soon after moved within the company to their Australasia head office in Sydney. At the end of the 1970s he returned to the UK with his family to become a partner in Cumbria-based accountancy firm Armstrong Watson & Co before joining A.W. Jenkinson Forest Products as finance director in the late 1990s.

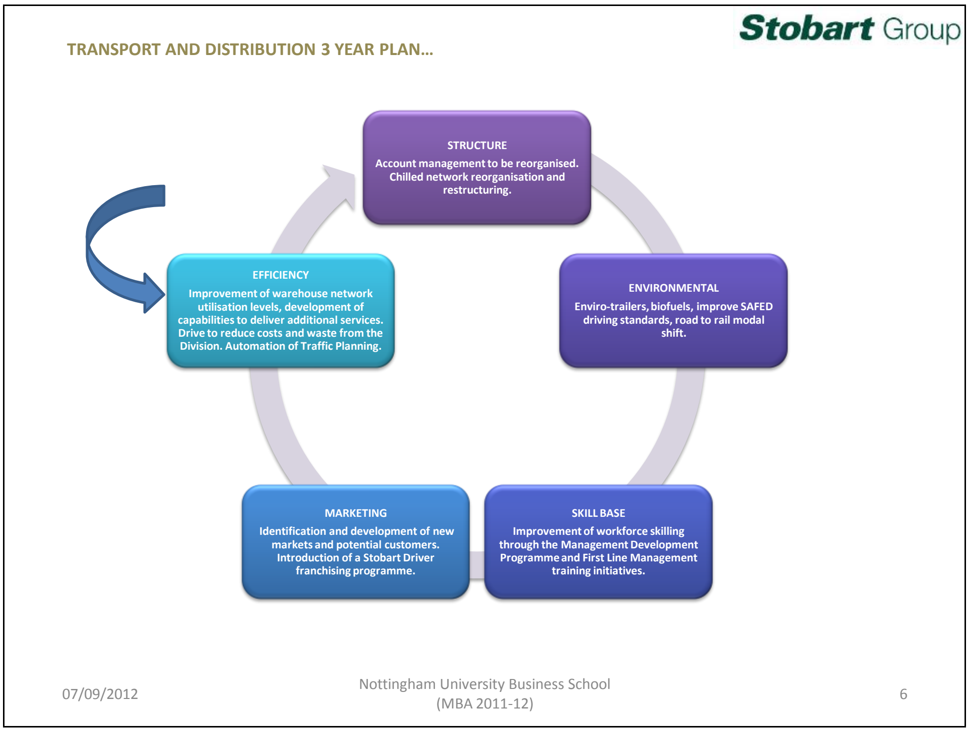
Presentation to TCS




Stobart Group
BUSINESS STRATEGY…
Partnerships with customers to drive efficiency
Seize operational opportunities and build on competitive advantages
Market and develop assets to be sold for profit
Organic growth with customers
Take waste out of the system
Increase business in UK, Ireland and Europe
Leverage brand equity
Develop systems and technologies that protects the business from operational and financial risk
07/09/2012
Nottingham University Business School (MBA 2011-12)
3

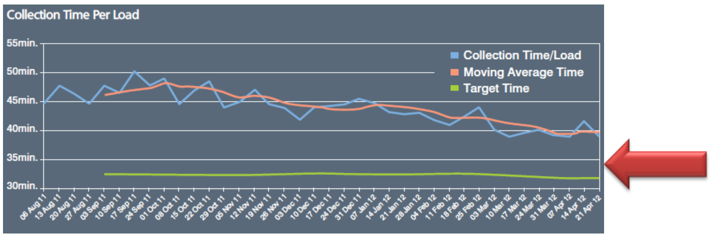

Stobart Group
COMPANY STRUCTURE…
Stobart Group
Transport & Distribution
Estates
Infrastructure & Civils
Air
Biomass
07/09/2012
Nottingham University Business School (MBA 2011-12)
4


SUB-DIVISIONS…
Stobart Group
TRANSPORT & DISTRIBUTION
UK Ambient Operations
UK Chilled Operations
International and Ireland
Environmental Transport
Rail Freight
Warehousing
Port Operations
07/09/2012
Nottingham University Business School (MBA 2011-12)
5


TRANSPORT AND DISTRIBUTION 3 YEAR PLAN…
Stobart Group
STRUCTURE
Account management to be reorganised. Chilled network reorganisation and restructuring.
ENVIRONMENTAL
Enviro-trailers, biofuels, improve SAFED driving standards, road to rail modal shift.
SKILL BASE
Improvement of workforce skilling through the Management Development Programme and First Line Management training initiatives.
MARKETING
Identification and development of new markets and potential customers. Introduction of a Stobart Driver franchising programme.
EFFICIENCY
Improvement of warehouse network utilisation levels, development of capabilities to deliver additional services. Drive to reduce costs and waste from the Division. Automation of Traffic Planning.
07/09/2012
Nottingham University Business School (MBA 2011-12)
6

Stobart Group

TIME BASED PLANNING…



INFORMATION GATHERED…

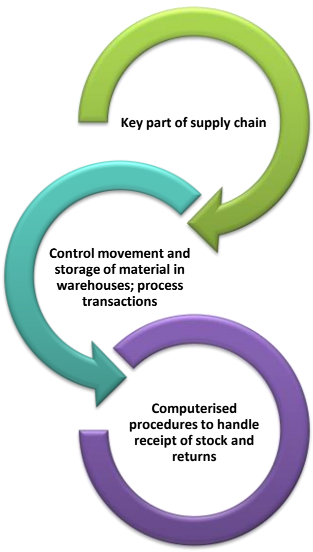
1. Time spent at each stage of the load (collection, journey, delivery and trip to the next collection)
2. Deviations of these actual times to model times for that route
3. Distance travelled to deliver the load and then empty to collect the next load
4. Revenue earned from the job
5. Details of which fleet, driver and truck carried out the run and for which customer

Source: Annual Report 2012

07/09/2012 Nottingham University Business School (MBA 2011-12) 7

Stobart Group

WAREHOUSE MANAGEMENT SYSTEMS…



07/09/2012 Nottingham University Business School (MBA 2011-12) 8


MOST RECOMMENDED SYSTEMS…
Stobart Group
Accellos WMS
Manhattan Associates. The Supply Chain People.
Royal 4 Systems Integrates
voxware
Voxware's Voice Solution With
W.I.S.E. Warehouse Management System
WOLIN DESIGN GROUP
RedPrairie
SAP
CAMELOT 3PL SOFTWARE
Source: www.softwareadvice.com
07/09/2012
Nottingham University Business School
(MBA 2011-12)
9

APPENDIX C: GO AHEAD GROUP

Registered Office

3rd Floor

41-51 Grey Street

Newcastle Upon Tyne, NE1 6EE

Date of Incorporation - 17/02/87

Previous Name and Date of Change - The Go-Ahead Group Ltd (20/04/94)

Go-Ahead Northern Ltd (01/02/94)

Principal Activities - A group engaged in the provision of passenger transport and aviation services, including commuter rail services, bus services and airport ground-handling and cargo services.

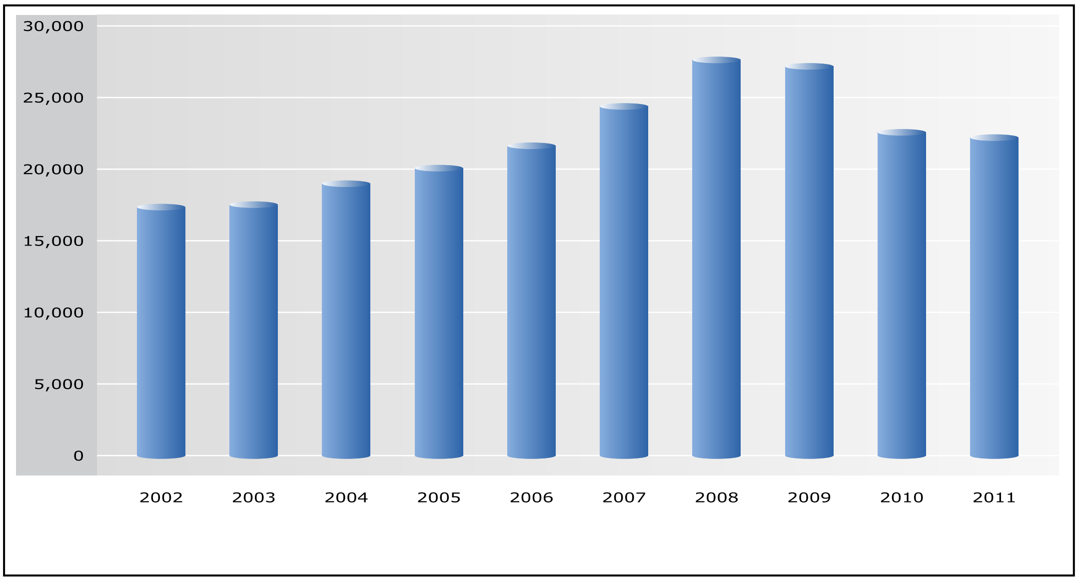
Introduction

The group was formed in 1987 as a result of deregulation and privatisation of the UK bus industry. After the privatisation of the rail industry in 1996, they entered the rail industry operating the Thameslink franchise. In 2001, Go-Ahead acquired the final 2 years of the Connex South Central rail franchise and attained the Southern rail franchise in 2003; this was retained in 2009. In 2006, the Thameslink franchise was not renewed but the Group attained the Southeastern franchise in the same year. In 2007, Go-Ahead won the rights to the London Midland franchise. Go-Ahead rail franchises are operated under Govia, a joint partnership between Go-Ahead (65%) and Keolis SA (35%). In 2008, the Gatwick Express came under the operation of the Southern rail brand.

In March 2011, Govia was offered a renewal on the Southeastern rail franchise; the franchise will now be operated by Govia until 31st March 2014. In December 2010, Go-

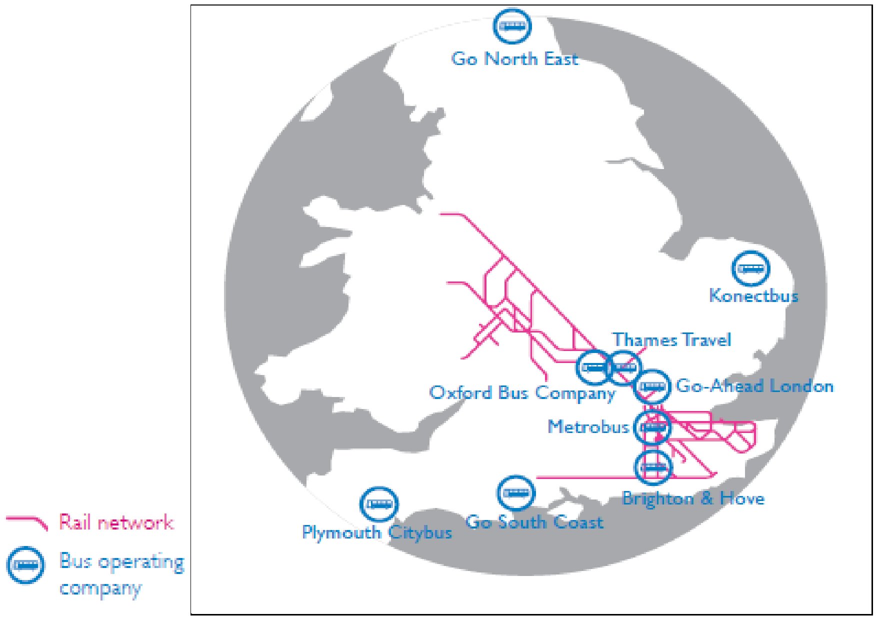
Ahead's Managing Director of Rail Development left his role to become independent Chairman of the Association of Train Operating Companies (ATOC); Patrick Verwer, MD of Go-Ahead subsidiary Aviance, replaced him in the Rail Development role.

Number of Employees



Source - FAME

Network



Source – Company website

Bus Operations

Go-Ahead operates in the UK bus market through nine business units: Go-Ahead London, Go North East, Go South Coast, Metrobus, Brighton & Hove, Oxford Bus Company, Plymouth Citybus, Konectbus and Thames Travel. The Group has around 21% of the London bus market, through Go-Ahead London and Metrobus. Its operations in the rest of the UK give around a 6% share of the deregulated UK bus market.

The company aims to grow their market share of the UK bus industry organically and through value adding bolt-on acquisitions, particularly outside London, where there is considerable growth potential. While the core focus is the UK transport market, Go Ahead continues to look at opportunities overseas. In August 2010 they entered into a 50:50 North America joint venture with Cook Illinois and began two contracts in St Louis, Missouri to run approximately 120 buses. Their investment in the joint venture totals US $6.2million (£3.9million) provided through a US $10million revolving credit facility held in the UK. The result for the year was a break-even position which is a good foundation for profitability on these contracts going forward. While the 2011 tendering round has not secured new work for the joint venture, they will use the experience in the 2012 tendering round. They are now one year into the operation of their yellow school bus joint venture in North America and are established as a reliable and credible operator in the market.

Go Ahead-London Revenue: £290.0m Area: Central London, South London, East London Passenger journeys**: 362 million Average number of employees: 4,761 Fleet†: 1,481 buses	**Go North East** Revenue: £89.3m Area: Tyne and Wear, County Durham, Northumberland, Teesside Passenger journeys**: 72 million Average number of employees: 2,032 Fleet†: 672 buses	**METROBUS** Revenue: £80.4m Area: South East London, Kent, Surrey, East Sussex, West Sussex Passenger journeys**: 77 million Average number of employees: 1,425 Fleet†: 446 buses
go southcoast Revenue: £75.4m Area: Dorset, Wiltshire, Hampshire, Isle of Wight, Southampton Passenger journeys**: 40 million Average number of employees: 1,493 Fleet†: 678 buses	**Brighton & Hove** Revenue: £50.2m Area: Brighton, Hove, Eastbourne, Tunbridge Wells, Steyning/Shoreham Passenger journeys**: 47 million Average number of employees: 1,087 Fleet†: 281 buses	**oxford bus company** Revenue: £34.3m Area: Oxfordshire, Routes to: London, Heathrow and Gatwick Passenger journeys**: 20 million Average number of employees: 559 Fleet†: 168 buses
Plymouth citybus Revenue: £18.0m Area: Plymouth Passenger journeys**: 14 million Average number of employees: 462 Fleet†: 169 buses	**konectbus** Revenue: £4.3m Area: Swaffham, Norwich, Dereham, Walton, Wymondham Passenger journeys**: 3 million Average number of employees: 85 Fleet†: 47 buses	**Thames Travel** Revenue: £0.5m Area: South Oxfordshire, Berkshire Passenger journeys**: 3 million Number of employees†: 98 Fleet†: 43 buses

Source – Company website

The use of public transport is growing, and within that market, the bus is the most frequently used mode of transport in the UK. Around 5.2 billion passenger journeys are made each year on UK bus networks (DfT, 2011).

The UK bus market consists of:

a) The London market which is **regulated** by Transport for London (TfL) - The majority of public transport journeys in London take place on the bus, over 2 billion a year compared with around 1 billion on the London Underground (TfL, 2010). The short to medium term prospects in this market are positive. In its latest business plan, TfL stated that mileage in the London bus network would be protected, following the Comprehensive Spending Review in October 2010.With buses being such a vital form of transport, combined with congestion charging and a limited ability to expand the tube network, the London bus market is expected to remain resilient in the long term.

Go-Ahead has been a major player in the London bus market since the early 1990s. They currently have a market share of around 21%, operating over 100 bus routes and carrying approximately one million passengers a day.

b) The rest of the UK which is **deregulated** and largely operated on a fully commercial basis - Bus services outside London are comprised of commercial routes and tendered contracts and are run by private operators. The short to medium term prospects in this market are good as an increasing number of people switch from private car to bus travel. Go Ahead is introducing smartcard technology across their networks to make travel easier and more convenient. This, combined with an increased marketing focus, will further enhance prospects over the next 12 months.

Go Ahead focuses their operations in the rest of the UK on dense, urban operations with high quality, frequent and convenient services. They set their own fares on a commercial basis but work closely with local authorities and other stakeholders to provide services to meet local demand.

2011 Bus highlights

	2011**	2011	2010
Total bus operations			
Revenue (£m)		642.4	629.5
Operating profit* (£m)		67.1	63.7
Margin		10.4%	10.1%
Deregulated bus			
Revenue (£m)		290.9	273.4
Operating profit*(£m)		33.7	27.2
Margin		11.6%	9.9%
Regulated bus			
Revenue (£m)		351.5	356.1
Operating profit*(£m)		33.4	36.5
Margin		9.5%	10.2%
Revenue growth			
Deregulated	5.1%	7.4%	9.0%
Regulated	(2.3)%	(1.3)%	6.5%
Volume growth			
Deregulated – passenger journeys	2.3%	4.7%	8.7%
Regulated – miles operated	(0.6)%	(0.8)%	7.4%

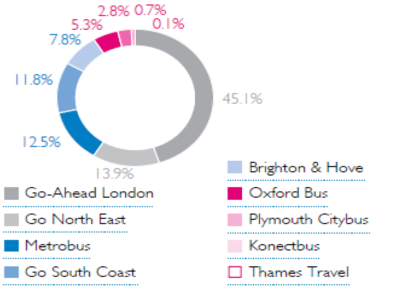
* Before amortisation and exceptional items.

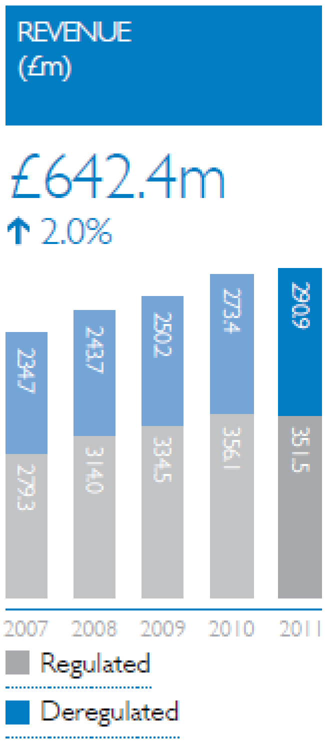
** On a like-for-like basis, adjusting to 52 weeks in 2010 and excluding acquisitions.

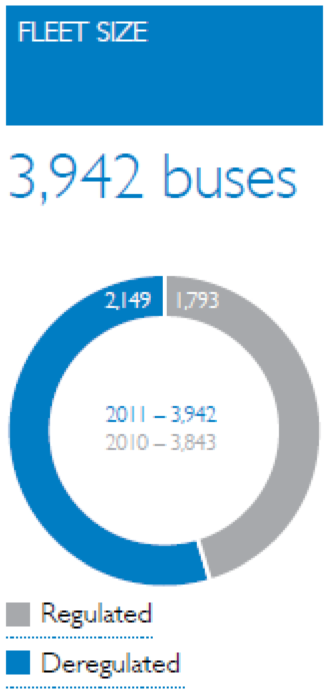
Bus revenue by operating company

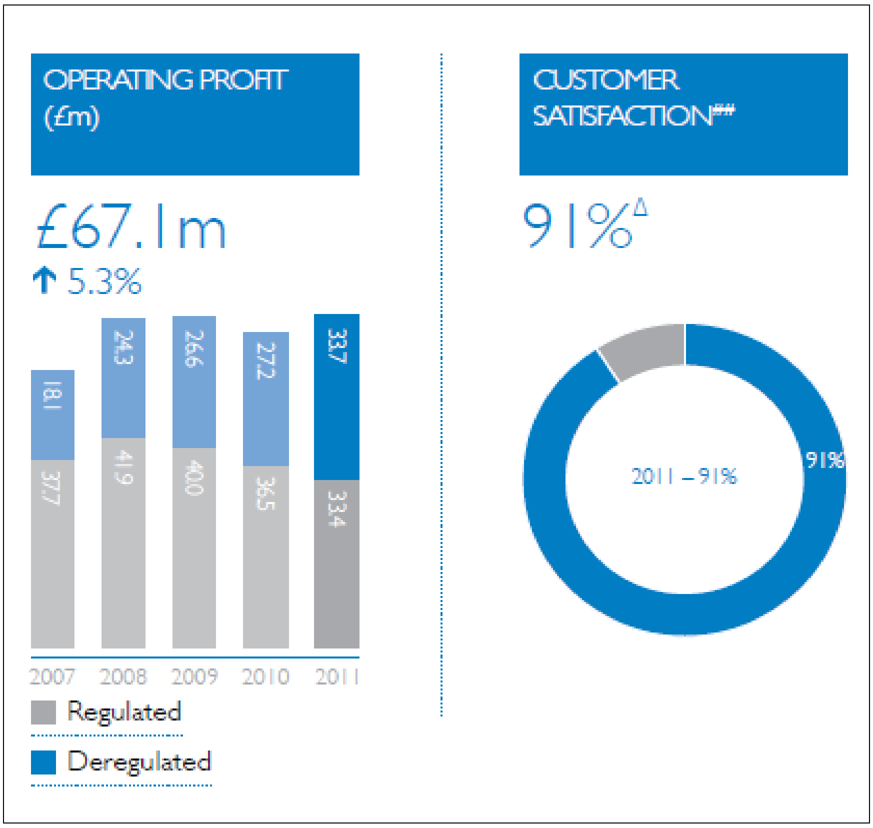
	2011 (£m)	2010 (£m)
Go-Ahead London	290.0	296.5
Go North East	89.3	86.2
Metrobus	80.4	77.6
Go South Coast	75.5	74.2
Brighton & Hove	50.2	49.7
Oxford Bus	34.2	34.4
Plymouth Citybus	18.0	9.6
Konectbus	4.3	1.3
Thames Travel	0.5	0.0
Total Bus	642.4	629.5

2011 revenue split









Source – Company Website

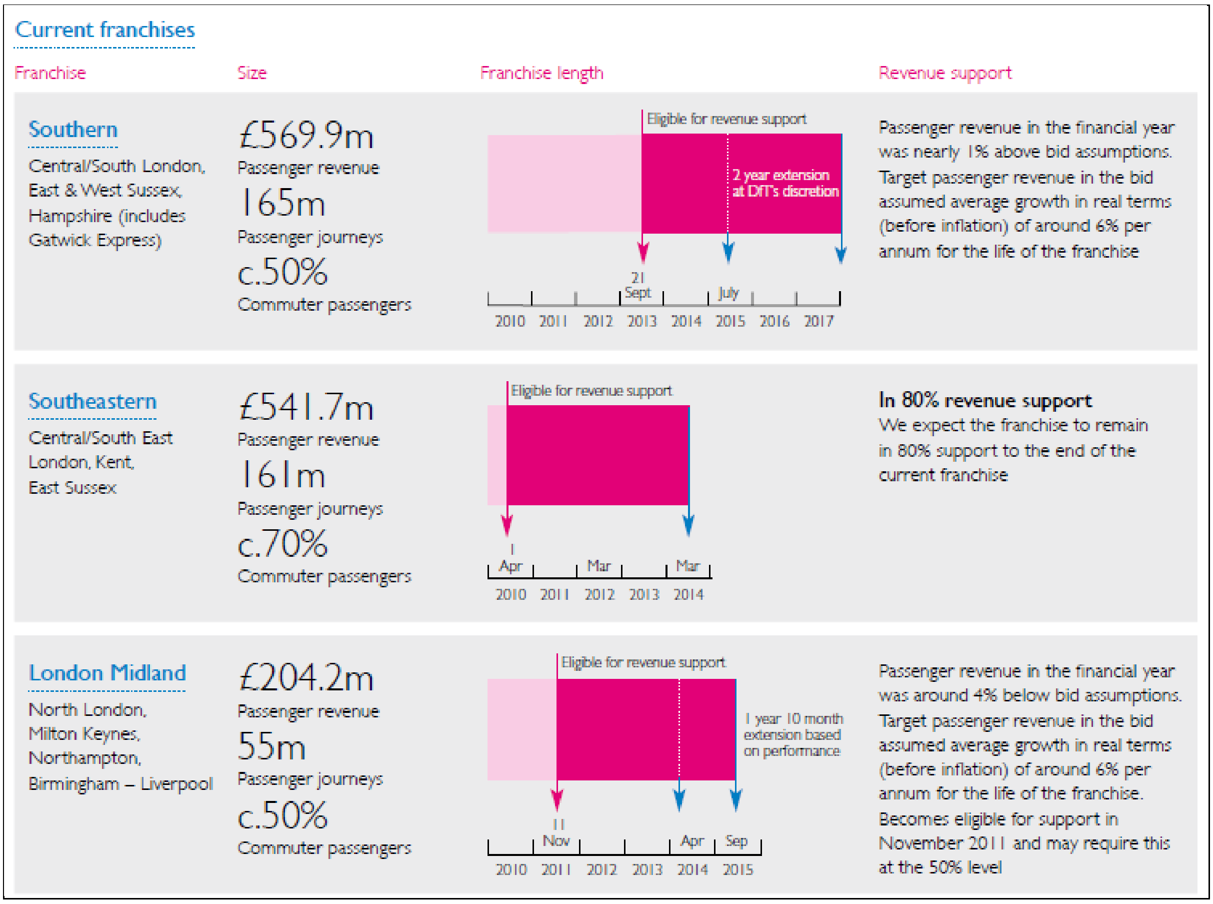
Rail Operations

Public transport is becoming a bigger part of people's daily lives in the UK. Latest industry figures show that in 2010 around 1.3 billion train journeys were made on the UK rail network (Association of TOCs, 2011).

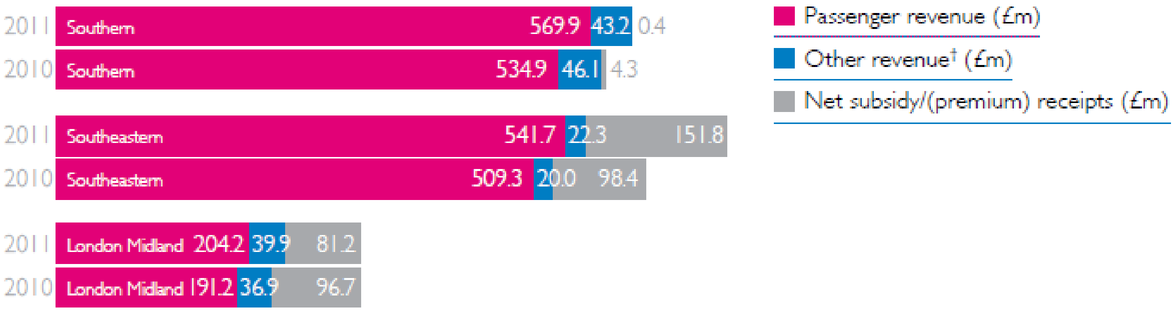
The UK rail industry is regulated by the Department for Transport (DfT) and rail services are operated within franchises run by individual train operating companies (TOCs). There are currently 19 franchises, operated by 9 transport providers. The market is competitive and, with an increasing number of operators entering the market, margins remain low. Profit margins below 5% are not untypical in the current market.

The rail industry is driven by GDP and employment and, as such, the testing economic conditions have presented challenges. TOCs have seen volatility of earnings due to the nature of the current franchising model requiring franchise bids to be submitted on the basis of economic forecasts years into the future. Throughout the economic downturn short-distance commuter routes, such as those operated by Go Ahead, have been more resilient than long-distance inter-city routes as only a small proportion of revenue is derived from discretionary spending.

Go-Ahead currently operates in the UK rail market through Govia, a 65% owned joint venture with Keolis. They run three franchises: Southern, Southeastern and London Midland, which typically operate busy commuter services, and currently carry around 30% of rail passengers in the UK and generate 20% of total industry revenue.



Total revenue split (£m)



† Other revenue varies between franchises but may include revenue from parking, third party maintenance and sub leasing rolling stock.

2011 Rail highlights

	2011**	2011	2010
Revenue (£m)		**1,654.6**	1,537.8
Operating profit*(£m)		**48.0**	37.3
Margin		**2.9%**	2.4%
Passenger revenue growth			
Southern	**8.6%**	**6.5%**	9.8%
Southeastern	**8.4%**	**6.4%**	7.5%
London Midland	**8.6%**	**6.8%**	10.0%
Volume growth			
Southern	**2.3%**	**0.4%**	4.5%
Southeastern	**5.0%**	**3.0%**	1.4%
London Midland	**7.2%**	**5.5%**	4.6%

* Before amortisation and exceptional items.
** On a like-for-like basis, adjusting to 52 weeks in 2010.

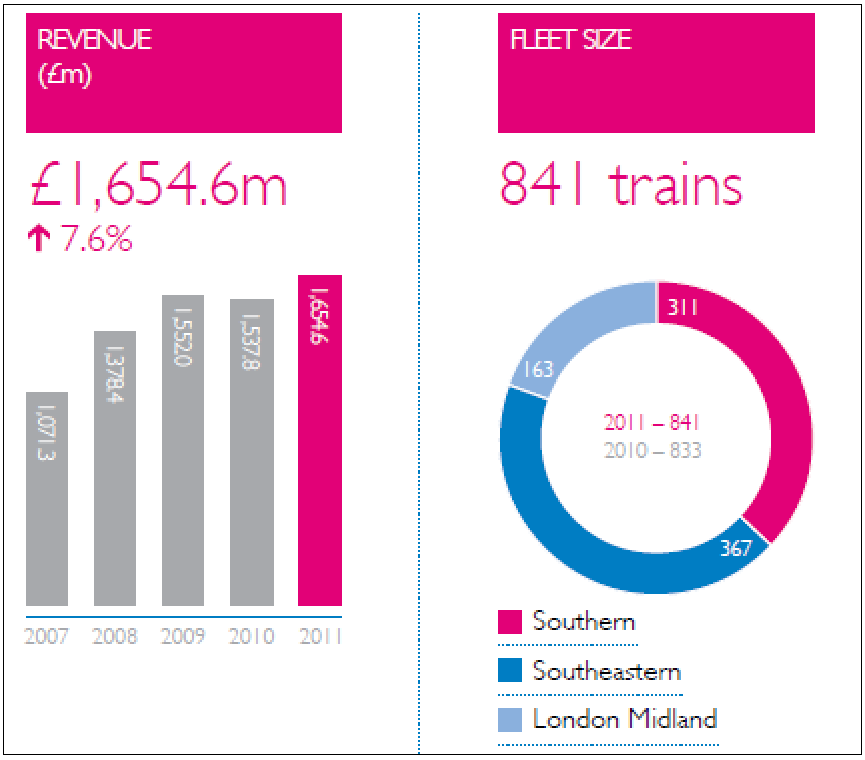
Rail revenue by franchise

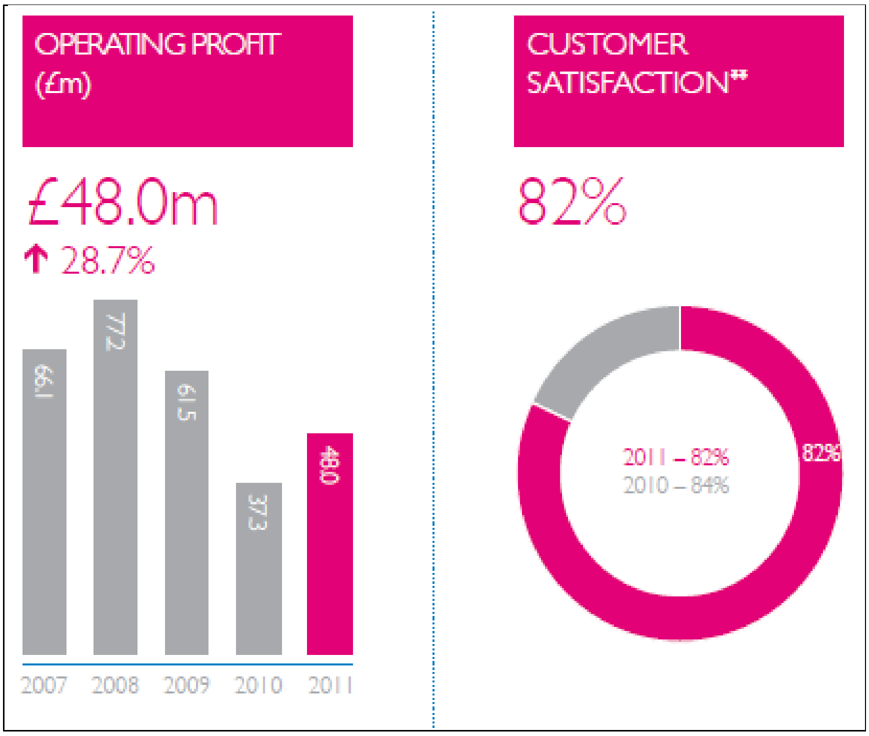
	2011 (£m)	2010 (£m)
Southern	**613.5**	585.3
Southeastern	**715.8**	627.7
London Midland	**325.3**	324.8
Total Rail	**1,654.6**	1,537.8

Our brands

londonmidland SOUTHERN southeastern.

Source – Company Website





Source – Company Website

Group Financials

Summary income statement

	2011 £m	2010 Restated £m	Increase/ (Decrease) £m	Increase/ (Decrease) %
Revenue	2,297.0	2,167.3	129.7	6.0
Operating profit*	115.1	101.0	14.1	14.0
Net finance costs	(17.5)	(13.3)	(4.2)	(31.6)
Profit before tax*	97.6	87.7	9.9	11.3
Amortisation	(10.5)	(10.9)	0.4	3.7
Exceptional items	(2.3)	(11.0)	8.7	79.1
Profit before tax	84.8	65.8	19.0	28.9
Total tax expense	(9.8)	(14.5)	4.7	32.4
Profit for the year	75.0	51.3	23.7	46.2
Discontinued operations	4.4	(27.8)	32.2	115.8
Non-controlling interests	(12.0)	(6.3)	(5.7)	(90.5)
Profit attributable to members	67.4	17.2	50.2	291.9
Adjusted profit attributable to members	58.0	54.5	3.5	6.4
Weighted average number of shares (m)	42.9	42.9	–	–
Adjusted earnings per share (p)*	135.2	126.9	8.3	6.5

Summary cashflow

	2011 £m	2010 £m	Increase/ (Decrease) £m
EBITDA†	164.3	150.9	13.4
Working capital/other	(26.4)	9.7	(36.1)
Cashflow generated from operations	137.9	160.6	(22.7)
Tax paid	(24.9)	(18.8)	(6.1)
Net interest paid	(12.1)	(10.7)	(1.4)
Net capital investment	(55.0)	(54.7)	(0.3)
Free cashflow	45.9	76.4	(30.5)
Net acquisitions and joint venture investment	(6.9)	(35.9)	29.0
Cash acquired from businesses	–	1.9	(1.9)
Disposal of subsidiary operations	10.9	14.8	(3.9)
Franchise transfer/other	(2.0)	(2.1)	0.1
Dividends paid	(28.6)	(52.3)	23.7
Share issues/buybacks	(0.8)	(0.1)	(0.7)
Decrease in net debt	18.5	2.7	15.8
Opening net debt	(88.3)	(91.0)	2.7
Closing net debt	(69.8)	(88.3)	18.5

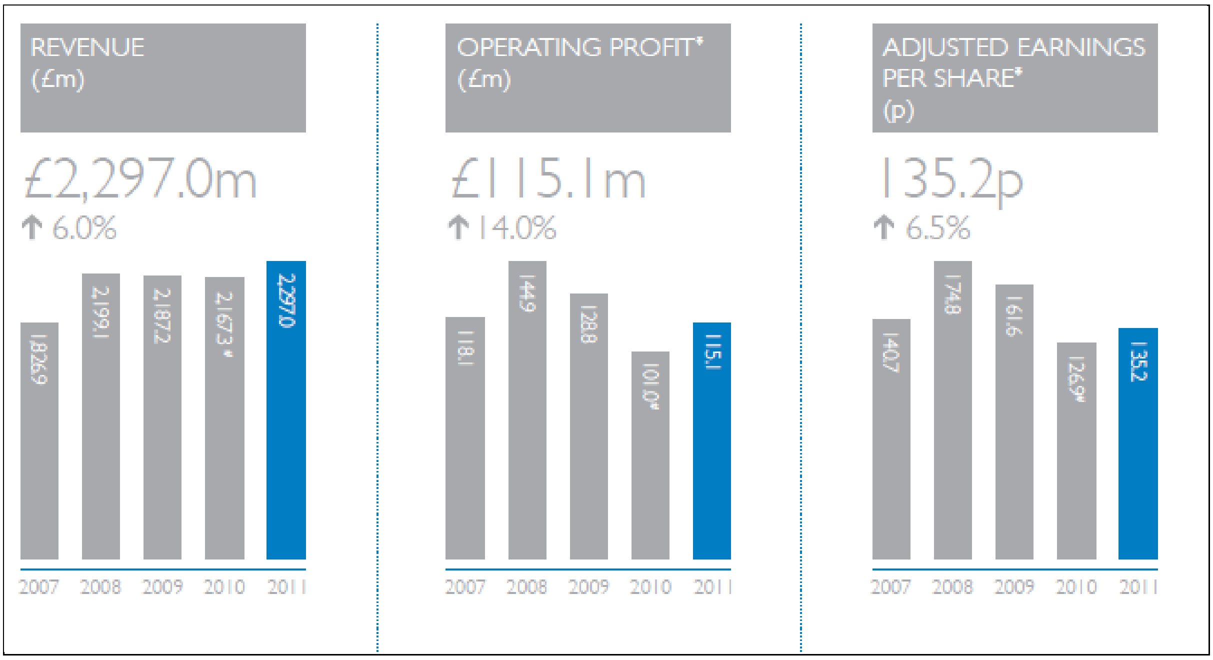
† Operating profit before interest, tax, depreciation, amortisation and exceptional items.

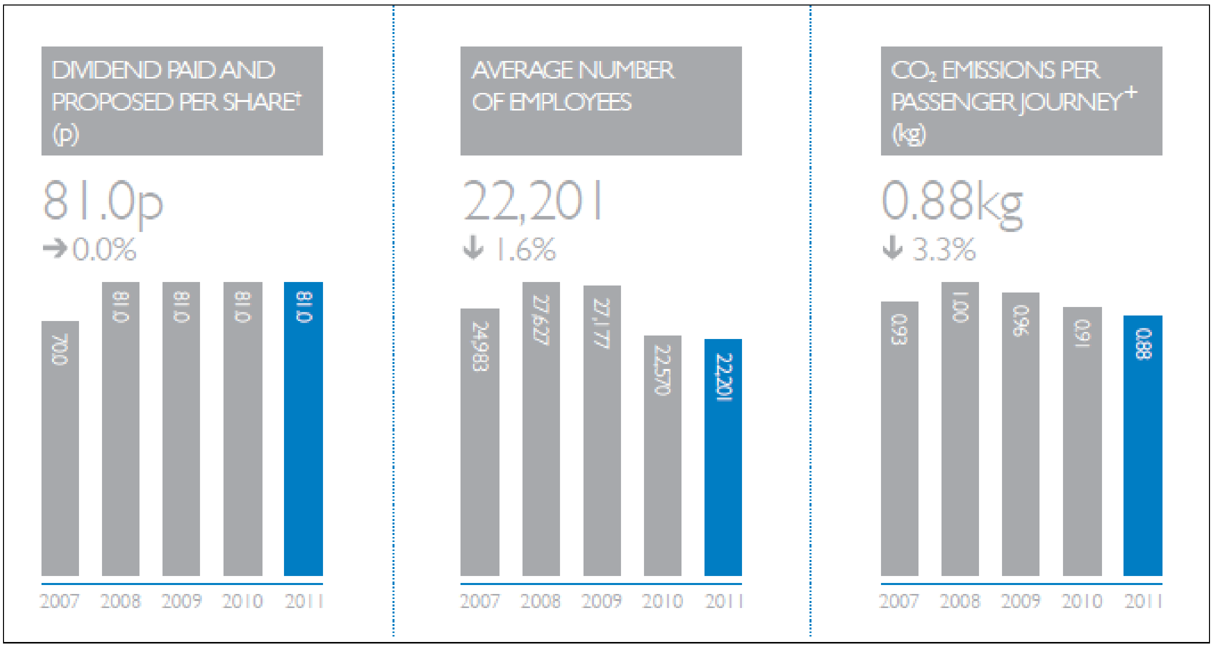
Capital structure

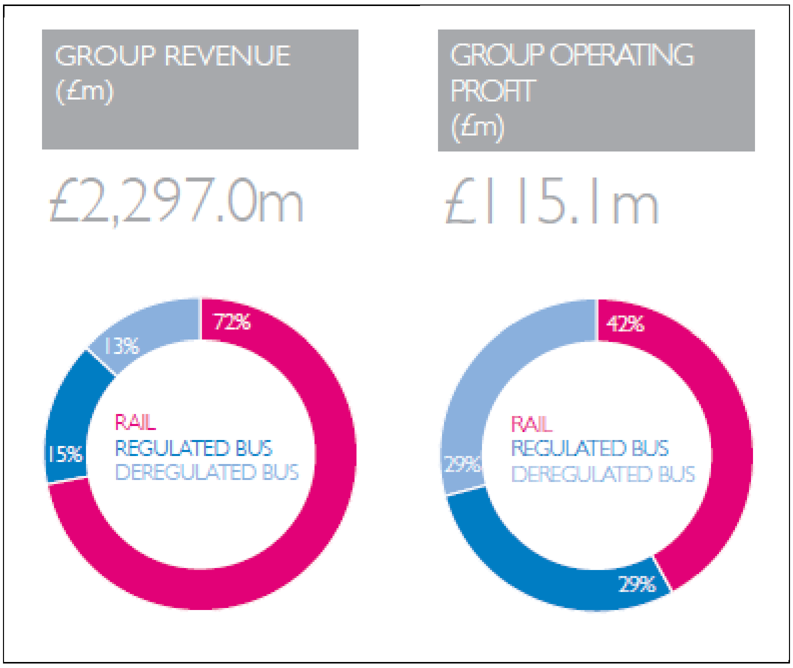
	2011 £m	2010 £m
Five year syndicated facility 2012	275.0	280.0
£200m 7½ year 5.375% sterling bond	200.0	200.0
Total core facilities	475.0	480.0
Amount drawn down at 3 July	284.0	303.0
Balance available	191.0	177.0
Restricted cash	189.7	204.0
Net debt	69.8	88.3
Adjusted net debt	259.5	292.3
EBITDA†	164.3	153.2
Adjusted net debt/EBITDA†	1.58x	1.94x#

† Operating profit before interest, tax, depreciation, amortisation and exceptional items.

Restated to exclude discontinued operations.

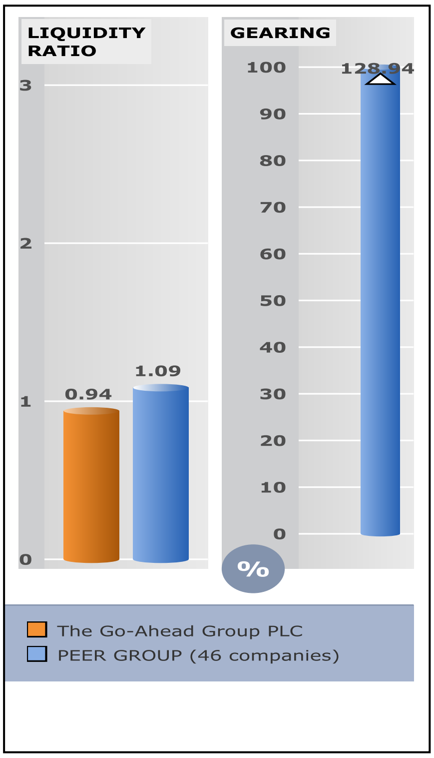


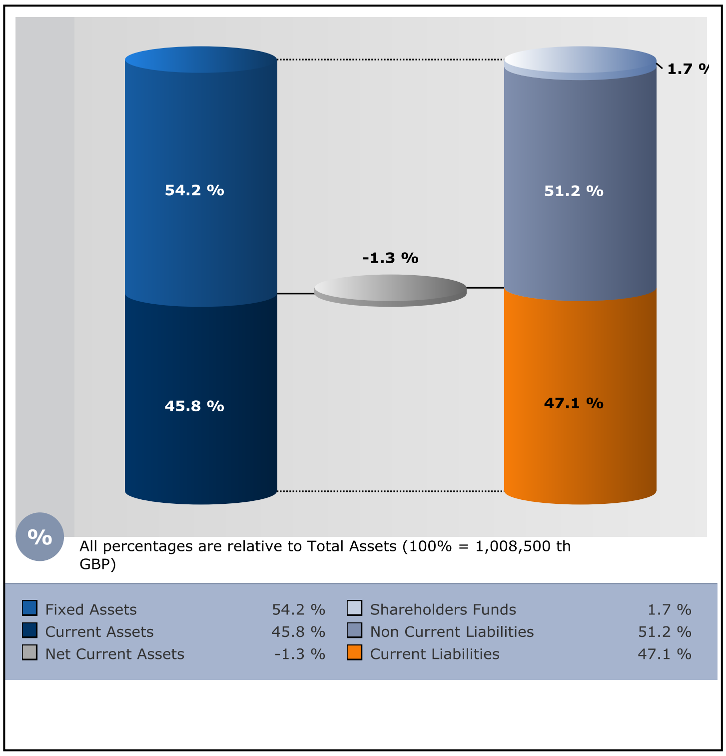




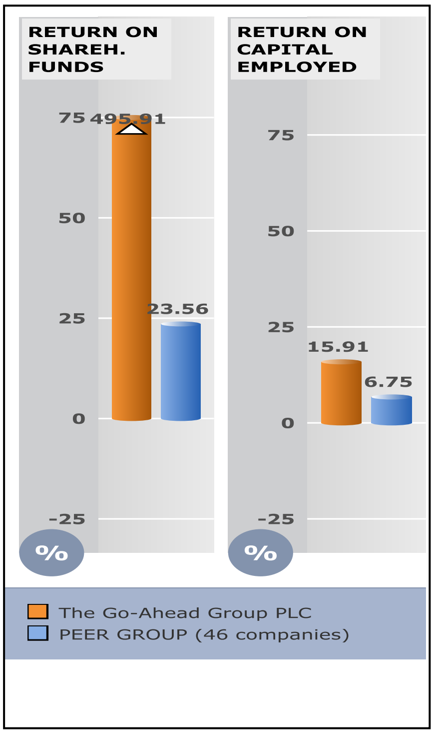
Source – Company Website

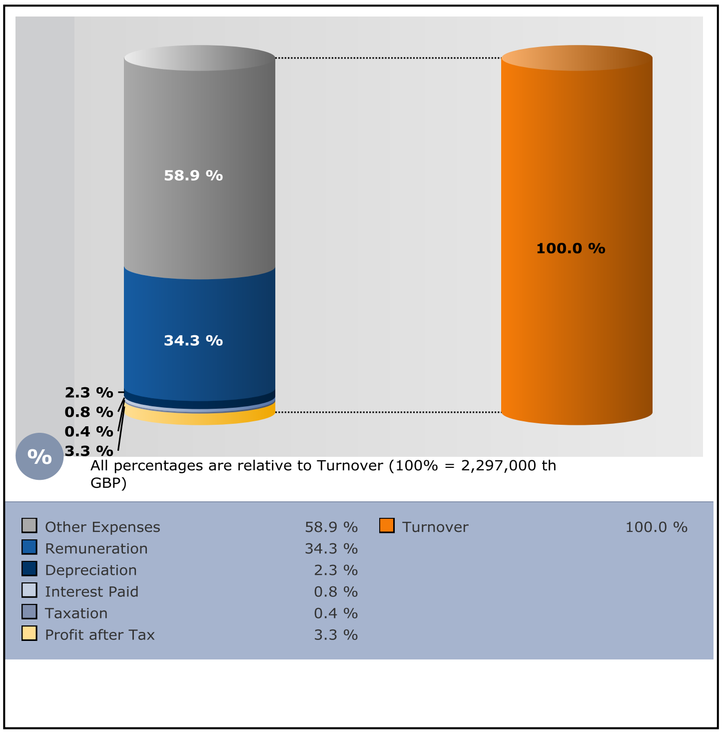
Balance Sheet



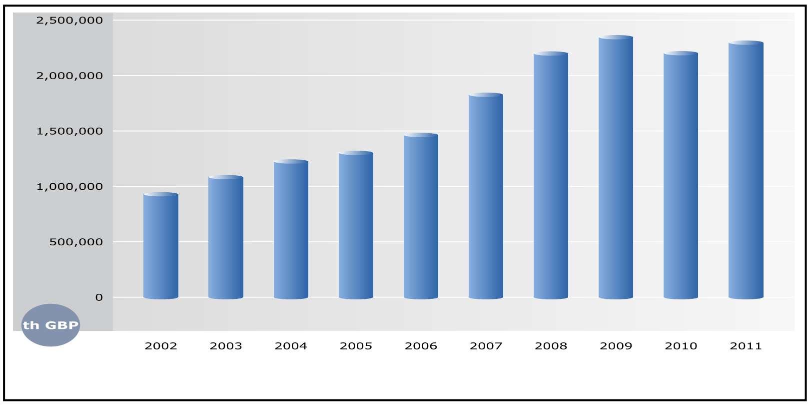


Profit and Loss

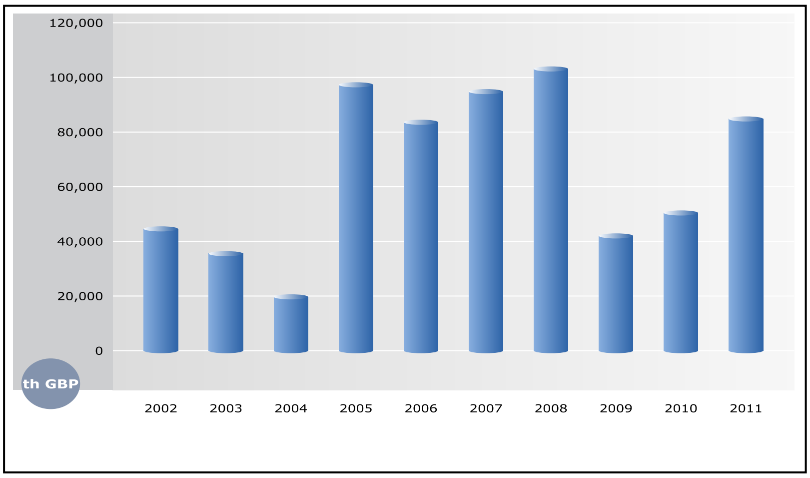




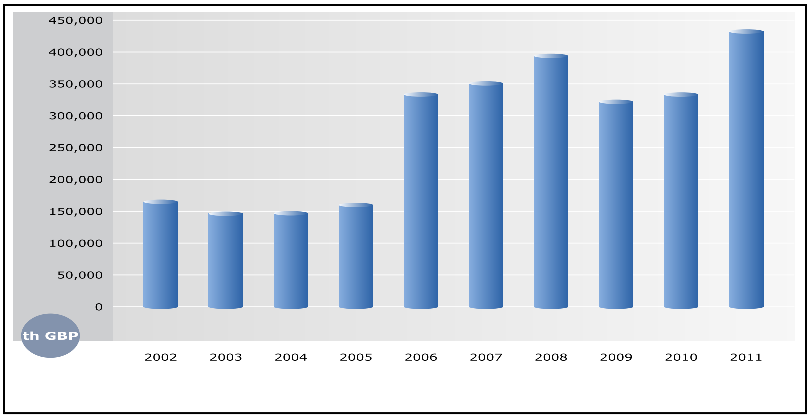
Turnover



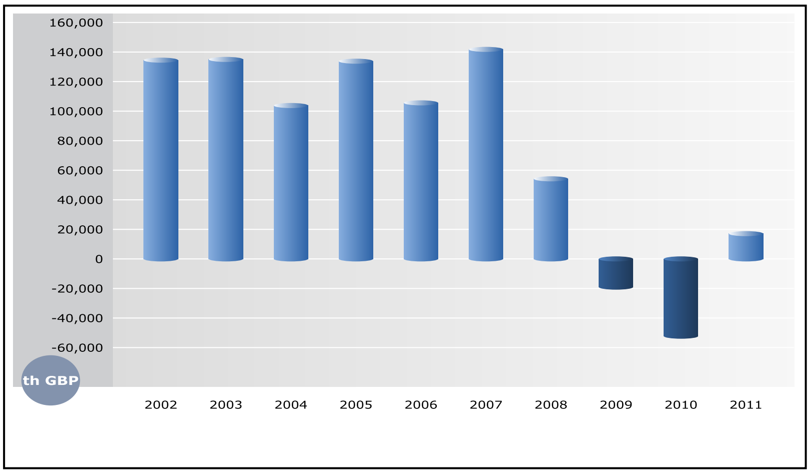
Profit before Tax



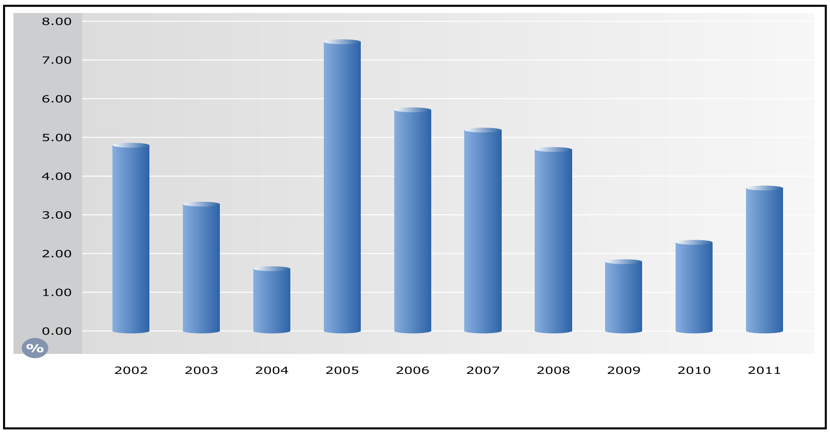
Net Assets



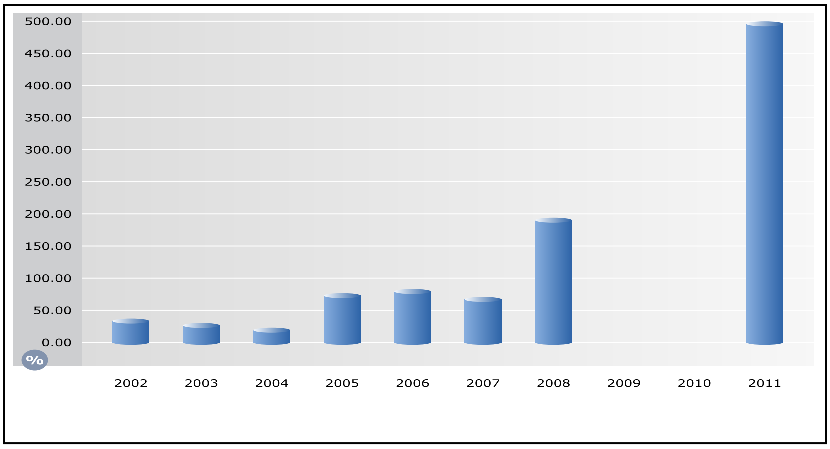
Shareholders' Funds



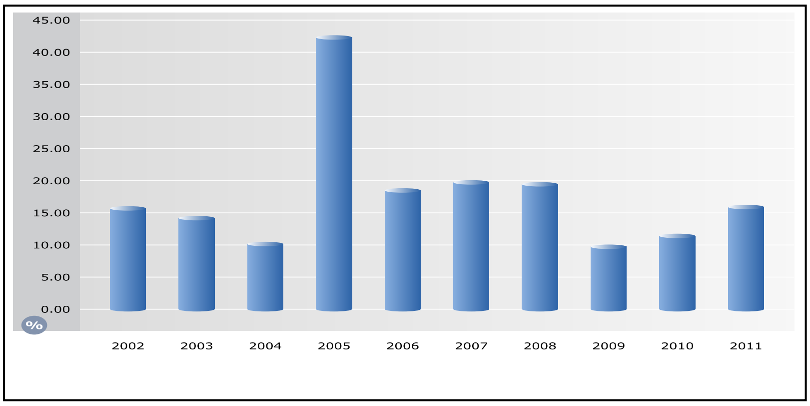
Profit Margin



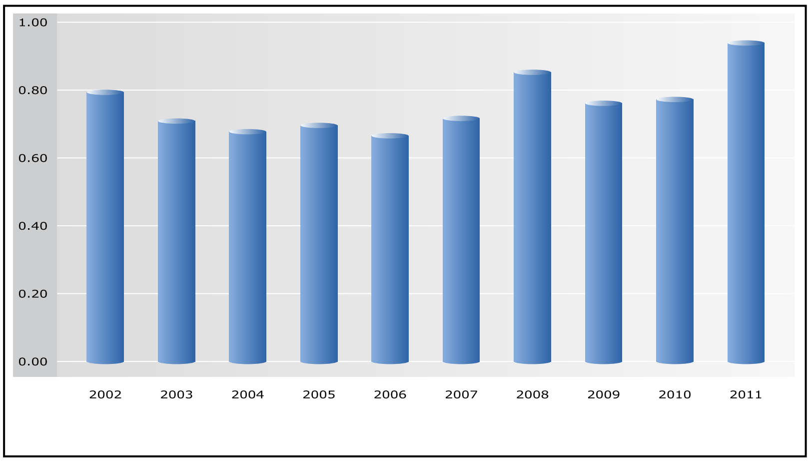
Return on Shareholders' Funds



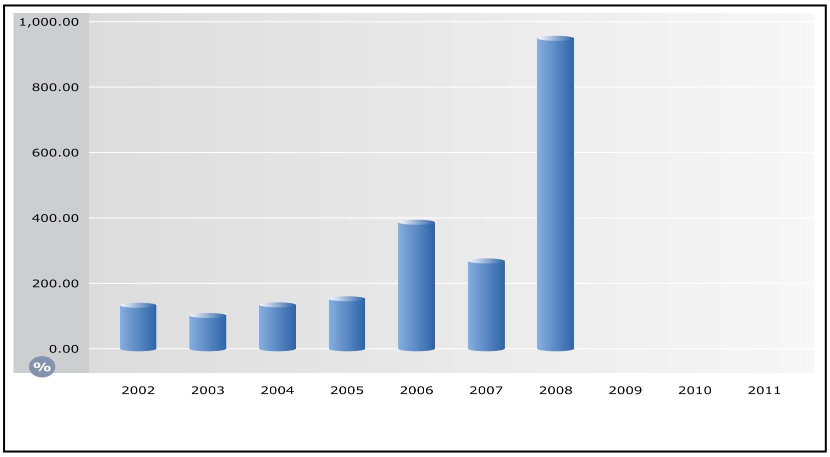
Return on Capital Employed



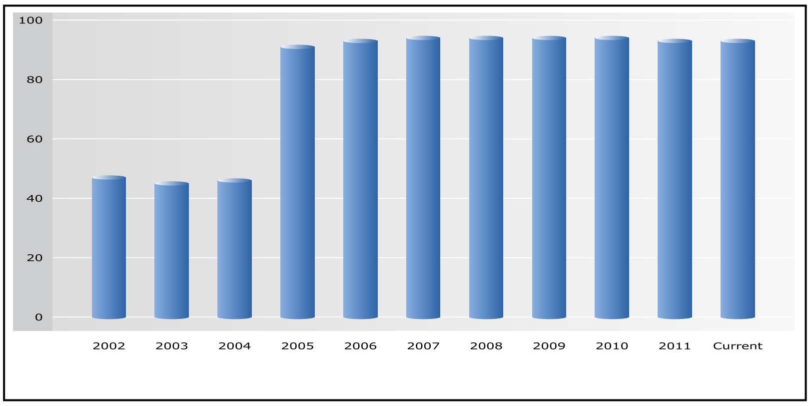
Liquidity Ratio (x)



Gearing (%)



QuiScore



Source - FAME

Strategic Focus

1. To run our companies in a safe, socially and environmentally responsible manner

PRIORITIES

- Further improve safety, working towards target to improve KPIs by 20% by 2015
- Make further progress on our Driving Energy Further target
- Reduce site energy by a further 4.5%
- Maintain momentum amongst bus and train drivers to further improve fuel efficiency
- Deliver the requirements of the Olympic Service Delivery Plan to ensure a robust service during the Games

KPIs

1. RIDDOR (The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accidents per 100 employees – reduce by 50% by 2015
2. Bus accidents per million miles – reduce by 20% by 2015
3. SPADs (Signals Passed At Danger) per million miles - reduce by 50% by 2015
4. Carbon emissions per passenger journey – reduce by 20% by 2015

2. To provide high quality locally focused passenger transport services

PRIORITIES

- Maintain high levels of punctuality
- Further improve customer satisfaction

- Roll out The Key across more companies
- Increase rail online sales by 20%

KPIs

1. Rail punctuality – maintain at or above 90%
2. London bus punctuality – maintain excess waiting time performance at below 1 minute
3. Deregulated bus punctuality – maintain at or above 90%

3. To focus our operations in high density urban markets

PRIORITIES

- Assess UK bolt-on bus acquisition opportunities
- Win new contracts through our yellow school bus business
- Work closely with government on delivery of the McNulty Review and the forthcoming Rail White Paper

KPIs

1. Value adding acquisitions –post-tax operating profit from transactions to exceed our post-tax weighted average cost of capital of 8%
2. Passenger journeys – increase every year by providing high quality service

4. To run our business with strong financial discipline to deliver shareholder value

PRIORITIES

- Continue to manage cash closely to covert EBITDA into operating cash
- Prioritise maintaining and growing the amount of dividend per share
- Maintain adjusted net debt to EBITDA between 1.5x and 2.5x through the economic cycle

KPIs

1. Operating profit growth – increases operating profit and adjusted earnings per share year-on-year.
2. Cashflow/EBITDA - match or exceed cashflow generated from operations to operating profit plus depreciation (EBITDA).

3. Net capital investment/ depreciation - maintain capital investment to match depreciation through the cycle, supplemented by additional discretionary investment if value adding.
4. Dividend cover – average 2x adjusted earnings per share through the economic cycle.
5. Adjusted net debt/EBITDA - maintain at between 1.5x and 2.5x through the economic cycle.

Risks Identified

1. Major accident or incident (including terrorism or Act of God) or pandemic – potential for serious injury, service disruption and lost earnings
2. Service delivery issues during Olympic Games
3. Economic environment has a negative impact on the Group's businesses and demand on services
4. Political and regulatory changes and availability of public funding
5. Loss of business to competitors
6. London bus contracts not renewed
7. Breach of franchise agreement
8. Financing risk (loss of liquidity, credit risk on cash investments, interest rate risk)

Business Case

Maintaining Punctuality

Punctuality is widely considered a key performance indicator for transportation services. Even for Go Ahead it is a crucial factor in their operations. The concept of performance measurement has undergone significant development and there are sophisticated tools nowadays to measure performance. The purpose of this measurement is to provide feedback about the task performed so that improvements can be carried out.

Determining punctuality measurements according to the passenger's perspective requires attending to train schedules, passengers, and passenger flows. Punctuality could be calculated:

a) As a percentage of the passengers arriving on time at the station

b) As the sum of the delay minutes experienced by the passengers (station-specific or as a whole network)

c) As passenger satisfaction concerning punctuality or on the handling of the delays

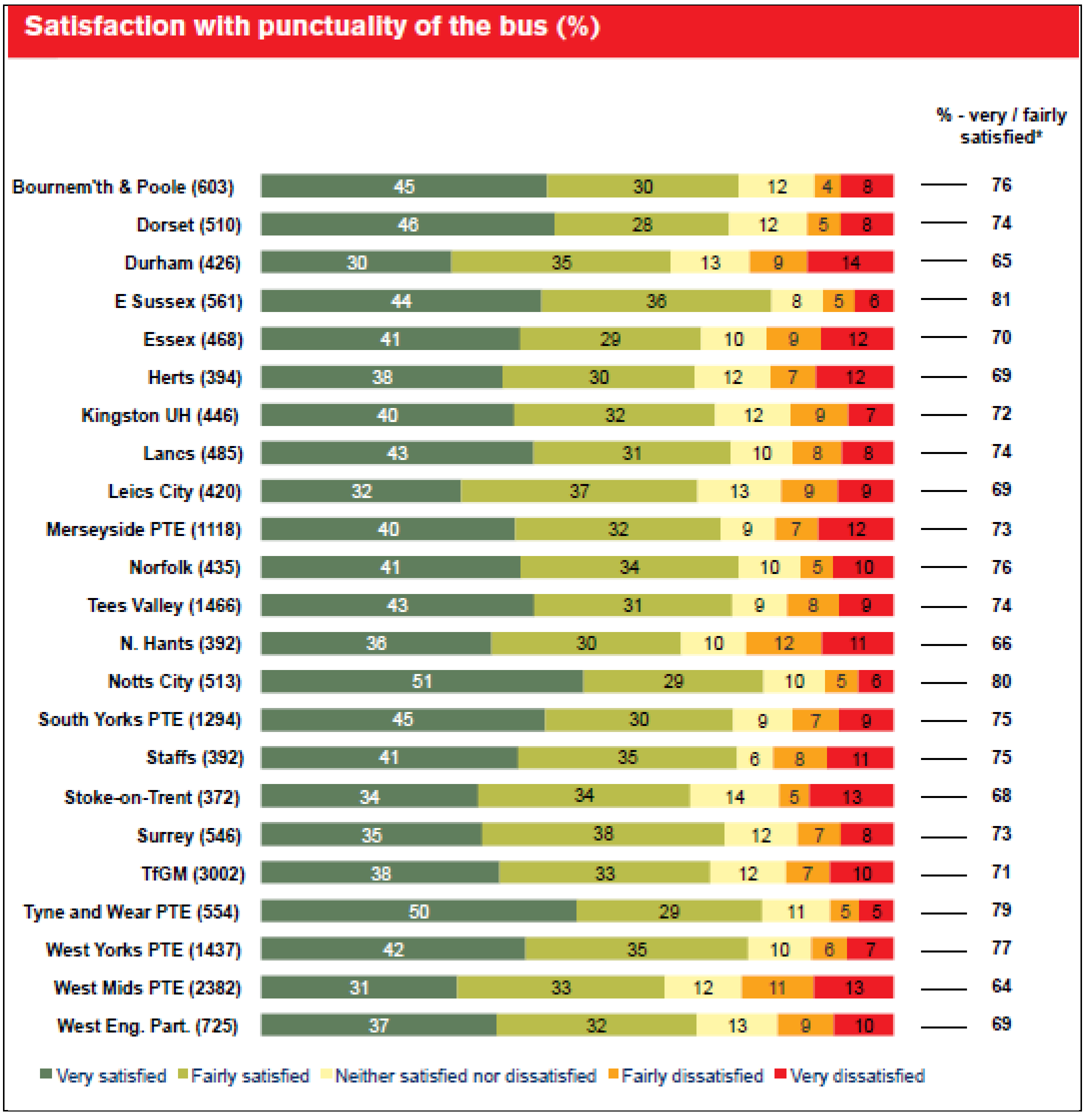
Punctuality/reliability (i.e. the train arriving/departing on time)

Unchanged ⊜
Declined ↓

% of passengers satisfied/good by sector:
London and South East - 79%
Long Distance - 87%
Regional - 85%

	Spring 2012				Improvement/decline in % satisfied or good since Autumn 2011		Improvement/decline in % satisfied or good since Spring 2011	
	sample size	% satisfied or good	% neither/ nor	% dissatisfied or poor	% change	significant change	% change	significant change
Arriva Trains Wales	1133	87	5	8	0	⊜	3	⊜
c2c	1072	92	5	3	0	⊜	0	⊜
Chiltern Railways	1148	86	6	8	5	↑	-2	⊜
CrossCountry	1131	85	5	10	6	↑	1	⊜
East Coast	1178	88	5	7	9	↑	3	⊜
East Midlands Trains	1178	88	5	7	0	⊜	1	⊜
First Capital Connect	1927	76	9	15	-1	⊜	1	⊜
First Great Western	2911	78	8	14	-1	⊜	1	⊜
First Hull Trains	550	93	4	3	8	↑	4	⊜
First TransPennine Express	1122	88	5	7	4	↑	1	⊜
Greater Anglia*	2341	70	9	22	-7	↓	-5	↓
Heathrow Connect	578	91	7	2	1	⊜	4	⊜
Heathrow Express	529	93	5	2	-1	⊜	-3	⊜
London Midland	1142	81	8	10	3	⊜	6	↑
London Overground	1145	88	8	5	4	↑	9	↑
Merseyrail	606	94	3	3	-1	⊜	1	⊜
Northern Rail	1222	78	9	13	-2	⊜	0	⊜
ScotRail	1192	87	6	7	1	⊜	6	↑
South West Trains	2240	82	8	10	-2	⊜	-4	↓
Southeastern	1651	79	9	12	-1	⊜	1	⊜
Southern	2228	78	8	14	0	⊜	0	⊜
Virgin Trains	1084	89	4	7	4	↑	-3	⊜

Source – National Passenger Survey 201



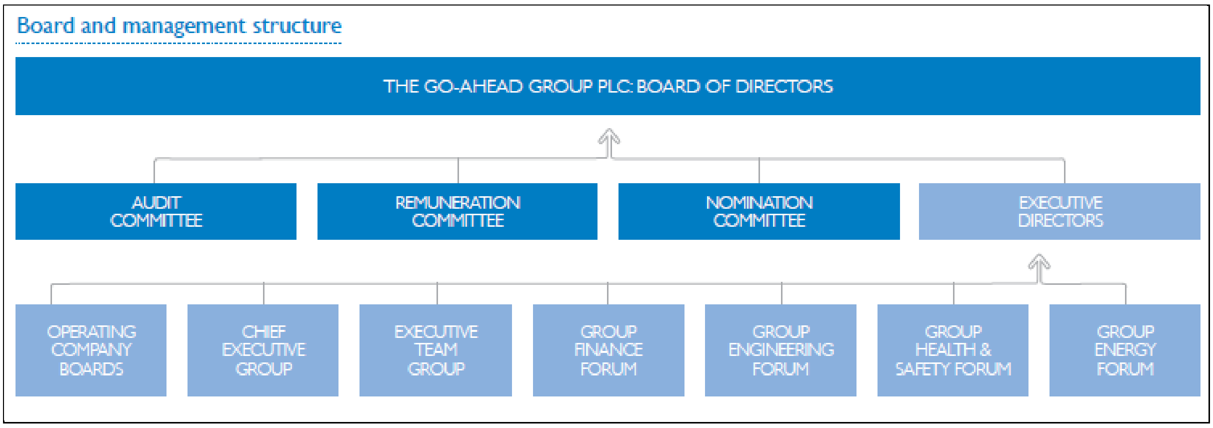
Source – Bus Passenger Survey 2012

Some inadvertent causes of delays, beyond the operator's control could be –

1. Congestion (caused by volume of traffic, existing road layouts etc)
2. Failure of traffic signals
3. Road works (planned and emergency) including use of temporary traffic lights, stop-go boards, diversions etc
4. 'School-time' issues, i.e. congestion at school entrances and approaches
5. Access to car parks for retail and leisure activities (e.g. Thursday evenings, weekends, festive period)
6. Abuse of bus stops, bus lanes and other priority measures

7. Inclement weather
8. Organised events (e.g. processions, demonstrations, races etc)
9. Road accidents causing closures and delays
10. Abnormal loads
11. Passenger loadings creating increased dwell times as bus stops

Executive Team



Sir Patrick Brown
Company Chairman

Sir Patrick Brown joined the Board in January 1999 as Non-Executive Director, becoming Company Chairman in October 2002. He was last re-elected by shareholders at the 2010 AGM and will again stand for annual re-election at the AGM in October 2011. Sir Patrick Brown spent ten years in industry and management consultancy before joining the Civil Service, initially involved in privatisation in the DfT during the 1980's. He then moved to the Department of the Environment, before returning to the DfT as Permanent secretary from 1991 to 1997. External appointments: Senior Independent Director at Northumbrian Water Group plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees); Non- Executive Director of Northumbrian Water Ltd, Northumbrian Water Share Scheme Trustees Ltd, Camelot UK

Lotteries Ltd and Camelot Global Services Ltd; Chairman of the UK Advisory Board of Alexander Proudfoot Ltd.

David Brown
Group Chief Executive

David Brown was appointed as Deputy Chief Executive on 1 April 2011 before his accession to Group Chief Executive on 3 July 2011. He will stand for election before shareholders at the AGM in October 2011. David Brown was previously Managing Director of Surface Transport at TfL. Before joining TfL, David was Chief Executive of Go-Ahead's London bus business, from 2003 to 2006, and was a Main Board adviser. Prior to this he held the positions of Managing Director from 1999 and Operations Director for London General/London Central. His 28 year transport career began with London Transport.

Keith Down
Group Finance Director

Keith Down was appointed to the Board as Group Finance Director in March 2011. He will stand for election before shareholders at the AGM in October 2011. Prior to joining Go-Ahead, Keith Down worked for JD Wetherspoon plc as Finance Director and Company Secretary. Before joining JD Wetherspoon plc in 2007 he served as Commercial Finance Director of Tesco plc. Keith is a Chartered Accountant.

Rupert Pennant-Rea joined the Board in October 2002 and was appointed Senior Independent Non-Executive Director in October 2008. He was last re-elected by shareholders at the 2010 AGM and will stand for annual re-election at the AGM in October 2011. Rupert Pennant-Rea was Deputy Governor of the Bank of England from 1993 to 1995, prior to which he was Editor of The Economist. He has held a large variety of Non-Executive Directorships over the last 15 years. External appointments: Non-Executive Chairman of PGI Group Ltd, Defaqto Group Ltd, The Economist Newspaper Limited and Henderson Group plc (Chairman of the Nomination Committee). Non- Executive Director of Henderson UK Finance plc, Times Newspapers Holdings Ltd, Specialist Waste Recycling Ltd, The Economist Group Trustee Company Ltd and Gold Fields Ltd (member of the Gold Fields Ltd Nomination & Governance Committee and Audit Committee).

Andrew Allner joined the Board in October 2008. He was last re-elected by shareholders at the 2010 AGM and will stand for annual re-election at the AGM in October 2011. Andrew Allner is a Chartered Accountant and a former partner at PricewaterhouseCoopers. He was Group Finance Director of RHM plc between 2004 and 2007, and Chief Executive of Enodis plc prior to this. He was also a Non-Executive Director of Moss Bros Group plc and Chairman of their Audit Committee until 2005. External appointments: Non-Executive Chairman at Marshalls plc (Chairman of the Nomination Committee); Non- Executive Director at CS R plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees); Non- Executive Director at

Northgate plc (Chairman of the Audit Committee and member of the Nomination and Remuneration Committees); Non- Executive Director of AZ Electronics Materials S.A. (Chairman of the Audit Committee).

Katherine Innes Ker joined the Board in July 2010. Following her appointment, she was elected by shareholders at the 2010 AGM and will stand for annual re-election at the AGM in October 2011. Katherine Innes Ker's previous Non-Executive Directorships include Taylor Wimpey plc, Marine Farms ASA, Taylor Woodrow plc, The Television Corporation plc, Fibernet plc, Williams Lea plc, The Ordnance Survey, Shed Media plc and Gyrus Group plc. Katherine has also spent a decade working in the City. External appointments: Senior Independent Director of Tribal Group plc (Non-Executive Chairman of the Remuneration Committee and member of the Audit and Nomination Commitees) and Non-Executive Director of St Modwen Properties plc.

Carolyn Sephton was appointed as Group Company Secretary in July 2006. Carolyn Sephton spent 12 years working for Northern Electric, predominantly in the field of pensions, before joining Go-Ahead in 2001. Carolyn is a Chartered Secretary and a Fellow of the Institute of Chartered Secretaries and Administrators. Prior to her appointment as Group Company Secretary she was Assistant Company Secretary for the

Group with responsibility for non-rail pensions and a wide range of company secretariat functions including share schemes, legislative compliance, corporate governance and codes of conduct specific to the Group's business activities.

Alex has been Managing Director since 2003. He controls eight businesses within Go South Coast embracing bus, coach and engineering. Alex joined the bus industry in 1981 in its nationalised form and has held a number of senior roles post-privatisation.

Alan has been Managing Director since 2001 and was previously the Group's Engineering Director. Alan has over 40 years' experience in the bus industry and successfully participated in the management buy-out of Brighton & Hove.

Roger has been Managing Director of Brighton & Hove since the company was purchased by Go-Ahead in 1993. He joined Brighton & Hove in 1982 and as general manager he was part of the company's management buy-out. Roger received an OBE in 2005 for his services to public transport and an Honorary MA degree from Brighton University in 2007.

Peter has been Managing Director since 2006. He has brought a wide range of innovations and developments to the north east business. Peter has over 35 years' experience in the bus industry including periods working with local and national Government on policy development.

Philip has been Managing Director of the Oxford Bus Company since 2001, having joined the company in 1995 shortly after it was acquired by Go- Ahead. He has 30 years' experience of managerial and technical positions in bus companies, and is chair of the Oxford City Centre Management Company. Philip became Managing Director of Thames Travel upon its acquisition by Go-Ahead in May 2011.

John has been Managing Director since 2006. He joined the Group in 2002 as Operations Director of London Central/General having previously held senior positions at Arriva London. He has worked in the transport industry for 30 years.

Andrew Wickham was appointed Managing Director in December 2009 when Go-Ahead acquired the company. He was previously Operations Director for Go South Coast. Andrew has over 20 years' management experience in the bus industry.

Chris has been Managing Director of Southern since April 2006, having previously been Operations Director for two years. He has also worked at Thames Trains, the Foreign & Commonwealth Office and Railtrack, accumulating over 14 years of railway experience.

Mike was appointed Managing Director in July 2009. Previously, he was Operations and Safety Director of Southeastern and was instrumental in the successful introduction of the High Speed preview service. Mike was Managing Director of Thames Trains from 2003 to 2004 and has over 30 years' experience in the rail industry. In August 2011 it was announced that Mike will retire at the end of 2011.

Charles has been Managing Director since April 2006, after three years in the same role at Southern. He has gained extensive management experience in a career spanning 24 years in National Rail and London Underground.

Martin joined Go-Ahead in 2008. He leads and acts as a focus for all bus development and acquisition activity in the Group and oversees Konectbus and Go-Ahead North America operations. Previously, Martin held senior management roles in rail and bus with FirstGroup and National Express. He began his career with London Transport.

Patrick was appointed Managing Director of Rail Development in December 2010. He joined Go-Ahead's former aviation services division in December 2007 as Managing Director of Aviance. Previously, he spent more than 10 years with Netherlands Railways in various executive roles. Patrick came to the UK in 2002 to lead the Serco/ Ned Railways Merseyrail concession in Liverpool.

Presentation to TCS

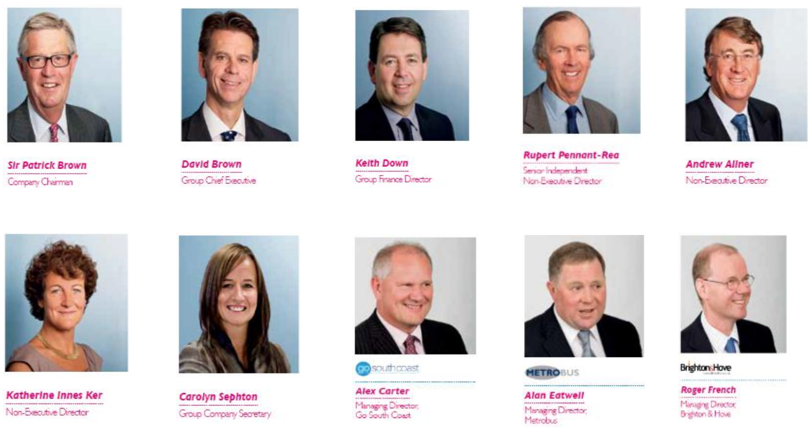
BUSINESS ANALYSIS

Go-Ahead

07/09/2012 Nottingham University Business School (MBA 2011-12) 1

Go-Ahead

EXECUTIVE TEAM…



07/09/2012 Nottingham University Business School (MBA 2011-12) 2

Go-Ahead

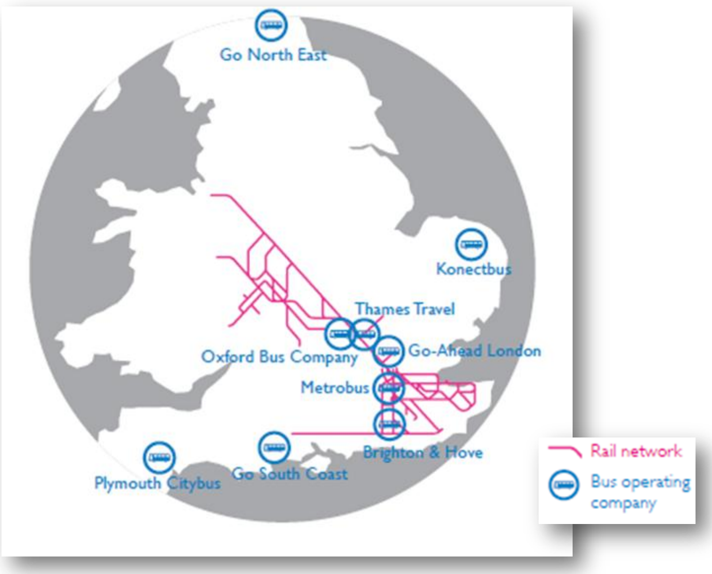
EXECUTIVE TEAM…

Source: Company Website

07/09/2012 Nottingham University Business School (MBA 2011-12) 3

Go-Ahead

COMPANY OVERVIEW…



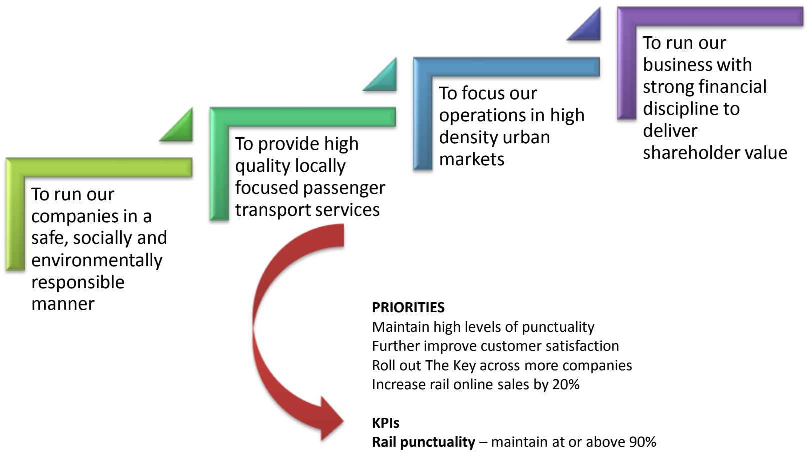
07/09/2012 Nottingham University Business School (MBA 2011-12) 4


Go-Ahead
BUS OPERATIONS…
Go Ahead London
konectbus
METROBUS
Go North East
A Go-Ahead Company
oxford
bus company
go southcoast
Brighton&Hove
Thames Travel
07/09/2012
Nottingham University Business School
(MBA 2011-12)
5


Go-Ahead
RAIL OPERATIONS…
londonmidland
SOUTHERN
southeastern.
07/09/2012
Nottingham University Business School
(MBA 2011-12)
6

Go-Ahead

BUSINESS STRATEGY…



PRIORITIES
Maintain high levels of punctuality
Further improve customer satisfaction
Roll out The Key across more companies
Increase rail online sales by 20%

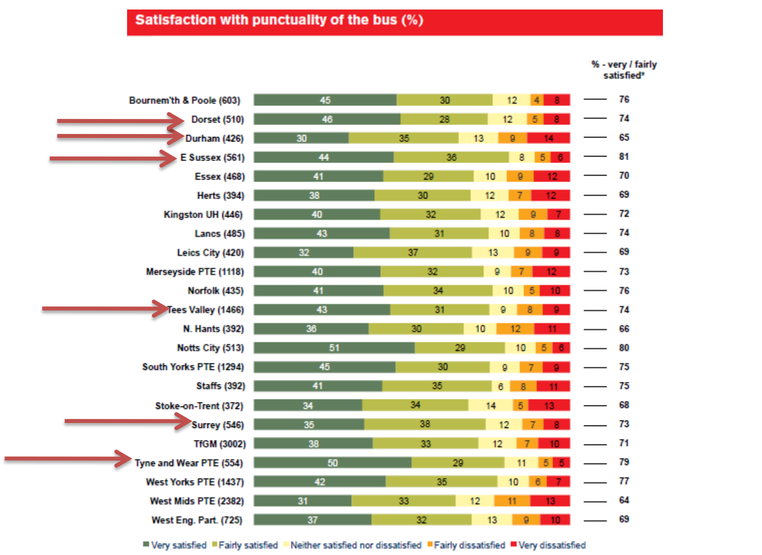
KPIs
Rail punctuality – maintain at or above 90%
London bus punctuality – maintain excess waiting time performance at below 1 minute
Deregulated bus punctuality – maintain at or above 90%

Source: Company website

07/09/2012 Nottingham University Business School (MBA 2011-12) 7

Go-Ahead

UK BUS PUNCTUALITY…



Source: Bus Passenger Survey 2012

07/09/2012 Nottingham University Business School (MBA 2011-12) 8

Go-Ahead

UK TRAIN PUNCTUALITY…

Punctuality/reliability (i.e. the train arriving/departing on time)

Unchanged ⊖
Declined ↓

% of passengers satisfied/good by sector:
London and South East - 79%
Long Distance - 87%
Regional - 85%

	Spring 2012				Improvement/decline in % satisfied or good since Autumn 2011		Improvement/decline in % satisfied or good since Spring 2011	
	sample size	% satisfied or good	% neither/ nor	% dissatisfied or poor	% change	significant change	% change	significant change
Arriva Trains Wales	1133	87	5	8	0	⊖	3	⊖
c2c	1072	92	5	3	0	⊖	0	⊖
Chiltern Railways	1148	86	6	8	5	↑	-2	⊖
CrossCountry	1131	85	5	10	6	↑	1	⊖
East Coast	1178	88	5	7	9	↑	3	⊖
East Midlands Trains	1178	88	5	7	0	⊖	1	⊖
First Capital Connect	1927	76	9	15	-1	⊖	1	⊖
First Great Western	2911	78	8	14	-1	⊖	1	⊖
First Hull Trains	550	93	4	3	8	↑	4	⊖
First TransPennine Express	1122	88	5	7	4	↑	1	⊖
Greater Anglia*	2341	70	9	22	-7	↓	-5	↓
Heathrow Connect	578	91	7	2	1	⊖	4	⊖
Heathrow Express	529	93	5	2	-1	⊖	-3	⊖
London Midland	1142	81	8	10	3	⊖	6	↑
London Overground	1145	88	8	5	4	↑	9	↑
Merseyrail	606	94	3	3	-1	⊖	1	⊖
Northern Rail	1222	78	9	13	-2	⊖	0	⊖
ScotRail	1192	87	6	7	1	⊖	6	↑
South West Trains	2240	82	8	10	-2	⊖	-4	↓
Southeastern	1651	79	9	12	-1	⊖	1	⊖
Southern	2228	78	8	14	0	⊖	0	⊖
Virgin Trains	1084	89	4	7	4	↑	-3	⊖

Source: National Passenger Survey 2012

07/09/2012 Nottingham University Business School (MBA 2011-12) 9

Go-Ahead

SMART TICKETING…

07/09/2012 Nottingham University Business School (MBA 2011-12) 10

Go-Ahead

SMART TICKETING…

07/09/2012 Nottingham University Business School (MBA 2011-12) 11

Go-Ahead

PROGRESS SO FAR…

- ✓ Smartcard machines installed on all 2,000 buses outside London
- ✓ Introduction of first interoperable commercial smartcard scheme in Oxford in partnership with Stagecoach
- ✓ Over 40% of Oxford Bus Company's bus passengers already using the key
- ✓ Pilot schemes launched on Southern and London Midland rail franchises
- ✓ Excellence in Technology Award for the key smartcard - 2011 National Transport Awards

07/09/2012 Nottingham University Business School (MBA 2011-12) 12

APPENDIX D: COMPASS GROUP PLC.

Business Strategy

Their objective is to deliver value to their shareholders and customers by leveraging the benefits of being a Group to deliver structured and sustainable organic growth and achieve our vision to be a world-class provider of food and support services. To achieve these goals the strategy focuses on:

- Developing existing expertise and strengths in contract foodservice and a range of support services in those sectors and countries that have real prospects for growth, as well as providing the global capability necessary to support our growing international client base.
- Delivering the highest quality and service performance, whilst at the same time relentlessly driving to be the lowest cost, most efficient provider.
- Establishing a strong performance culture, based on a global performance framework, MAP (short for Management and Performance), which concentrates on the five key drivers of our performance:
  - Client Sales & Marketing
  - Consumer Sales & Marketing
  - Cost of Food
  - Unit Costs
  - Above Unit Costs
- Setting the highest standards for corporate governance and responsible business practice, including all aspects of business conduct, health, safety and environmental practices.

Management and Performance (MAP)

MAP is the Group-wide framework they use for managing their business. MAP is fundamental to driving consistent performance across the Group and the discipline it brings to the way they run the business. MAP continues to be embedded deeper in the organization, not only providing them with the intensity of focus that is driving their performance, but also a common language and agenda, enabling everyone to think, act and behave as 'one Compass'.

MAP focuses on the key drivers of their performance:

- **Client Sales & Marketing**. Growing their markets and their new and existing client relationships.
- **Consumer Sales & Marketing**. Earning ongoing consumer loyalty to grow volume, participation and spend.
- **Cost of Food**. The optimal quality and range for their customers delivered at the lowest cost with the most efficient in-unit production.
- **Unit Costs**. Delivering the right service in the most efficient and cost-effective way.
- **Above Unit Costs**. Creating the simplest organizational model with the fewest layers and reduced bureaucracy.

Chairman's Statement (Future priorities)

"We have a clear, focused strategy that is delivering value for our shareholders and has created a well-balanced and sustainable business model with significant opportunities to deliver continued growth.

- Focus on our contract foodservice business
- Grow our support services business
- Committed to giving our customers superior levels of service
- Focus on driving cost efficiencies

Focus on food

Their strategy remains unchanged. Food is their core business. The structural growth opportunity is significant with an estimated market size of around £200 billion of which less than 50% is already outsourced. Although Business & Industry is the most penetrated sector, there remains excellent growth potential, as there is a strong propensity to outsource within the sector. Less penetrated sectors, such as Healthcare and Education also offer great opportunities for growth. These markets are significant and, as economic conditions continue to put increasing pressure on both the public and private sectors, Compass believes that benefits of Outsourcing will become ever more apparent.

Fast growing support services

Support and multi-services are becoming an increasingly important part of the Group and now represent 22%, or £3.5 billion, of Group revenues. Within the 22%, 7% relates to the food element of multi-service contracts and 15% to support services. Country by country, Compass is continuing to build a strong support services offer. Although organic growth is the priority, they have acquired over 20 support services businesses during the past 10 years to help accelerate growth and bring new capabilities to the Group. They have had another excellent year of new business wins including a significant contract with Ascension Health, one of the largest non-profit healthcare systems in the US. They will be providing food and support services to 86 sites across the US.

Geographic spread

Increasingly, they see their business in three segments: North America, the more developed markets of Europe and Japan and our fast growing and emerging markets. These segments comprise countries, which are at similar stages of development and demonstrate similar characteristics. North America accounts for nearly £7 billion of revenue and remains our biggest growth engine. The US culture is open to outsourcing and the current economic climate is resulting in some increased activity. They have an excellent pipeline of new business, high retention rates and ongoing opportunities to drive efficiencies. Europe and Japan, which, at just over £6 billion of revenue, account for around 40% of the Group, offer good growth potential, although the weak economic backdrop is affecting current performance. As well as core Business & Industry, there are good opportunities in Healthcare and Education and increasingly in multi-services. With operating margins currently below the Group average we see lots of potential to drive greater efficiency. The fast growing and emerging countries, which together generate revenues of £2.8 billion, are becoming much more important to the Group. Having exited over 40 difficult and sub-scale countries in the middle of the last decade and with the confidence derived from rapid margin Expansion, They have been increasingly focusing on and investing in Australia and the emerging countries. They enjoy high rates of organic growth in these countries and they would hope to see double-digit growth for many years to come. One day this segment will be a much larger proportion of the Group.

Management changes

With the differing opportunities and challenges in each geographic region, they are evolving their management structure to bring a more incisive focus to each area. They are therefore pleased to have announced the appointment of Andrew Martin, Group Finance Director, as a Group Chief Operating Officer. Andrew will assume responsibility for the Group's operations in Europe and Japan from 2 April 2012. From the same date Gary Green, currently Group Managing Director for North America will also assume the title of a Group Chief Operating Officer with responsibility for North America. Both Messrs Martin and Green will remain Directors of the Company. On 27 February 2012, Dominic Blakemore will be appointed as Group Finance Director Designate. Mr. Blakemore, 42, will succeed Mr. Martin as Group Finance Director on 2 April 2012. Mr. Blakemore is currently chief Financial Officer of Igloo Foods Group Limited, which he joined from Cadbury Plc., where he was European Finance and Strategy Director, having previously held senior finance roles as Corporate Finance Director and Group Financial Controller. Prior to joining Cadbury Plc., Mr. Blakemore was a Director at PricewaterhouseCoopers.

Acquisitions

In tandem with their concentration on organic growth, over the last couple of years they have placed more focus on making selective infill acquisitions. Over the past two years, they have invested over £600 million in small to medium-sized infill acquisitions, with a good mix between food and support services and an increasing amount in the fast growing and emerging markets, for example, more than doubling their presence in Turkey and Establishing a strong national footprint in India. They continue to have a strong Preference for small to medium-sized infill acquisitions, building scale in food and support services in their existing geographies. As appropriate acquisition opportunities arise, they will invest in food and support services, in both developed and emerging markets.

Shareholder returns

In addition to pursuing our strategy of infill acquisitions, the strength of their cash flow has enabled them to invest in organic growth and to reward their shareholders. Their commitment to a progressive dividend policy remains strong, and to drive greater efficiency in the balance sheet, they will now commence a £500 million share buy back with the intention to complete this over the next twelve months. The increasing predictability of the business and cash flows gives them confidence that they should retain their existing credit ratings (A- with Standard & Poor's and Baa1 with Moody's) and an appropriate level of financial flexibility.

Organization Structure

Compass Group's business is organized into four main sectors:

- **Eurest Services**: workplace dining and support services
- **Restaurant Associates**: workplace dining, hospitality, business services and hotels
- **Sports, leisure and hospitality**: retail and hospitality at sporting and leisure venues.
- **Specialist markets:**
    - Education: Chartwells
    - Healthcare: Medirest
    - Government and Defence: ESS Support Services
    - Offshore: ESS Support Services

Organization Culture

Governance and Ethics

The highest levels of corporate governance underpin their structure. This empowers their local management teams to manage their businesses to be competitive in their marketplace, whilst operating within a strict corporate framework with clearly defined parameters. Their Codes of Business Conduct and Ethics set out their social, ethical and environmental commitments towards each of their stakeholders and the communities in which they operate. They have a global whistle-blowing programme, 'Speak Up', which is managed by an independent company, so that their employees can raise, in confidence, any concerns they may have about how they conduct their business. This year, they have refreshed the 'Speak Up' programme to ensure that it remains relevant and that they optimize employee awareness.

Corporate Responsibility Committee

The Corporate Responsibility Committee of the Board oversees their overall commitment to good corporate governance. Established in 2007, the Corporate Responsibility Committee continues to provide direction and guidance on all aspects of business practice and responsibility, ensuring consistent application wherever they operate. The Committee's primary responsibilities include: endorsement of CR policies; overseeing occupational health and food safety performance; environmental practices; business conduct and the positive promotion of employee engagement, diversity and community investment. A key focus of the Committee has been to improve the scope of the CR commitments and develop their longer-term CR vision and performance measurement.

Board of Directors

Sir Roy Gardner (Chairman)	Appointed Chairman in July 2006 having joined as a Non-Executive Director in October 2005. Sir Roy is a senior advisor to Credit Suisse, a Non-Executive Director of Willis Group Holdings Plc, Chairman of Mainstream Renewable Power Limited, Chairman of the Advisory Board of the Energy Futures Lab of Imperial College London, President of Careers UK, Chairman of the Apprenticeship Ambassadors Network, Chairman of EnServe Group Limited and a Director of Cilantro Jersey Limited. He was formerly Chief Executive of

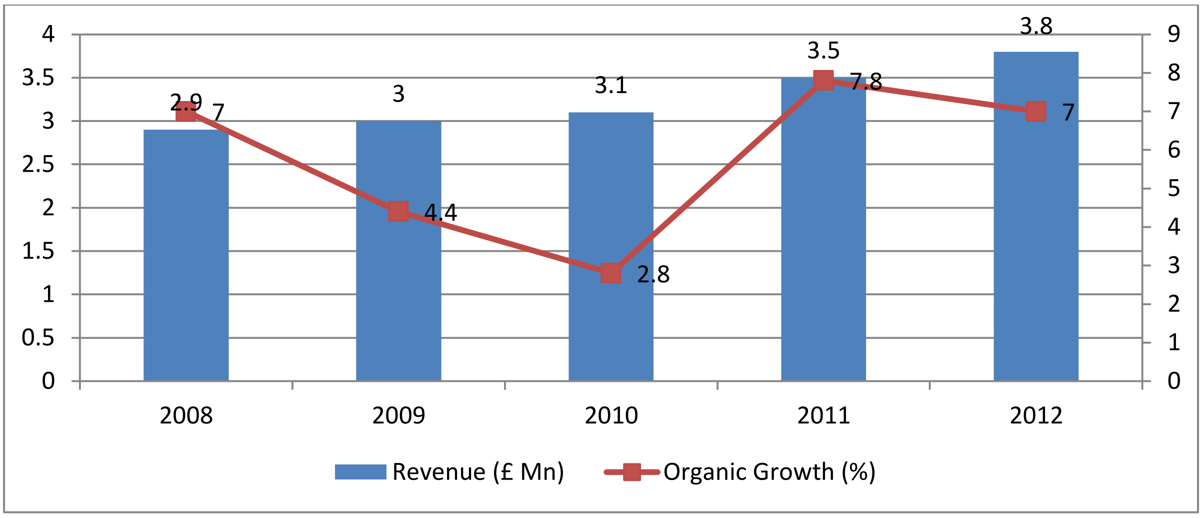
	Centrica plc and Chairman of Plymouth Argyle Football Club, Manchester United Plc, Connaught Plc and a Director of British Gas Plc, GEC-Marconi Ltd, GEC Plc and Laporte plc. He was also Chairman of the British Olympics Appeal Committee for the Beijing Games 2008
Richard Cousins (Group CEO)	Appointed Group Chief Executive in 2006. Richard had previously spent six years as CEO of BPB Plc, having held a number of positions with that company. His earlier career was with Cadbury Schweppes Plc and BTR plc. He is a Non-Executive Director of Reckitt Benckiser Group Plc, a member of the Advisory Board of Lancaster University Business School and a former Non-Executive Director of P & O Plc and HBOS plc.
Gary Green (Group MD US & Canada)	Appointed to the Board in January 2007. Gary joined the Group in 1986 in a senior finance role in the UK and became a UK director in 1992. He relocated to the USA in 1994 as Chief Finance Officer of the Group's North American business and in 1999 became Chief Executive Officer. He is a chartered accountant and in 2001 received an honorary doctorate from Johnson & Wales University in the USA.
Andrew Martin (Group Finance Director)	Appointed to the Board in March 2004. Andrew is a Non-Executive Director of EasyJet Plc and was previously a partner with Arthur Andersen and held senior financial positions with Forte Plc and Granada Group PLC. Following the disposal of the Hotels Division in 2001, he joined First Choice Holidays PLC as Finance Director. Andrew is an Associate of the Institute of Chartered Accountants in England and Wales and an Associate of the Chared Institute of Taxation.
Sir James Crosby (Senior Independe nt Non-Executive Director)	Appointed to the Board in February 2007. Sir James is Chairman of Misys Plc, Chairman of Duncton plc and Treasurer and Trustee of Cancer Research (UK). He was formerly Chief Executive of HBOS Plc, Deputy Chairman of the Financial Services Authority and a Non-Executive Director of ITV plc. He is a Fellow of the Faculty of Actuaries.
John Bason	Appointed to the Board in June 2011. John is Finance Director of Associated

(Non-Executive Director)	British Foods plc. He was previously Finance Director of Bunzl Plc and is a member of the Institute of Chartered Accountants in England and Wales. He is a Trustee of Voluntary Service Overseas and is Deputy Chairman of the charity Fareshare.
Susan Murray (Non-Executive Director)	Appointed to the Board in October 2007. Susan is Non-Executive Chairman of Farrow & Ball and a Non-Executive Director of Pernod Ricard, Enterprise Inns Plc and Imperial Tobacco PLC. She is a former Non-Executive Director of Aberdeen Asset Management PLC, SSL International PLC and Wm Morrison Supermarkets PLC, former Chief Executive of Littlewoods Stores Limited and former Worldwide President and Chief Executive of The Pierre Smirnoff Company, part of Diageo plc, and a former Council Member of the Advertising Standards Authority. Susan is a Fellow of the Royal Society of Arts.
Don Robert (Non-Executive Director)	Appointed to the Board in May 2009. Don is Chief Executive Officer of Experian Plc, having joined the Board of Experian in July 2006 as part of the demerger of GUS plc. He is a Trustee of the Education and Employers Taskforce. Don was formerly Chairman of the Consumer Data Industry Association and previously held positions with First American Corporation, Credco, Inc. and US Bancorp.
Sir Ian Robinson (Non-Executive Director)	Appointed to the Board in December 2006. Sir Ian is a former Chairman of Ladbrokes Plc, Hilton Group Plc and Amey Plc, and a former Chief Executive of Scottish Power plc and Non-Executive Director of ASDA Plc, RMC Plc, Scottish & Newcastle Plc and Siemens Holdings Plc where he remains a member of the Advisory Board. He is a Fellow of the Royal Academy of Engineers and a Member of the Takeover Panel.
Mark White (General Counsel & Company Secretary)	A solicitor who joined Compass Group on 1 June 2007. Mark is Secretary to the Audit, General Business, Nomination and Remuneration Committees and is a member of the Corporate Responsibility Committee. Mark was previously Group Company Secretary and Counsel of Wolseley Plc and Company Secretary of Enterprise Oil Plc and Rotork plc.

Business Performance

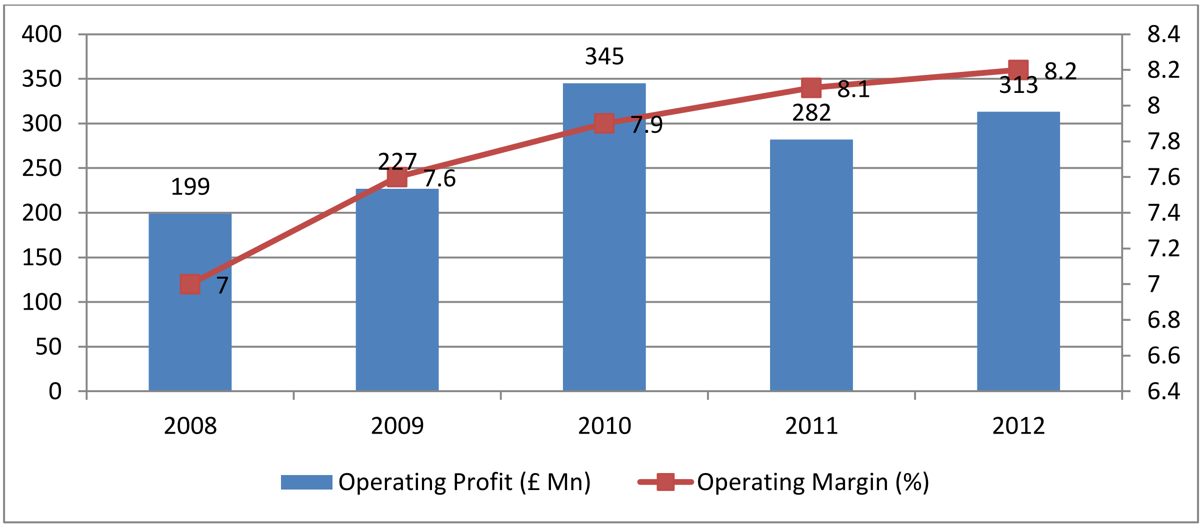
Review of North America

North America - Revenue (£Mn) & Organic Growth (%)



Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

North America - Operating Profit (£Mn) & Operating Margin (%)



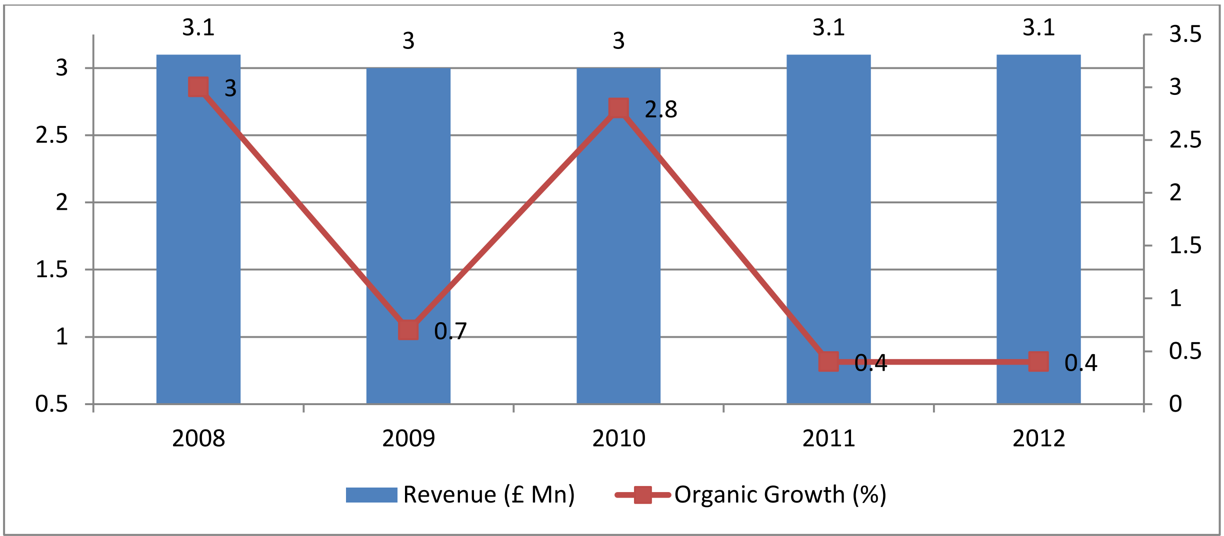
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

Derivations:

- Positive Trading Momentum
- Strong organic growth across all sectors
- Underlying Margin improvement
- Start-up of Ascension Health Contract
- Fall in organic growth rate in H1 2012

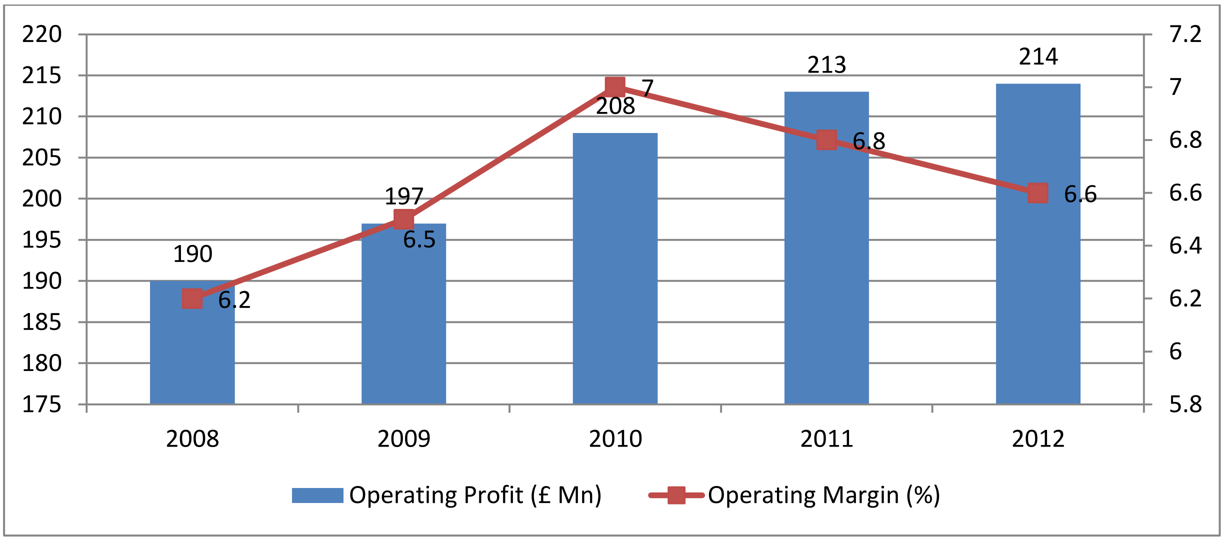
Review of Europe and Japan

Europe & Japan - Revenue (£Mn) & Organic Growth (%)



Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

Europe & Japan - Operating Profit (£Mn) & Operating Margin (%)



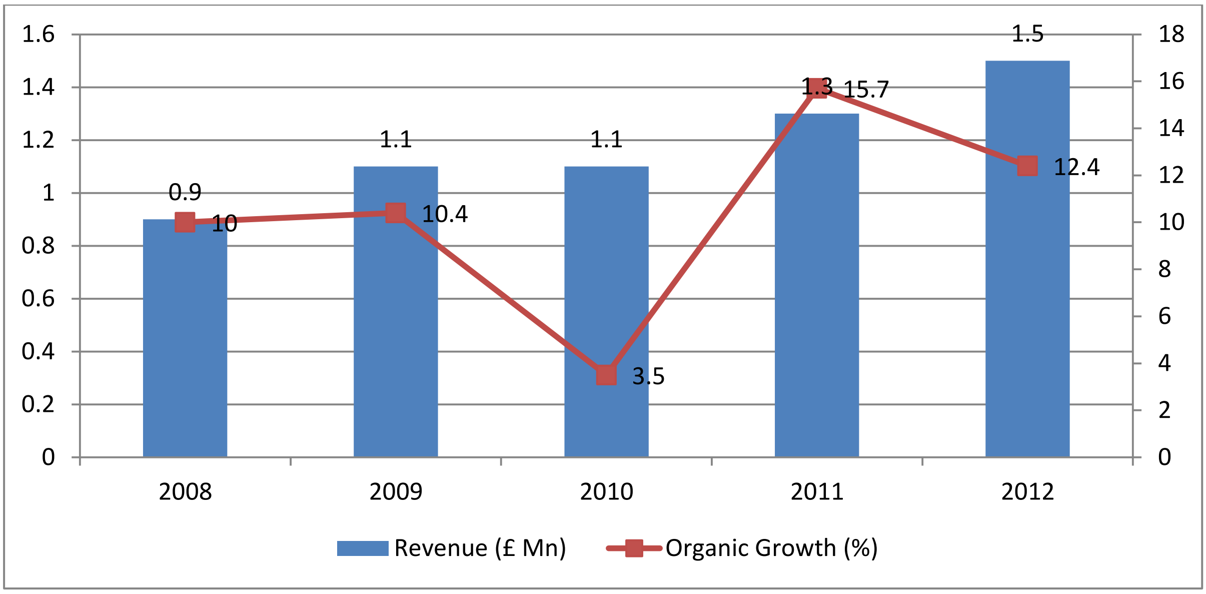
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

Derivations:

- Mixed Performance Across Europe
- Good new business win in some countries
- Difficult economic conditions, negative like for like revenue
- Japan Continues to improve Gradually
- Stagnant Organic Growth Rate and fall in operating Margins in H1 2012

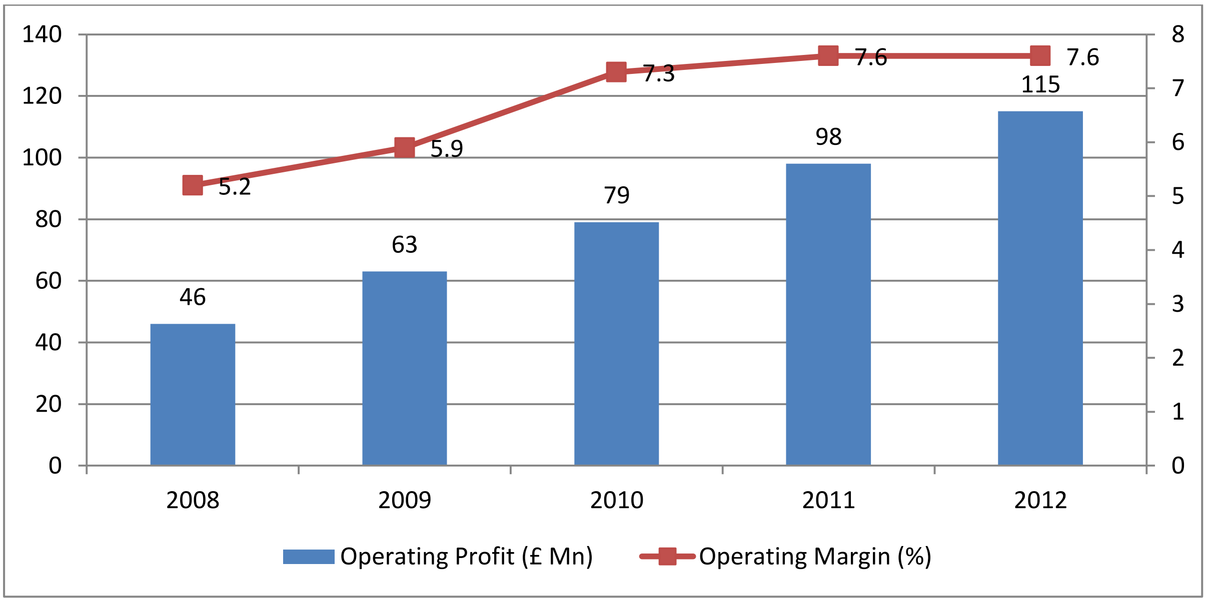
Review of Fast Growing and Emerging Markets

FG&E - Revenue (£Mn) & Organic Growth (%)



Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

FG&E - Operating Profit (£Mn) & Operating Margin (%)



Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

Derivations:

- Strong Organic Revenue Growth
- Good levels of new business & like for like revenue
- Strong growth in Energy and Extraction
- Continued investments in growth opportunities

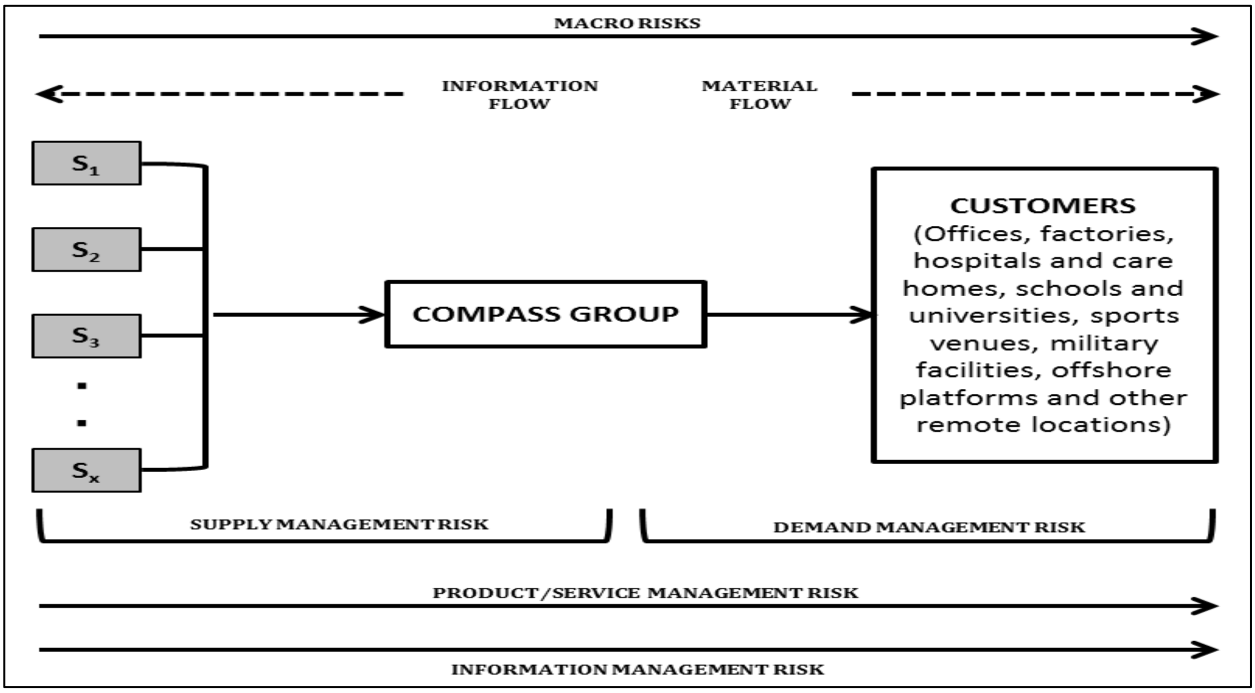
Supply Chain Risks and Mitigation Strategy for Compass group

A number of authors have studied supply chain risks or supply chain risk management. Norrman and Lindroth (2002) define supply chain risk management as 'collaborating with partners to deal with risks and uncertainties caused by, or impacting on, logistics-related activities or resources'. Supply chain risk management (SCRM) can be defined as 'the management of supply chain risks through coordination or collaboration among the supply chain partners so as to ensure profitability and continuity' (Tang 2006).

"Supply chain risk may result from unexpected variations in capacity constraints, or from breakdowns, quality problems, fires or even natural disasters at the supplier end" (Blackhurst et al. 2005, Yang and Yang 2010). "A failure of any one element in a supply chain, potentially causes disruptions for all partnering companies, upstream and downstream" (Yang and Yang 2010). The vulnerability of a supply chain increases with increasing uncertainty (Svensson 2000), and it increases even further if companies, by outsourcing, have become dependent on other organizations

We can apply a framework taken from International Journal of Production Research as shown below to analyze the supply chain risks for Compass Group Plc. The firm obtains the required raw materials from many suppliers within UK and provides food and support services directly to its clients that comprise of Offices, factories, hospitals and care homes, schools and universities, sports venues, military facilities, offshore platforms and other remote locations.

Compass Group supply chain analysis



Source: International Journal of Production Research, 2012

Supply Chain Risks and Mitigation Strategies (Compass Group)

RISK CATEGORY	RISK TYPE →	MITIGATION STRATEGY
MACRO LEVEL RISKS	1. Natural Disasters 2. Political Unrest 3. Government Regulations	1. Identifying vulnerability points and making contingency plans 2. Lobbying 3. Participative management style
DEMAND MANAGEMENT RISKS	1. Loss in demand due to economic downturn 2. Volatility 3. Changes in Customer tastes 4. Failure to communicate with customers	1. Cost reduction in operations 2. (1), Demand management through promotions and incentives and help of marketing agencies 3. (2) 4. Better planning and coordination of demand and supply
SUPPLY MANAGEMENT RISKS	1. Supplier Bankruptcy 2. Communication failure 3. Failed partnership 4. Poor quality of supply goods	1. Multiple sourcing strategy, supplier evaluation and selection, integration, flexible capacity, supplier development programme
PRODUCT/SERVICES MANAGEMENT RISKS	1. Excessive Inventory 2. Underutilised Capacity	1. Better planning and coordination of demand and supply 2. Better planning of capacity requirements
INFORMATION MANAGEMENT RISKS	1. Error in forecasting 2. Distortion in information sharing 3. Failure in IT Systems	1. Better planning and coordination of demand and supply ; investment in communication infrastructure 2. Identifying vulnerability points and making contingency plans 3. TCS !

Source: International Journal of Production Research, 2012

Fawcett and Magnan (2001) aptly sum it up by stating: ‘information is the ‘‘life blood’’ of effective supply chain management’. Large (2005) equally comes to the conclusion that ‘open, friendly and extensive communication’ with the supplier encourages successful supplier relationship management.

Business Case: Indian Facilities Management Market - Growth Opportunities and Challenges Ahead (Source: Frost & Sullivan, 2011)

Introduction

Facility Management (FM) services imply the use of a third-party service provider to maintain part of the building facility or outsourcing the management of entire facilities to an organization that executes this service professionally. It includes hard services or building operation and maintenance and soft services or support services, and energy management services. Hard services include electrical, electro-mechanical, mechanical; water management and energy management. Soft services include housekeeping, security, cleaning, catering, transportation, horticulture, landscaping, and front office management, etc. In developed markets, FM services are closely integrated with other services such as rent collection and lease management. However in India, the concept of FM has not matured enough to provide complete property management solutions. Increase in investments in IT/ITeS/BPO, finance/banking, telecom, retail/malls, and industrial sectors will continue to witness strong growth in the next 2-3 years and due to the expected influx of major global Multinational Companies (MNC) in India across various end-user verticals.

Source: Frost & Sullivan, 2011

The Indian Market vis-à-vis the Global Scenario

The Indian FM services market is in its early growth stage and is evolving rapidly, fuelled mainly by the high pace of growth in the construction sector. Increased awareness levels among different vertical markets are expected to take this market to a mature growth phase in its life cycle.

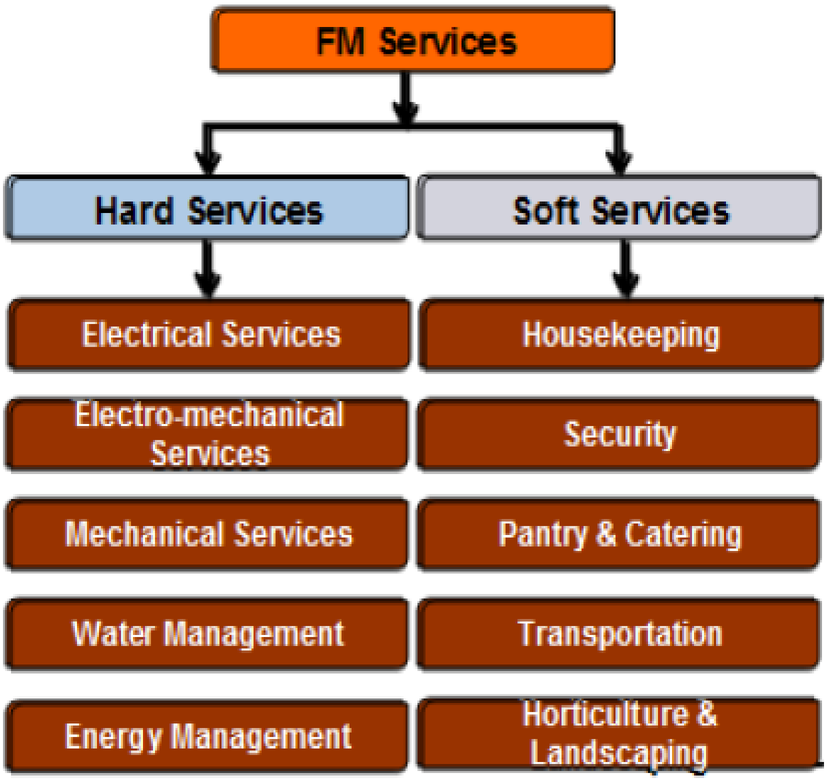
Market Life Cycle

Source: Frost & Sullivan, 2011

Increase in outsourced services coupled with the investment boom in real estate and construction sectors, growth of this market is driven by the need for safety, comfort, and healthy environment of the employees as well as the increase in awareness about outsourced services among customers. The market sustained the situation and improved its penetration largely through existing contracts although the economy witnessed slowdown in the last 2-3 years. Therefore, it is observed that the current economic situation prevailing in the US and Euro zone will not have much impact on the growth of this market. India's growth is expected to be intact with a GDP growth rate of 7.5-7.9 % in the coming years due to the current economic scenario and its long term implication on the emerging countries.

The market for outsourced FM services in India was estimated to be USD 650 million in 2010. Due to the size of the construction market and geographic space, the FM market revenues in India are higher than other nations such as Singapore that are smaller in geography. But, in terms of market maturity and understanding and accepting of such services by end users, India has a long way to go.

Facilities Management – Services Types



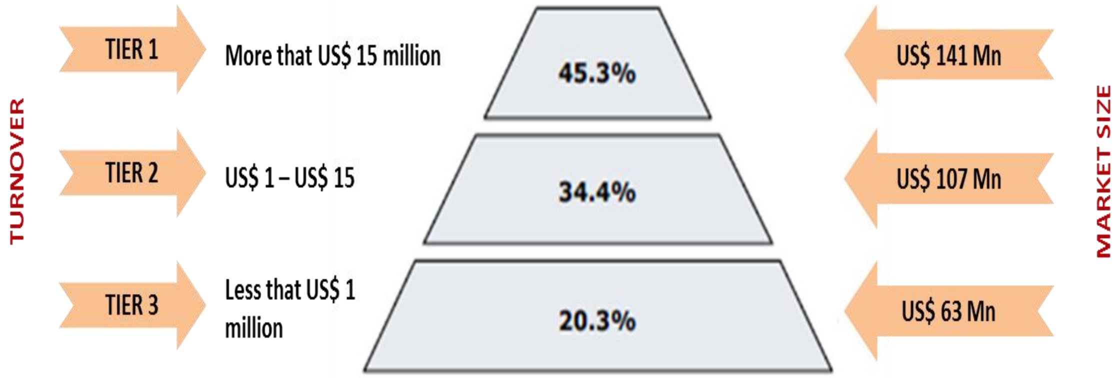
Source: Frost & Sullivan, 2011

About 54.9 % of the overall market was for soft services and 45.1 percent for hard services in 2010. The market for soft services comprises a large cluster of companies that provide single services and specialize in services such as catering and pantry, cleaning and housekeeping, security and others. The market for hard services has high prominence in the IT sector as it outsources the work to professionalized and well-equipped service providers.

Cleaning and Housekeeping services contribute a higher percentage of the market followed by maintenance and engineering services and finally security services and others.

The commercial sector witnessed the highest percentage share of the overall FM services market. The commercial sector is maturing, providing huge potential among other sectors such as telecom, retail and industrial as Global MNCs such as Accenture, Nokia, Cisco, Microsoft, and others demand outsourced FM services in India. Presence of global and Indian MNCs is the major driver for the growth of this market across various end-user sectors as they are the potential customers due to their increased awareness levels and willingness to invest in such services.

Facilities Management Services Market – Competitive Structure India (2010)



Source: Frost & Sullivan, 2011

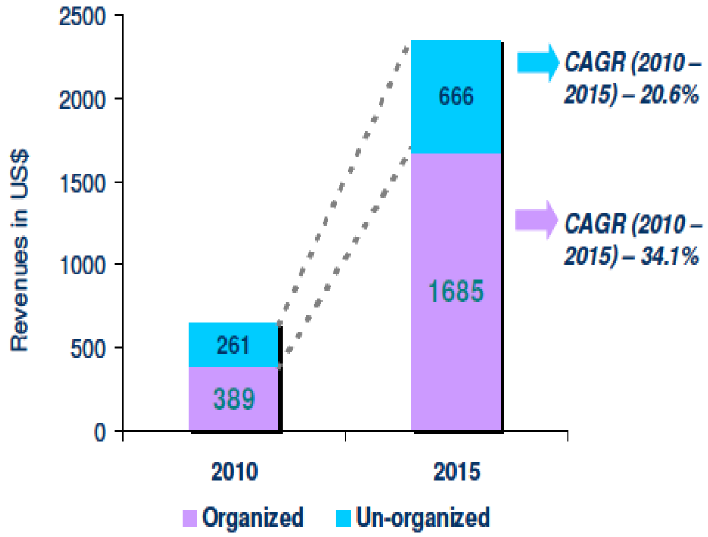
Tier I Competition: Jones Lang LaSalle, CB Richard Ellis, Updater Services, Johnson Controls, KnightFrank, ILFS Project Management & Services Limited

Tier II Competition: Vipul, Cushman & Wakefield, Colliers, Sodexo, Haden, Tyco, CNCS, Sinar Jernih,Tenon, ISS, MacLelan, Indeco, Hofincons,

Tier III Competition: Vatika, MM Enterprises, Peninsula, Tops group, Reylan Facilities, George Maintenance, Perks, Neat Space, Unicorn and others.

Increase in outsourced services coupled with the investment boom in real estate and construction sectors; growth of this market is driven by the need for safety, comfort, and healthy environment of the employees as well as the increase in awareness about outsourced services among customers. The market sustained the situation and improved its penetration largely through existing contracts although the economy witnessed slowdown in the last 2-3 years. Therefore, it is observed that the current economic situation prevailing in the US and Euro zone will not have much impact on the growth of this market. India's growth is expected to be intact with a GDP growth rate of 7.5-7.9 % in the coming years due to the current economic scenario and its long term implication on the emerging countries.

Facilities Management Market in India – Organized vs. Unorganized



Source: Frost & Sullivan, 2011

Industry Challenges

Lack of availability of technical and non-technical manpower is one of the biggest challenges the industry is facing currently. The lack of qualified staff has increased the lead times in mobilizing resources/staff after a project has been successfully contracted. Increase in inflation and labour cost has forced many customers to replace long-term contracts with medium-term ones. Many customers find it easier to maintain medium- and short-term contracts rather than long-term ones as the latter will lead to price rise.

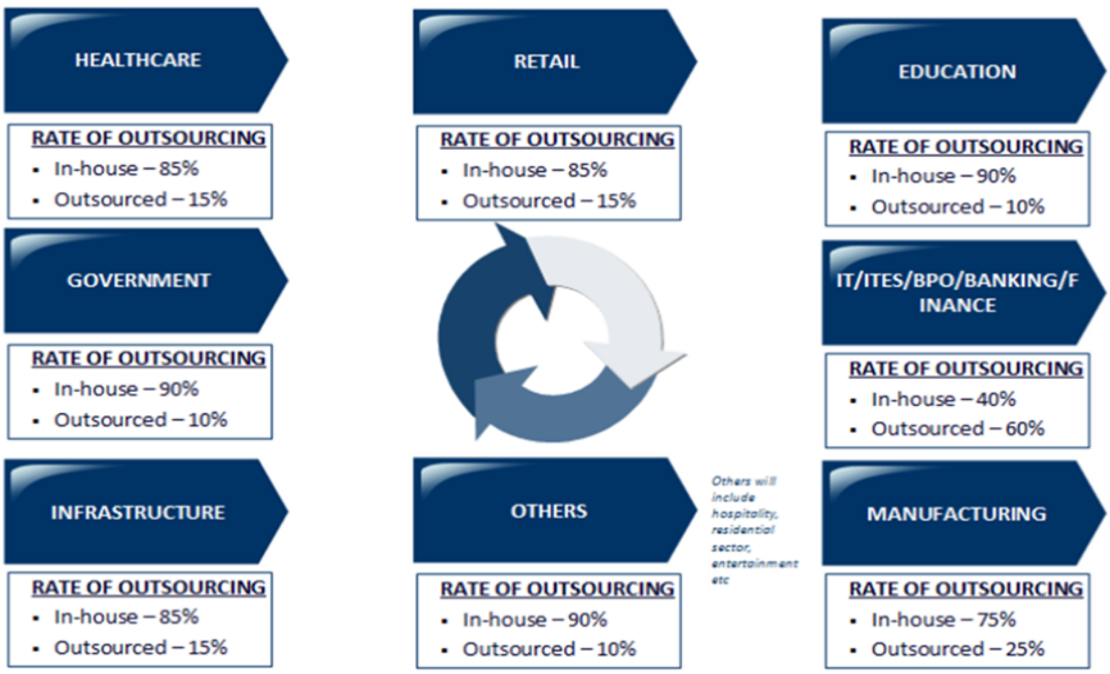
The next big factor posing as a deterrent is competition. Since the market is riddled with low cost unorganized service providers, pricing and margins come under pressure as these unorganized players provide services at low rates, essentially scuttling the competition from large organized players. However, many international property management companies have entered into this market and achieved phenomenal growth rates over the last five years. As the construction sector is witnessing an increase in investments across vertical markets, this sector is expected to witness more competition from new entrants, majorly from the US and UK, in the future.

Joint ventures (JV) are being viewed as a disincentive factor, due to high entry barriers. JVs would make it easier for the market players to provide easy access to the customer network, increase manpower strength, widen their service portfolio, and expand their geographic footprints to increase brand visibility. Very few new or existing FM companies are looking at entering or expanding into this market by partnering or acquiring a local company.

Source: Frost & Sullivan, 2011

Growth Opportunities

The outlook of FM services in India is shaping up to be highly optimistic mainly due to the growing maturity of end users and the need for improved safety, comfort and professional maintenance of assets.



Source: Frost & Sullivan, 2011

Presence of Global and Indian MNCs across various end-user sectors is mainly driving the market for FM services in India as they are the potential customers due to their increased awareness levels, exposure to facilities and willingness to invest.

The IT sectors are more concerned about personalized and specialized services utilizing both hard and soft services due to the recent boom and increase in investments in the Indian IT/ITeS/BPO and finance/banking sectors. Increase in investments from emerging sectors such as healthcare, retail and infrastructure sector are expected to further push this market to a higher growth curve in the life cycle.

The public sector, namely government offices, industrial and educational segments offer very minimal opportunity as the market is currently in the early stages of development with limited penetration of the outsourcing concept. They majorly outsource only the soft services to the local FM companies.

Expansion of business activities in tier 2 and tier 3 cities by the end-user segments are considered to be an increasing regional growth trends for FM services market in India.

FM companies should be able to overcome competition factors and capitalize on the vast opportunities in store. Simultaneously, the FM market in India is moving towards involving an organized approach in order to achieve higher market penetration and maturity. Many companies have adopted inorganic growth models to penetrate the market by acquiring well-established firms to capture a considerable market share. Companies are constantly looking for growth options and modifying their business models to suit market trends.

Some of recent / major acquisition are India based A2Z Group acquired IPMSL and CNCS Facility Solutions. Secondly, UK based compass group acquired India's Vipul Facilities Management and Ultimate Hospitality Services and Thirdly, Tenon Property Services who have expanded its portfolio by acquiring companies Peregrine Guardine, Roto Power and Mortice Group.

Source: Frost & Sullivan, 2011

Recommendations & Conclusion

Outsourcing of these services was initiated by IT/ITeS sector. Therefore, increase in focus on commercial sectors such as IT/ITeS/BPOs/Finance/Banking is recommended as these would drive demand for outsourced services in future. Targeting industries such as oil and gas, power, petroleum, steel, cement, pulp and paper, pharmaceutical and auto is also recommended as they are aware of the concept and understand the benefits of outsourcing.

Brand visibility and competitive pricing are the two most important key success factors for an FM service provider in deciding the success rate of the company; key industry alliances can also be leveraged by participating in /organizing major events and conferences.

The real estate developer plays a major role in influencing the FM service provider. Therefore, it is recommended to maintain consistent relationship or to have a tie-up with a civil contractor / real estate developer to execute a FM project. This will well create value by facilitating marketing and ensuring better selling price of the property.

Due to high entry barriers and the fragmented nature of the market and to sustain local competition since high preference is given to local companies joint ventures with a local FM company are recommended in order to understand the local laws and variations in customer preferences.

The FM industry is all set to enter the next phase of the market life cycle, the development stage. Industry participants are looking for unconventional areas to expand their growth prospects. The market is poised to grow at a stupendous rate and offers huge area of growth for FM companies. Demand for both hard and single services is expected to remain strong as end users value the experience and professional service that these providers can offer.

Source: Frost & Sullivan, 2011

Presentation to TCS

BUSINESS OVERVIEW

COMPASS GROUP

03/09/2012 Nottingham University Business School (MBA 2011-12) 1

COMPANY OVERVIEW…

MAIN ACTIVITY & SIZE

Compass Group PLC provides catering and support services to offices, factories, hospitals and care homes, schools and universities, sports venues, military facilities, offshore platforms and other remote locations

Op. Revenue (Turnover)	15.8 (Bn. £)
P/L for Period (Net Income)	774 (Mn. £)
Total Assets	9.4 (Bn. £)
No of Employees	471,108
Market cap. (15/08/2012)	13.3 (Bn. £)
No of recorded shareholders	120
No of recorded subsidiaries	697

Source: Fame - company report of Compass Group PLC

KEY PEOPLE

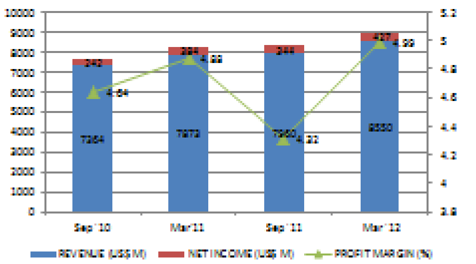
Roy Alan Gardner	Chairman
Andrew D Martin "Andy"	Chief Operating Officer
Richard J Cousins	CEO
Gary R Green	COO – North America

Source: Bloomberg

KEY FACTS

- They employ more than 470,000 people in around 50 countries
- They serve around 4 billion meals a year
- They work in around 40,000 client locations
- 90 of Fortune 100 companies are their clients

KEY FINANCIALS



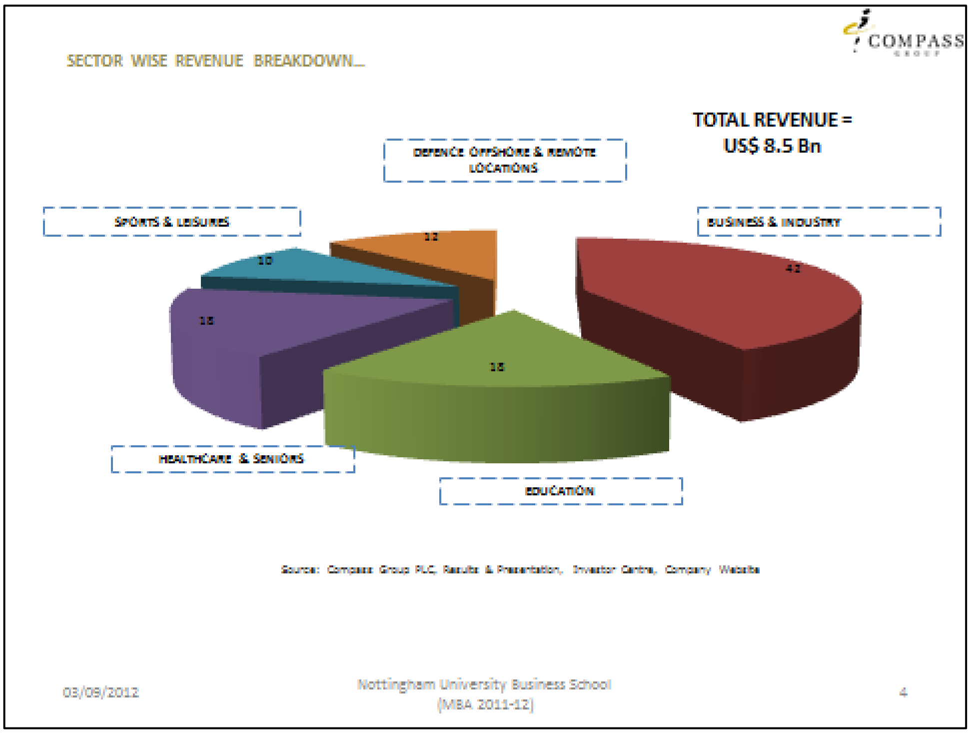
Source: Bloomberg

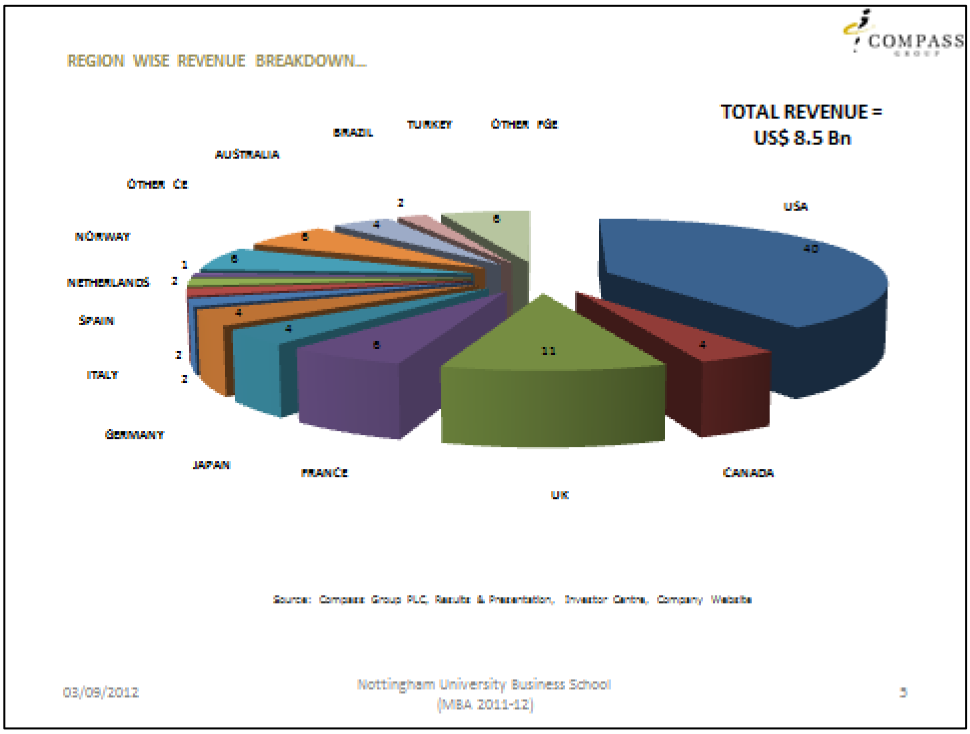
REGISTERED OFFICE

Compass House, Guildford Street, Chertsey, Surrey KT16 9BQ, United Kingdom.
Tel +44 1932 573 000 ; Fax +44 1932 569 956

03/09/2012 Nottingham University Business School (MBA 2011-12) 2


BOARD OF DIRECTORS…
COMPASS
Sir Roy Gardiner (Chairman)
Richard Cousins (Group CEO)
Gary Green (Group MD – US & Canada)
Andrew Martin (Group Finance Director)
Sir James Crosby (Senior Non-Executive Director)
John Bason (Non-Executive Director)
Susan Murray (Non-Executive Director)
Don Robert (Non-Executive Director)
Sir Ian Robinson (Non-Executive Director)
Mark White (Non-Executive Director)
Source: Compass Group PLC Annual Report, 2011, Company Website
03/09/2012
Nottingham University Business School (MBA 2011-12)
3


SECTOR WISE REVENUE BREAKDOWN…
COMPASS
TOTAL REVENUE = US$ 8.5 Bn
DEFENCE OFFSHORE & REMOTE LOCATIONS
SPORTS & LEISURES
BUSINESS & INDUSTRY
HEALTHCARE & SENIORS
EDUCATION
42
18
18
10
12
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website
03/09/2012
Nottingham University Business School (MBA 2011-12)
4


REGION WISE REVENUE BREAKDOWN…
COMPASS GROUP
TOTAL REVENUE = US$ 8.5 Bn
USA
40
CANADA
4
UK
11
FRANCE
6
JAPAN
4
GERMANY
4
ITALY
SPAIN
NETHERLANDS
NORWAY
OTHER CE
6
AUSTRALIA
6
BRAZIL
4
TURKEY
2
OTHER FGE
6
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website
03/09/2012
Nottingham University Business School
(MBA 2011-12)
5


PERFORMANCE HIGHLIGHTS
COMPASS
GROUP
03/09/2012
Nottingham University Business School
(MBA 2011-12)
6

COMPASS GROUP

ORGANIC REVENUE GROWTH & LIKE FOR LIKE REVENUE GROWTH...

ORGANIC REVENUE GROWTH	2010 (%)		2011 (%)		2012 (%)
	H1	H2	H1	H2	H1
New Business	9	10	9	8.5	8.5
Lost Business	7	6.5	6	5.5	5.5
Net New Business	2	3.5	3	3	0
Like for Like Revenue	-1.6	2	2.7	2	2
Organic Growth	0.4	5.5	5.7	5	5

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

Region	Trend
North America	Positive
Europe & Japan	Small Negative
FG&E	Good growth

LIKE FOR LIKE REVENUE	2010 (%)		2011 (%)		2012 (%)
	H1	H2	H1	H2	H1
Price	1.5	1.5	1.7	2	2
Volume	-3.1	0.5	1	0	0
TOTAL	-1.6	2	2.7	2	2

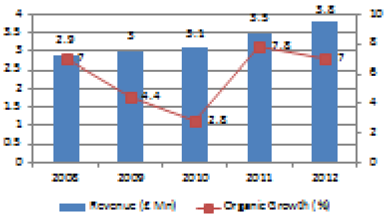
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 7

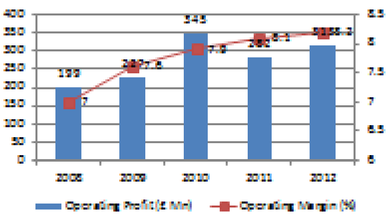
COMPASS GROUP

REVIEW OF NORTH AMERICA...

REVENUE (£Mn) % ORGANIC GROWTH (%)



OPERATING PROFIT (£Mn) & OPERATING MARGINS (%)



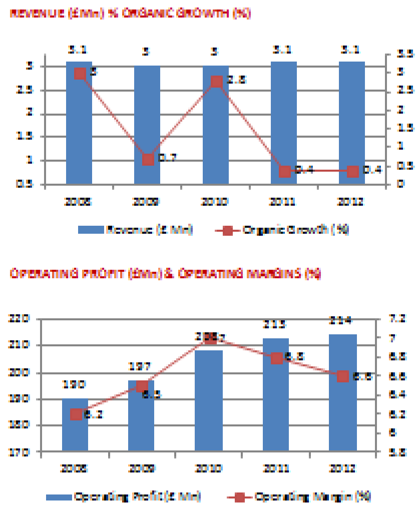
- Positive Trading Momentum
- Strong organic growth across all sectors
- Underlying Margin improvement
- Start-up of Ascension Health Contract
- Fall in organic growth rate in H1 2012

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 8

COMPASS GROUP

REVIEW OF EUROPE & JAPAN…



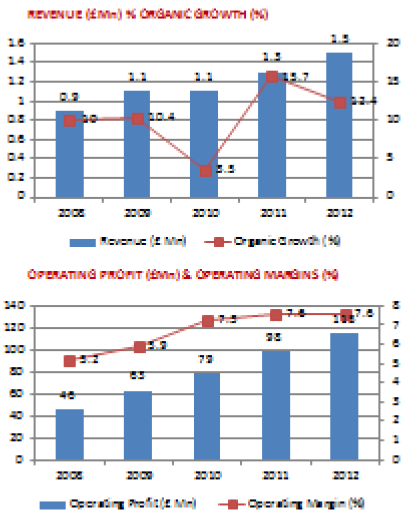
- Mixed Performance Across Europe
- Good new business win in some countries
- Difficult economic conditions, negative like for like revenue
- Japan Continues to improve Gradually
- Stagnant Organic Growth Rate and fall in operating Margins in H1 2012

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 9

COMPASS GROUP

REVIEW OF FAST GROWING & EMERGING MARKETS…

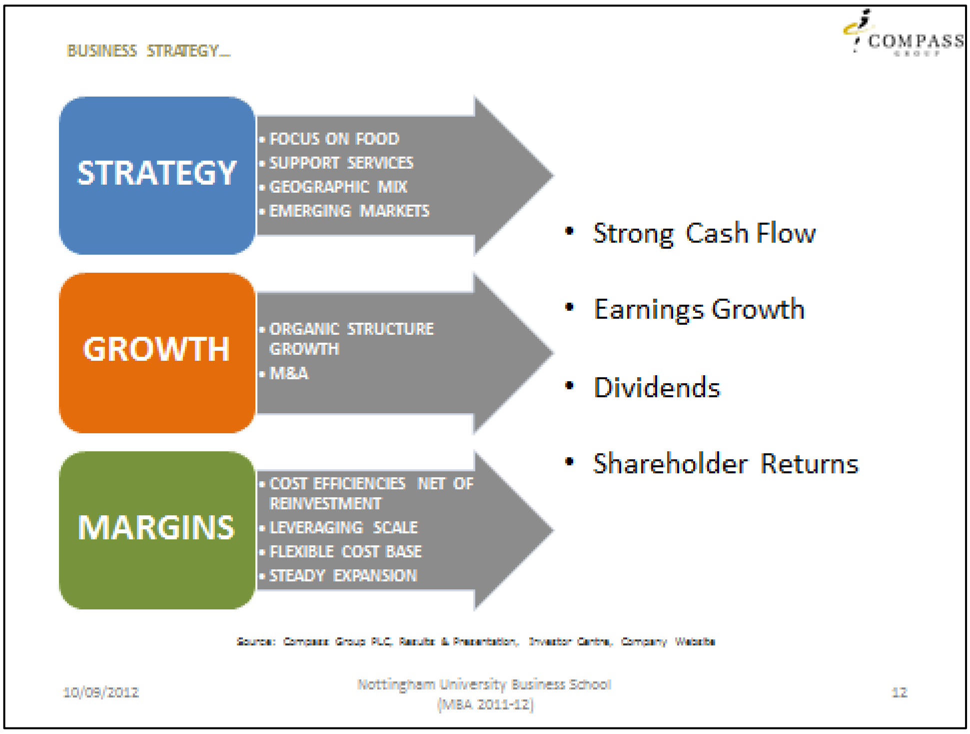


- Strong Organic Revenue Growth
- Good levels of new business & like for like revenue
- Strong growth in Energy and Extraction
- Continued investments in growth opportunities

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

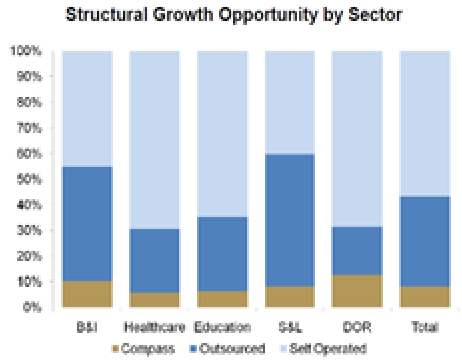
03/09/2012 Nottingham University Business School (MBA 2011-12) 10


BUSINESS STRATEGY
COMPASS
GROUP
03/09/2012
Nottingham University Business School
(MBA 2011-12)
11


BUSINESS STRATEGY…
COMPASS
STRATEGY
• FOCUS ON FOOD
• SUPPORT SERVICES
• GEOGRAPHIC MIX
• EMERGING MARKETS
GROWTH
• ORGANIC STRUCTURE GROWTH
• M&A
MARGINS
• COST EFFICIENCIES NET OF REINVESTMENT
• LEVERAGING SCALE
• FLEXIBLE COST BASE
• STEADY EXPANSION
• Strong Cash Flow
• Earnings Growth
• Dividends
• Shareholder Returns
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website
10/09/2012
Nottingham University Business School
(MBA 2011-12)
12

FOOD: STUCTUIRAL MARKET GROWTH OPPORTUNITY…

COMPASS GROUP



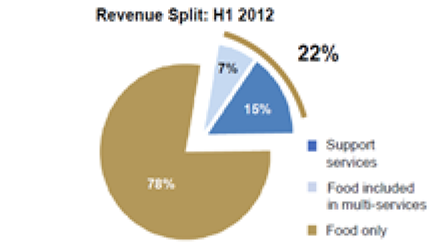
- 200 billion £ market opportunity
- Underpenetrated healthcare and education sector
- Rank 1 or 2 in all key markets
- Compelling proposition

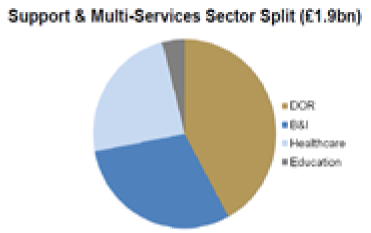
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 13

INCREMENTAL APPROACH: SUPPORT & MULTI SERVICES…

COMPASS GROUP





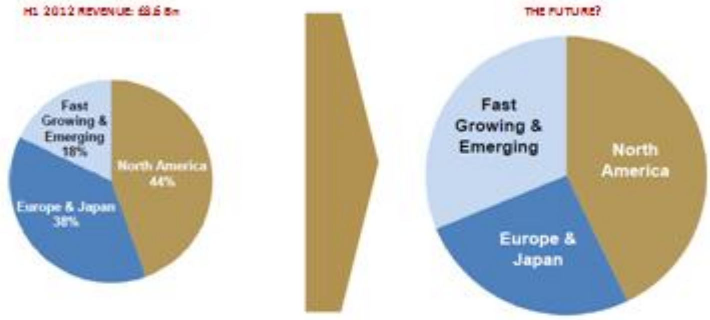
- **Incrementally building Capacity**
- **Responding to different regional trends**
- **Significant Cross selling opportunities**
- **Organic Growth & M&A**

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 14

COMPASS GROUP

INCREMENTAL APPROACH: GEOGRAPHIC PRIORITIES…



Region	2012 H1 organic growth rate	Revenue opportunity	Margin opportunity
North America	7.0%	Ongoing; core growth engine	Ongoing
Europe & Japan	(0.4)%	Modest	Further efficiencies
Fast Growing & Emerging	12.4%	High growth rates	Steady expansion

Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website

03/09/2012 Nottingham University Business School (MBA 2011-12) 15

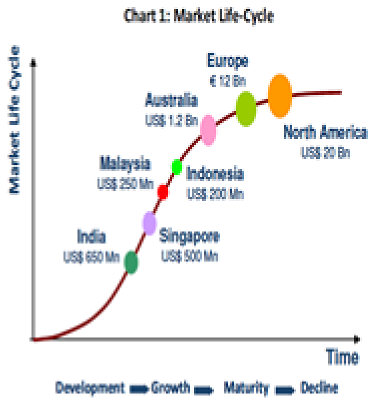
BUSINESS CASE

COMPASS GROUP

03/09/2012 Nottingham University Business School (MBA 2011-12) 16

FACILITIES MANAGEMENT SERVICE MARKET

COMPASS GROUP



- The Indian FM services market is in its early growth stage and is evolving rapidly
- Facilities Management Service Market in India was valued at USD 10.57 billion in 2011 and is slated to grow at a CAGR of 25% (www.sbwire.com, 2011)
- The market for **outsourced** FM services in India was estimated to be USD 650 million in 2010

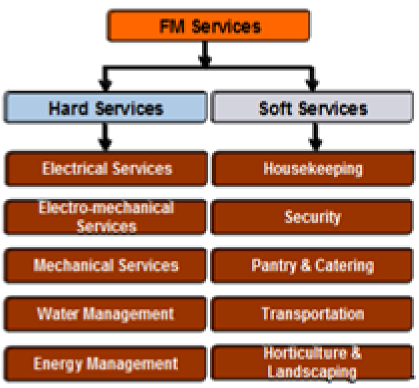
Source: Frost & Sullivan, 2011

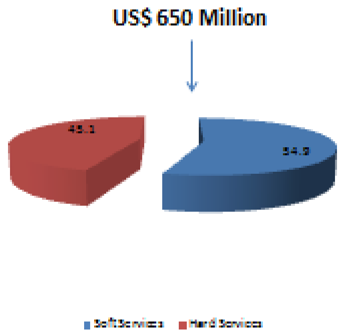
03/09/2012 Nottingham University Business School (MBA 2011-12) 17

FACILITIES MANAGEMENT SERVICE MARKET

COMPASS GROUP

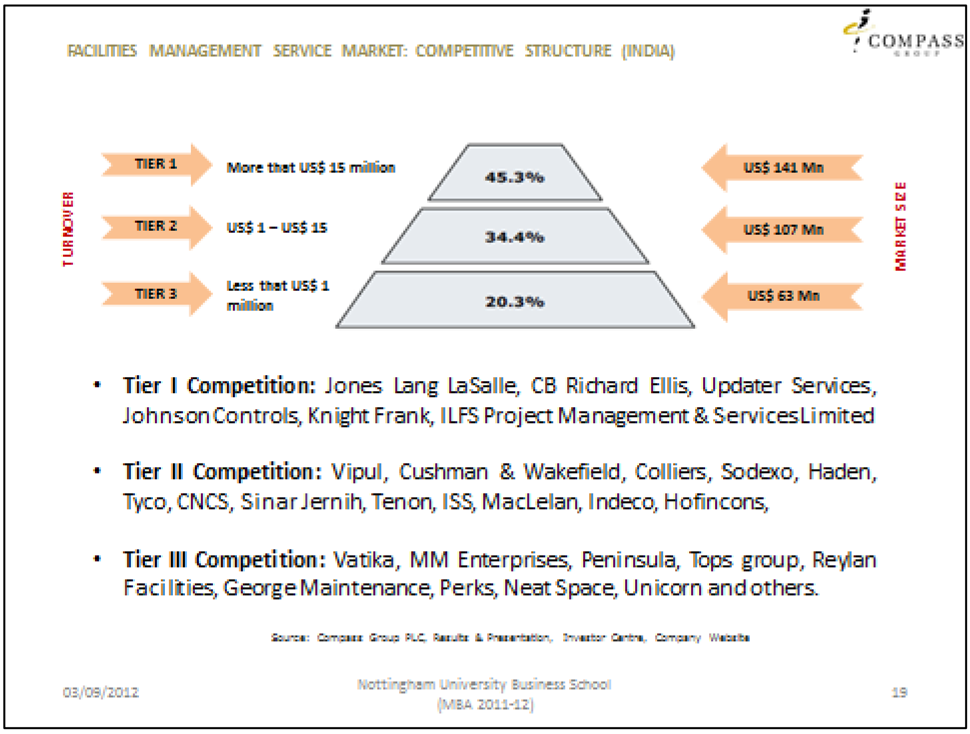
Out of US$ 650 million market for outsourced FM, 54.9 % of the overall market was for soft services and 45.1% for hard services in 2010.

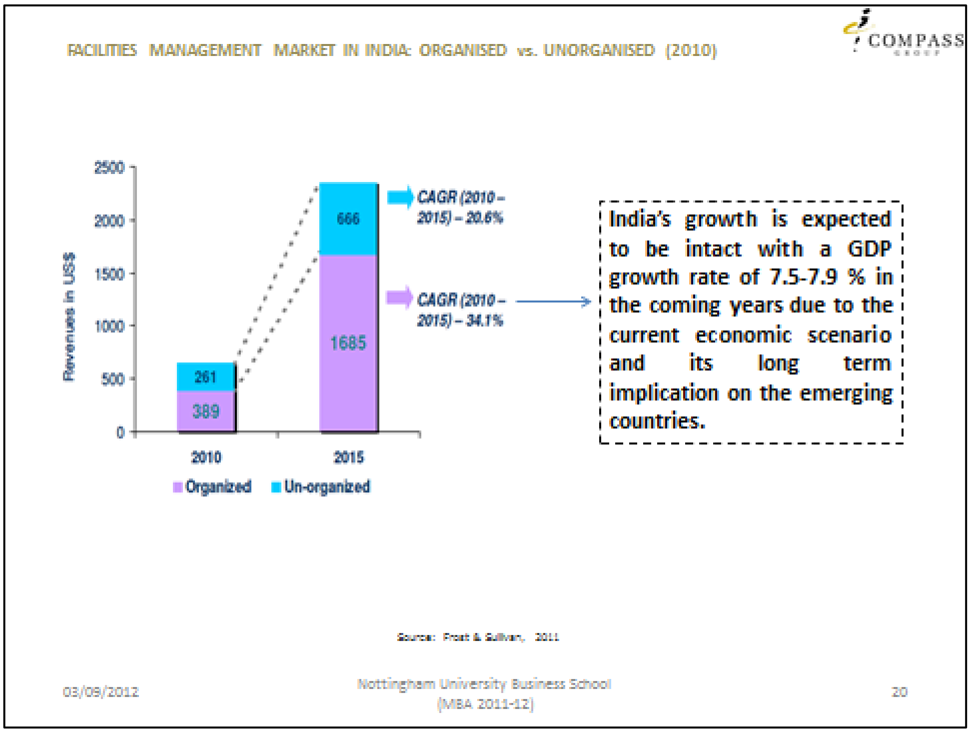


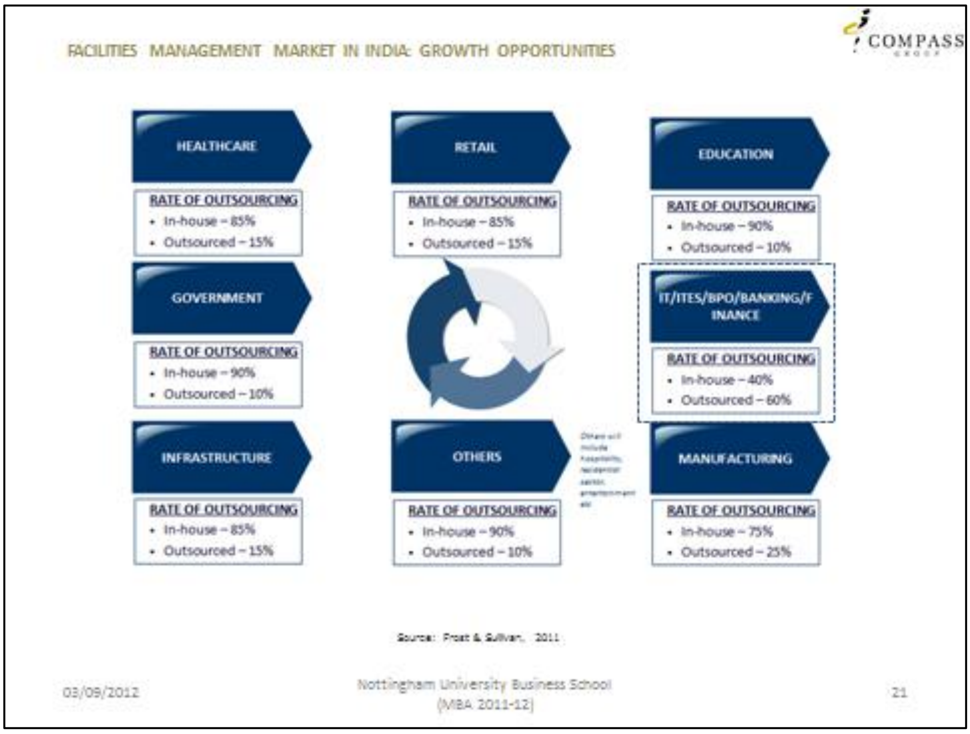


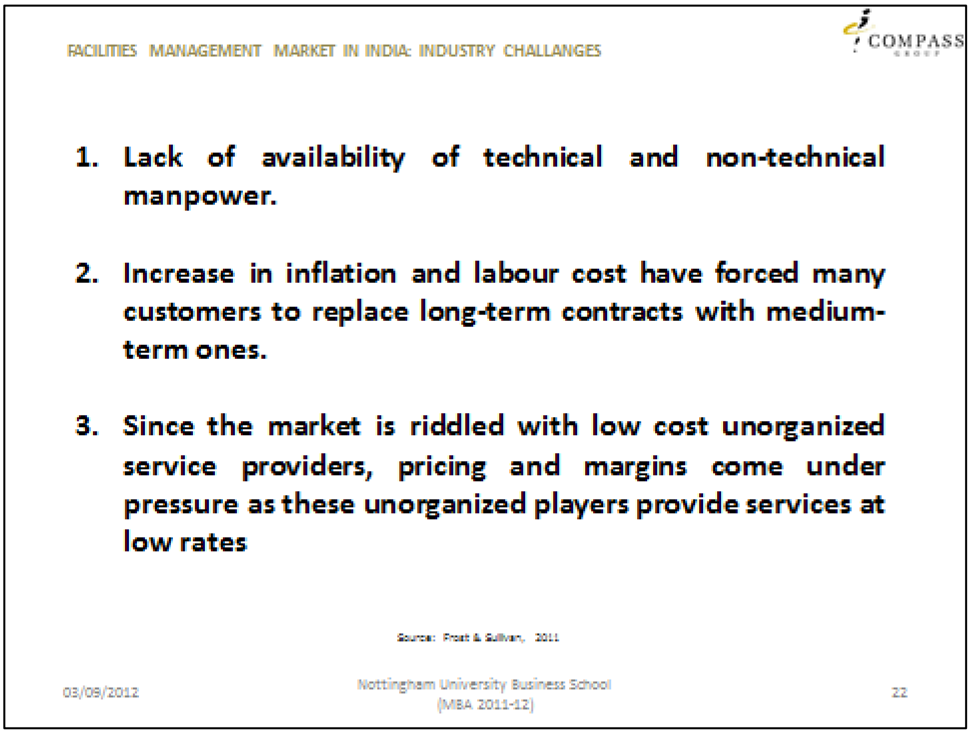
Source: Frost & Sullivan, 2011

03/09/2012 Nottingham University Business School (MBA 2011-12) 18


COMPASS GROUP
FACILITIES MANAGEMENT SERVICE MARKET: COMPETITIVE STRUCTURE (INDIA)
TURNOVER
TIER 1
More that US$ 15 million
TIER 2
US$ 1 – US$ 15
TIER 3
Less that US$ 1 million
45.3%
34.4%
20.3%
US$ 141 Mn
US$ 107 Mn
US$ 63 Mn
MARKET SIZE
• Tier I Competition: Jones Lang LaSalle, CB Richard Ellis, Updater Services, Johnson Controls, Knight Frank, ILFS Project Management & Services Limited
• Tier II Competition: Vipul, Cushman & Wakefield, Colliers, Sodexo, Haden, Tyco, CNCS, Sinar Jernih, Tenon, ISS, MacLelan, Indeco, Hofincons,
• Tier III Competition: Vatika, MM Enterprises, Peninsula, Tops group, Reylan Facilities, George Maintenance, Perks, Neat Space, Unicorn and others.
Source: Compass Group PLC, Results & Presentation, Investor Centre, Company Website
03/09/2012
Nottingham University Business School (MBA 2011-12)
19


COMPASS GROUP
FACILITIES MANAGEMENT MARKET IN INDIA: ORGANISED vs. UNORGANISED (2010)
Revenues in US$
2500
2000
1500
1000
500
0
261
389
666
1685
2010
2015
Organized
Un-organized
CAGR (2010 – 2015) – 20.6%
CAGR (2010 – 2015) – 34.1%
India's growth is expected to be intact with a GDP growth rate of 7.5-7.9 % in the coming years due to the current economic scenario and its long term implication on the emerging countries.
Source: Frost & Sullivan, 2011
03/09/2012
Nottingham University Business School (MBA 2011-12)
20


FACILITIES MANAGEMENT MARKET IN INDIA: GROWTH OPPORTUNITIES
COMPASS GROUP
HEALTHCARE
RATE OF OUTSOURCING
• In-house – 85%
• Outsourced – 15%
RETAIL
RATE OF OUTSOURCING
• In-house – 85%
• Outsourced – 15%
EDUCATION
RATE OF OUTSOURCING
• In-house – 90%
• Outsourced – 10%
GOVERNMENT
RATE OF OUTSOURCING
• In-house – 90%
• Outsourced – 10%
IT/ITES/BPO/BANKING/FINANCE
RATE OF OUTSOURCING
• In-house – 40%
• Outsourced – 60%
INFRASTRUCTURE
RATE OF OUTSOURCING
• In-house – 85%
• Outsourced – 15%
OTHERS
RATE OF OUTSOURCING
• In-house – 90%
• Outsourced – 10%
MANUFACTURING
RATE OF OUTSOURCING
• In-house – 75%
• Outsourced – 25%
Source: Frost & Sullivan, 2011
03/09/2012
Nottingham University Business School
(MBA 2011-12)
21


FACILITIES MANAGEMENT MARKET IN INDIA: INDUSTRY CHALLANGES
COMPASS GROUP
1. Lack of availability of technical and non-technical manpower.
2. Increase in inflation and labour cost have forced many customers to replace long-term contracts with medium-term ones.
3. Since the market is riddled with low cost unorganized service providers, pricing and margins come under pressure as these unorganized players provide services at low rates
Source: Frost & Sullivan, 2011
03/09/2012
Nottingham University Business School
(MBA 2011-12)
22

RECOMMENDATIONS

COMPASS GROUP

03/09/2012 Nottingham University Business School (MBA 2011-12) 23

FACILITIES MANAGEMENT MARKET IN INDIA: RECOMMENDATIONS

COMPASS GROUP

1. Outsourcing of these services was initiated by IT/ITES sector. Therefore, increase in focus on commercial sectors such as IT/ITES/BPOs/Finance/Banking is recommended as these would drive demand for outsourced services in future.
2. Targeting industries such as oil and gas, power, petroleum, steel, cement, pulp and paper, pharmaceutical and auto is also recommended as they are aware of the concept and understand the benefits of outsourcing.
3. Targeting sectors such as Healthcare and Education because of the company's under penetration and vast opportunities in these sectors.
4. Brand visibility and competitive pricing are the two most important key success factors for an FM service provider in deciding the success rate of the company.
5. The real estate developer plays a major role in influencing the FM service provider, therefore, it is recommended to maintain consistent relationship or to have a tie-up with a civil contractor / real estate developer to execute a FM project.
6. Continued JVs and/or M&As to penetrate the markets further.

Source: Frost & Sullivan, 2011

03/09/2012 Nottingham University Business School (MBA 2011-12) 24

APPENDIX E: TRANSPORT FOR LONDON (TFL)

Business Strategy

The Mayor's Transport Strategy (MTS) has published the following goals for Transport for London:

- Support economic development and population growth
- Enhance the quality of life form all Londoners
- Improve the safety and security of all Londoners
- Improve transport opportunities for all Londoners
- Reduce transport's contribution to climate change and improve its resilience
- Support delivery of the London 2012 Olympic and Paralympic Games and its legacy

Key Strategic Challenges and Outcomes

MTS CHALLENGES	MTS OUTCOMES	Score
MTS Goal : Support economic development and population growth		
Supporting sustainable population and employment growth	Balancing capacity and demand for travel through increasing public transport capacity and/or reducing the need to travel	Slight Positive
Improving transport connectivity	Improving people's access to jobs	Neutral
	Improving access to commercial markets for freight movements and business travel	Slight Positive
Delivering an efficient and effective transport system for goods and people	Smoothing traffic flow (managing delay, improving journey time reliability and resilience)	Slight Positive
	Improving public transport reliability	Slight Positive

	Reducing operating costs	Neutral
	Bringing and maintaining all assets to a state of good repair	Neutral
	Enhancing use of the Thames for people and goods	Neutral
MTS Goal: Enhance the quality of life for all Londoners		
Improving journey experience	Improving public transport customer satisfaction	Slight Positive
	Improving road user satisfaction (drivers, pedestrians, cyclists)	Slight Negative
	Reducing public transport crowding	Strong Negative
Enhancing the built and natural environment	Enhancing streetscape, improving the perception of urban realm and developing better streets initiatives	Neutral
	Protecting and enhancing the natural environment	Neutral
Improving air quality	Reducing air pollutant emissions from ground based transport, contributing to EU air quality targets	Slight Positive
Improving noise impacts	Improving perceptions and reducing impact of noise	Slight Positive
Improving health impacts	Facilitating an increase in walking and cycling	Slight Positive
MTS Goal: Improve the safety and security of all Londoners		

Reducing crime, fear of crime and anti-social behaviour	Reducing crime rates (and improved perceptions of personal safety and security)	Slight Positive
Improving road safety	Reducing the numbers of road traffic casualties	Neutral
Improving public transport safety	Reducing casualties on public transport networks	Moderate Positive
MTS Goal: Improve transport opportunities for all Londoners		
Improving accessibility	Improving the physical accessibility of the transport system	Neutral
	Improving access to services	Neutral
Supporting regeneration and tackling deprivation	Supporting wider regeneration	Slight Positive
MTS Goal : Reduce transport's contribution to climate change and improve its resilience		
Reducing CO2 emissions	Reducing CO2 emissions from ground based transport, contributing to a London-wide 60% reduction by 2025	Slight Positive
Adapting for climate change	Maintaining the reliability of transport networks	Slight Negative
MTS Goal: Support delivery of the London 2012 Olympic and Paralympic Games and its legacy		
Developing and implementing a viable and sustainable legacy for the 2012 Games	Supporting regeneration and convergence of social and economic outcomes between the five Olympic boroughs and the rest of London	Slight Positive

	Physical transport legacy	Neutral
	Behavioural transport legacy	Neutral

Source: TFL, Environment, Corporate and Planning Panel, October 2010

Transport Priorities 2012-2016

21st Century Tube

Reducing Tube delays by 30 per cent by 2015: Reducing Tube delays by 30 per cent by 2015: a large programme of work has already delivered a 40 per cent improvement in reliability since 2008. This further reduction will be challenging. The Reliability, Availability, 2 Maintenance and Safety (RAMS) programme's work to date has laid a strong foundation, but has largely focused on how to do things 'better'. To meet this new target, the plan, which is in development, will emphasis what needs to be done 'differently'. This may require significant investment. An outline plan will be discussed with the Mayor prior to the Games with a more detailed plan being worked-up for the autumn

Automation of the Tube: The replacement of the life expired fleets and signaling of the Bakerloo, Piccadilly and Central line in the 2020s, is not only essential for future reliability and Tube capacity, but also offers a once in a generation opportunity to change the operation of the Underground. The Deep Tube Programme, which will develop, design and deliver these line upgrades, is already under way and currently at the scope definition stage.

Improving and Expanding Suburban Rail

Rail devolution: The Mayor will submit his response to the Department for Transport consultation on rail decentralization at the end of June. The Deputy Mayor for Transport and TfL are undertaking a series of meetings with key stakeholders in order to make the case for TfL being able to take over selected inner suburban routes in the Southeastern and

Greater Anglia franchises, which will be re-let in the next four years. To meet franchise renewal deadlines, the DfT will need to agree later in 2012. TfL believes that taking over these franchises will enable it to offer customers significant improvements in service and experience, resulting in improved satisfaction, increased revenue and better value for the public sector.

Over ground capacity upgrade: Over ground capacity upgrade: London Over ground demand has grown 110 per cent in the last four years excluding the impact of the extended East London line. High levels of crowding are common in the peak hour and due to relatively short trains, being left behind can mean a 15-minute wait. Plans are now in development to lengthen trains across the Over ground: from four to five cars on the West, East and North London lines, and from two to three cars on the Gospel Oak to Barking line. The frequency of trains will also be increased on the East London line. Combined, this package will deliver approximately 25 per cent more peak capacity. This new capacity will support jobs, growth and housing development in all of the many Mayoral opportunity and intensification areas served by the Over ground.

Investing in the Road Network

London Roads Taskforce: TfL is developing terms of reference and suggested membership for the London Roads Taskforce. These will be developed with the Mayor's office, with a view to the Taskforce being able to provide an initial report to the Mayor by November 2012 on the direction of travel for its proposals for long-term improvements to the road network. In parallel, initial analysis is underway to inform TfL's Business Plan on possible investment requirements needed to significantly improve the performance of London's road network.

Focus on road works: on 11 June 2012, London became the first city in the UK to charge for the amount of time that the capital's busiest roads are dug up. Any net income from the scheme will be invested in measures to help reduce the congestion caused by road works.

Investment in Cycling infrastructure

The Mayor has signalled his clear intention to continue to invest in cycling in London. A Junction Review has been established and is progressing well. TfL is currently considering which schemes arising from the review may be prioritized for early delivery.

Further work is also underway to improve cycle safety in London, with TfL commissioning research into the construction logistics industry concerning the safety of cyclists. In addition, a new marketing campaign will be launched in the autumn, promoting more responsible road use among all road users.

Cycle hire schemes and Superhighways: TfL is developing proposals for how the cycle hire scheme might be expanded and will deliver a total of 12 Cycle Superhighways by 2015.

Efficiency and Savings

TfL has already secured over two thirds of its £7.6bn efficiencies programme and in so doing has demonstrated its commitment to reducing cost and making efficiencies. This approach to cost reduction is now embedded within TfL, which is currently finalizing its proposals for 2013/14 to reduce recurring spend while protecting frontline services. TfL is committed to continuing with its programme of finding better, cheaper and simpler ways of doing business.

Bearing down on fares

The Mayor has expressed an intention to bear down on fares. The Mayor makes his decision on fares annually and this, as usual, will be incorporated in the next round of TfL's business planning.

London 2020

The Mayor has also announced a proposal to develop a document entitled "London 2020". This will articulate the plans that the Mayoralty and functional bodies will need to start putting in place now – both in economic and social development terms – in order to ensure that London remains a world leading city in 2020. TfL is committed to playing a leading role in the development of this piece of work and is represented on the London 2020 steering group, chaired by the Mayor's Chief of Staff, Sir Edward Lister.

1. Efficiency and Savings
2. Bearing down fares
3. London 2020 (Socio-Economic)
4. Investing in Growth

Investing in Growth

The Mayor also highlighted the need to continue to plan for longer-term projects that support London's continuing growth and help unlock key areas of development. These include:

Work to progress a river crossings package including a new Silverton road tunnel by 2021 and ferry at Galleons Reach by 2017;

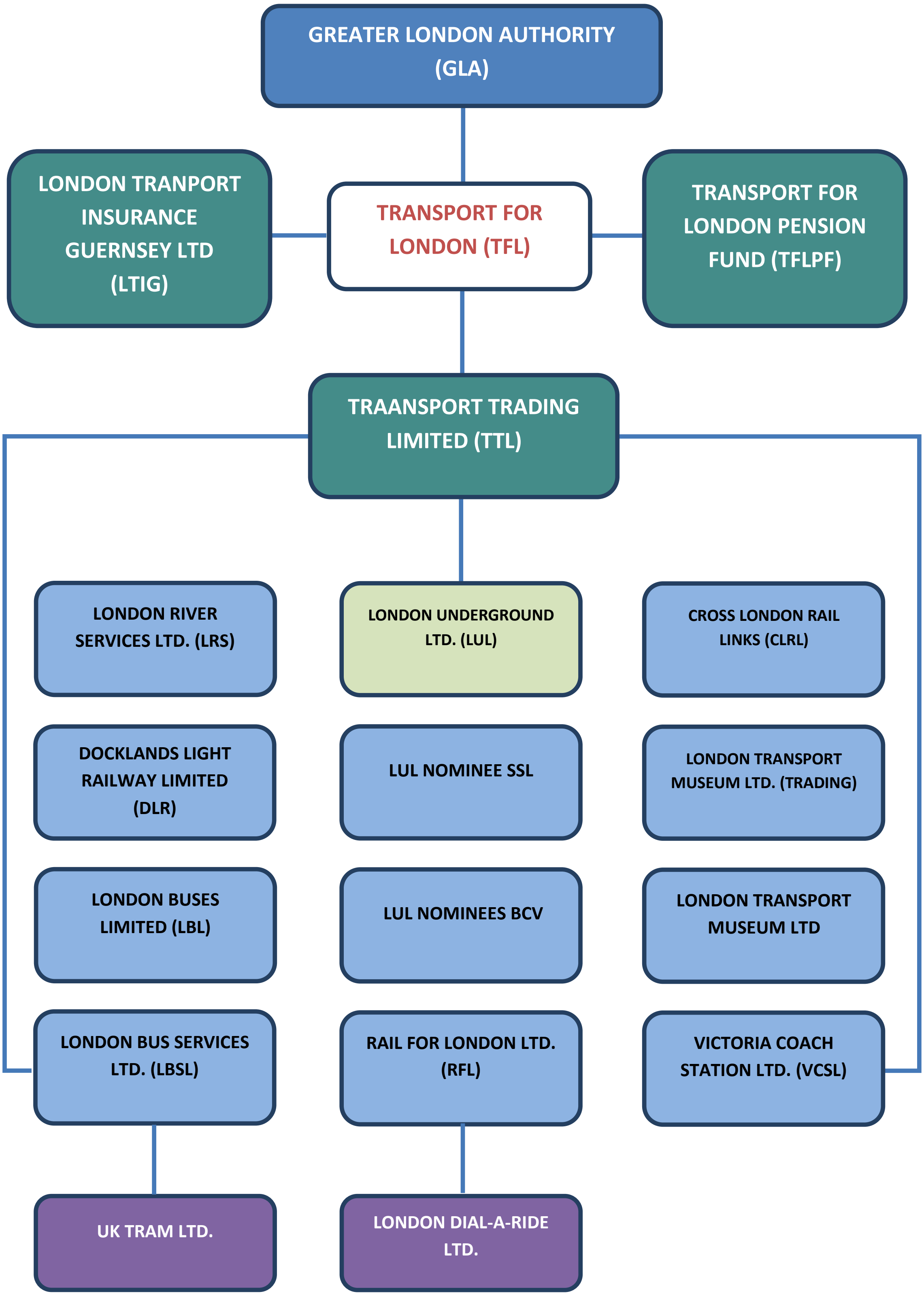
Preparation of work on the Northern Line Extension to Battersea, which includes preparation of a Transport and Works Act Order submission for April 2013;

On-going feasibility work on Crossrail 2;

Ensuring the Mayor's concerns raised in response to the High Speed 2 Proposals are being addressed, including the need for additional dispersal capacity at Euston; and

Other feasibility work on potential enhancements/extensions, to the rail network, includes the potential for DLR and Tram link extensions. These investments will be pursued as a matter of priority through the forthcoming Spending Review discussions.

Organization Structure



Source: www.tfl.gov.uk

Board of Directors

Name	Profile
Boris Johnson (Chairman)	Boris Johnson was elected Mayor of London in May 2008. Previously he was the Member of Parliament for Henley and the Editor of the Spectator magazine.
Isabel Dedring (Deputy Chair)	Isabel Dedring is Deputy Mayor for Transport. Before her appointment, she was the Mayor's Environment Advisor
Peter Anderson (Director)	Peter Anderson is Managing Director of Finance at Canary Wharf Group plc. He brings extensive experience of managing and developing a major business within a rapidly regenerating area to his TfL role together with experience of influencing the development of transport infrastructure appropriate to an area of rapid commercial and residential development
Charles Belcher (Director)	Charles Belcher has had 36 years in the rail industry, of which 14 were as Managing Director, including for West Coast Trains, Wessex Trains and Silverlink.
Christopher Garnett (Director)	Christopher Garnett is a member of the Board of the Olympic Delivery Authority and Chair of the Olympic and Paralympics Transport Board
Baroness Tanni Grey-Thompson (Director)	Baroness Tanni Grey-Thompson of Eaglescliffe has competed in five Paralympic Games, winning 11 gold, four silver and one bronze medal. She has held 30 world records. She is Non-Executive Director of UK Athletics, Vice Chair of Sports Advisory Group, and holds many more such positions.
Eva Lindholm (Director)	Eva Lindholm has an extensive financial industry background, having held various roles at J.P. Morgan for more than 20 years
Daniel Moylan (Director)	Daniel Moylan joined the TfL Board in August 2008 and served as Deputy Chairman of TfL from 2009 to 2012
Bob Oddy	Bob Oddy has been a licensed taxi driver since 1966. He is

(Director)	currently Deputy General Secretary of the Licensed Taxi Drivers' Association - which has a membership of over 9,000
Patrick O'Keeffe (Director)	Patrick O'Keeffe has extensive experience in industrial relations. He has previously held the position of Deputy Regional Secretary for Unite the Union, formerly the Transport and General Workers' Union (TGWU), the UK's biggest general union
Keith Williams (Director)	Keith Williams is Chief Executive Officer for British Airways and has been a main Board director for the last five years. He is also a Board member of Iberia and International Airlines Group
Steve Wright (Director)	Steve Wright, after an early career with London Underground, became involved in the private hire trade and successfully ran a private hire company for over 25 years

Source: www.tfl.gov.uk

New Board Members

The Mayor of London, Ken Livingstone, has welcomed three new board members for TFL. These new board members were appointed in 2006 to further deliver the organization's commitment to providing a world-class transport system.

Name	**Background**
Eva- Kristina Lindholm	She has an extensive financial industry background and in 2001 was appointed Managing Director, Investment Banking, Government Institutions Group for J.P. Morgan and Co.
Dabinderjit Sidhu	He has worked at the National Audit Office for the past eighteen years and since January this year has been Director in the Department of Health & Arm's Length Bodies
Judith Hunt	She is an independent consultant specialising in innovative programmes on leadership, equality, race and diversity issues.

Source: www.tfl.gov.uk

London Underground Operational Vision

Purpose and Decision Required

The purpose of this paper is to outline to the Board London Underground's (LU) operational vision. The vision explains how LU could align the operational business, both people and structure, with technological changes to ensure high levels of customer service, a reliable train service and continued efficiency.

Background

New technology, increasing customer expectations and current economic realities mean that LU must adapt and embrace change. This change will come about through a variety of ways. The programme of upgrades is bringing new technology, increasing automation and continual transformation to the way the railway is operated. Customers are welcoming new and emerging technologies; especially in the way they plan their journeys, receive information and pay for travel.

Technology enables change, and LU's operational vision would ensure that the benefits of these changes are realized for customers, staff and the organization.

By doing this, LU seeks to create a workforce that is increasingly proactive and visible to customers.

These changes have consequences not only for the way customers view LU, but also for the way in which staff perceive the organization. Staffing structures will need to be reviewed with the introduction of new technology.

Trains

LU is now running three out of its eleven lines with automatic signalling systems. By 2018, when the Northern line and Sub Surface lines (Circle, District, Hammersmith & City and Metropolitan lines) all have their new signalling commissioned, some 70 per cent of the network will be automatic. The Sub Surface upgrade provides an opportunity in itself – enabling the operation of four lines as a single integrated railway. This will allow the potential for more integrated operations across these lines, creating greater flexibility with 2 both rolling stock and train staff deployment. This will not only bring performance benefits but also operating efficiencies.

Given the technology available now, it is very unlikely that, after the procurement of the trains for the Sub Surface Lines, LU will ever again buy a fleet of passenger trains with conventional drivers' cabs. This means that the new generation of tube train being developed for the Bakerloo, Piccadilly and Central lines, to be introduced in the 2020s, could dramatically change the train staff-operating model.

For train staffs who currently drive a train, LU will make a commitment to them that they can continue to do so for the rest of their career. In return, train drivers will need to show greater levels of flexibility to support long-term service reliability improvement.

The work is still very much at an early stage but the next generation of employees supporting the train service could be much more like the tra n captains on the Docklands Light Railway, rather than those seen traditionally on

LU. There is no doubt the role will change considerably, but it is certain that any staff supporting the train service of the future will be mobile, flexible, and customer focused.

Stations

Some concerns have already been expressed that a future world with fewer ticket offices must mean reduced staffing at stations more generally. That is absolutely not the case; the principle of having staff on LU stations throughout the operating day will remain sacrosanct. However, technology will continue to change the way LU operates its stations. These changes are about new ticketing technology and the way in which customers receive travel information and plan their journeys. However, these changes will not mean that station staff are not needed, but the way in which they help customers will be different. Staff will continue to play a key role in helping customers to navigate quickly and safely around the system.

Oyster has changed the way customers pay for travel, radically reducing demand for ticket selling. TfL is now working on the next generation of ticketing technology, which will allow customers with a contactless bankcard to pay for travel simply by waving their bankcard over the gate line to get the correct fare.

There will be no need to buy a card from TfL or to top it up, further reducing demand for ticket selling. For those customers who do not have a contactless bankcard, the Oyster card will continue to exist. Ticket machines on LU are also being enhanced to carry out a wider range of customer service functions that have typically been done at ticket offices, including selling new cards and making adjustments to journeys.

Demand for ticket selling via ticket offices is continuing to reduce and will see sharper reductions once contactless bankcards come into use. Nevertheless, the need for staff at stations will remain. Staff will need to be increasingly knowledgeable and proactive, visible to customers in the ticket hall area, not out of sight in a ticket office. There will still need to be ticket offices at key gateway and other high profile stations. Staff deployment will continue to be dependent on customer demand levels, acknowledging the varying characteristics of demand at different stations.

LU is committed to having staff on stations during the traffic day and these changes could create multi-skilled staffs that are flexible, visible and more focused on helping customers.

Service Controls

There is work underway to look at the possibility of co-locating LU's Network Operations Centre with the Surface Control Centre in Palestra. This new Command and Control center would ensure that operational incidents are dealt with faster, leading to less service and customer impact.

Individual line control centres will continue at separate locations with an important line focus. The exception to this is the new Sub Surface Control Centre where Circle, District, Hammersmith & City and Metropolitan lines will operate from one new location.

Maintenance

Technology is a key driver for much of the change that is planned within LU's maintenance organization. The way trains are maintained has historically been time-based, but going forward this will be service or distance based; the maintenance cycle for trains will be based on distance run or service hours and not time since last service.

As LU switches to computer-controlled signalling, the ability to predict and prevent degradation and failures remotely will dramatically increase. Similarly with track, a wide-scale adoption of Automatic Track Monitoring Systems means that track condition can be identified more efficiently without many of the manual inspections currently required. All of these technological changes will mean different skills being required by staff and allowing them to work differently.

Employee Engagements

The operational vision outlined above could mean that there will be changes to LU staff numbers in the future. However, employees would be better trained, with higher skills and more ability to continue to develop "on the job". The majority of station changes could be introduced before embarking on a programme of train's transformation as automation technologies are introduced.

Integral to LU's approach to successfully developing this operational vision is the need for continued and direct employee engagement. Key to this is local relationships with staff; building a direct relationship between local managers and their staff to increase trust while recognizing the importance of consultation with our Trade Unions. LU must continue to manage openly and honestly.

From a wider perspective, LU will continue the programme of direct communication with employees. A major employee engagement initiative will be rolling out to all employees from 8 November 2011. These events provide an opportunity to share with staff the changes in technology that are coming and what this means for them. The events will explain how continual change is now part of the fabric of the organization, while also highlighting that people are fundamental to our operational vision. The message will be that very many 4 people could have security of employment by embracing new technologies, new ways of working, and being more flexible in what they do.

Summary

This operational vision shows how the LU operational model could evolve and embrace technology to meet the challenges of the next decade. The vision is about improving standards of customer service by linking proactive and knowledgeable staff with new technology. This vision aims to deliver a credible future, recognizing the benefits of technology and the need to continue to provide direct, face-to-face service levels for customers.

Financials

Group Comprehensive Income and Expenditure Statement

Year ended 31 March	**2012 (£m)**	**2011 (£m)**
Highways and Transport Services		
Gross income	4,180.90	3,884.20
Gross expenditure	-6,230.40	-6,066.60
Net cost of services	**-2,049.50**	**-2,182.40**
Other operating income/(expenditure)	2.5	-321.8
Financing and investment income	441.70	408.00
Financing and investment expenditure	-943.00	-813.00
Grant income	48,231.10	4672.6
Surplus on the provision of services before tax	**2,274.50**	**1,763.40**

Taxation income	1.50	1.30
Surplus on the provision of services after tax	**2,276.00**	**1,764.00**
Other comprehensive income and expenditure		
Surplus on the revaluation of property, plant and equipment	4.90	0.90
Movement in the fair value of derivative financial instruments	-121.40	4.40
Actuarial (loss)/ gain on defined benefit pension schemes	-755.20	647.20
	-871.70	**652.50**
Total comprehensive income and expenditure	**1,403.30**	**2,417.20**

Group Statement of Cash Flows

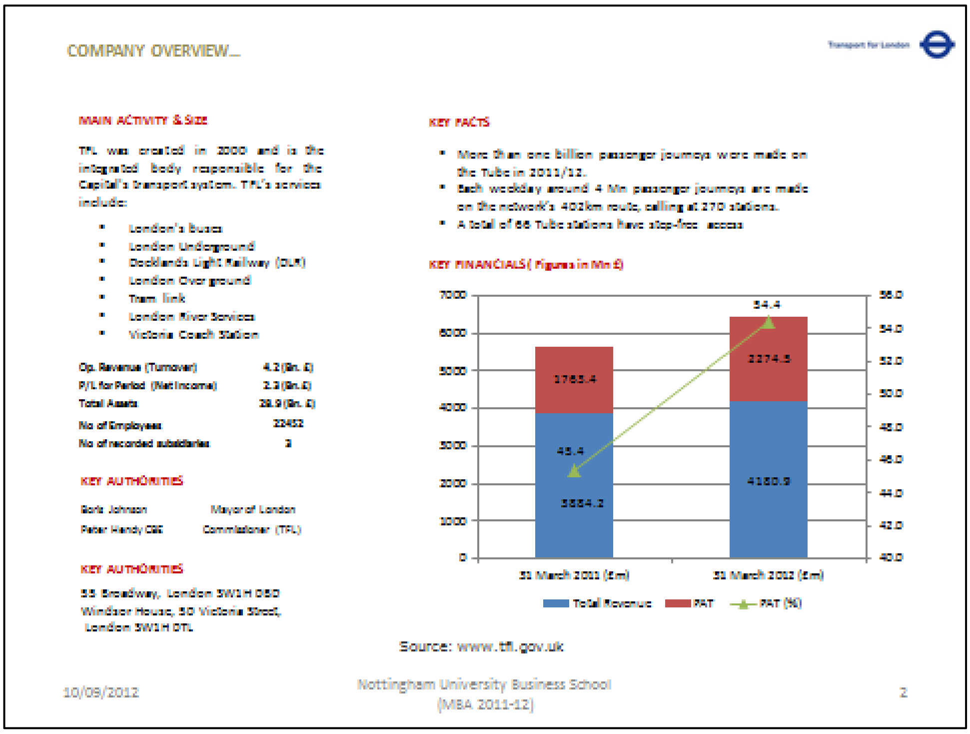
Year ended 31 March	**2012 (£m)**	**2011 (£m)**
Surplus on the provision of services after tax	**2276**	**1764.7**
Adjustments to surplus after tax for non-cash movements	1847.9	1760.1
Net cash flows from operating activities	**428.1**	**4.6**
Investing activities	**-181**	**47.9**
Financing activities	**222.4**	**35.3**
Net increase in cash and cash equivalents in the year	**24.7**	**17.2**
Cash and cash equivalents at the start of the year	54.1	36.9
Cash and cash equivalents at the end of the year	**78.8**	**54.1**

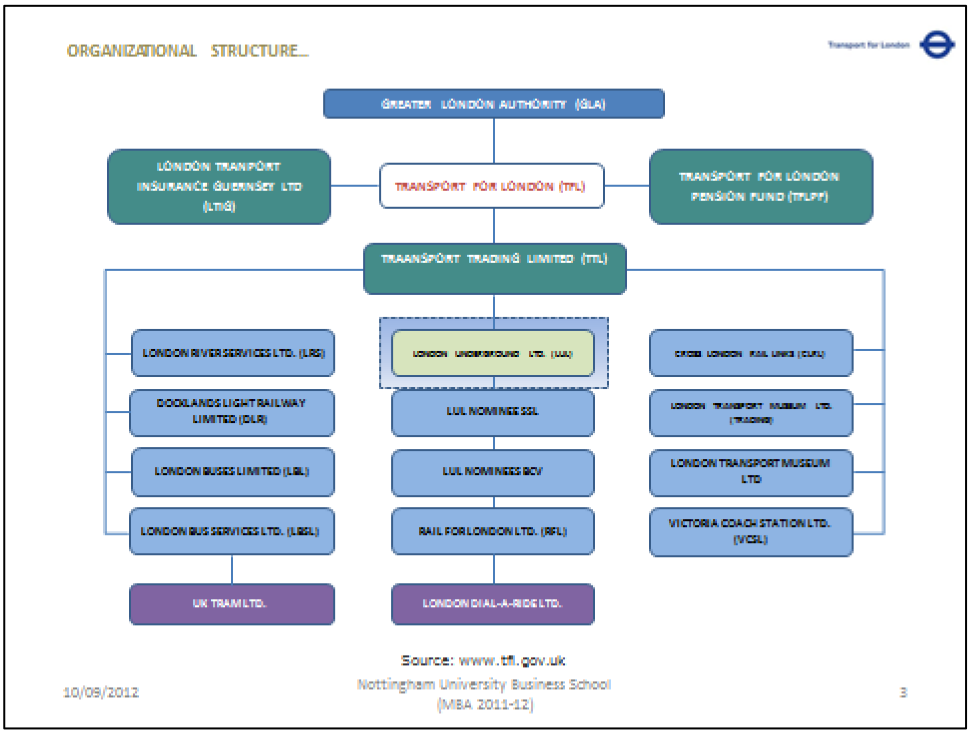
Group Balance Sheet

Year ended 31 March	31 March 2012 (£m)	31 March 2011 (£m)
Long-term assets		
Intangible assets	**114**	**139.6**
Property, plant and equipment	25106	23404.7
Investment property	307.7	294.3
Derivative financial instruments		4.9
Long-term debtors	164.4	6.9
	25,692.10	**23,850.40**
Current assets		
Inventories	37.6	35.6
Short-term debtors	523.3	600.4
Current tax assets		14.5
Short-term derivative financial instruments	0.8	
Short-term investments	2582.9	2012.7
Cash and cash equivalents	78.8	54.1
	3,223.40	**2,717.30**

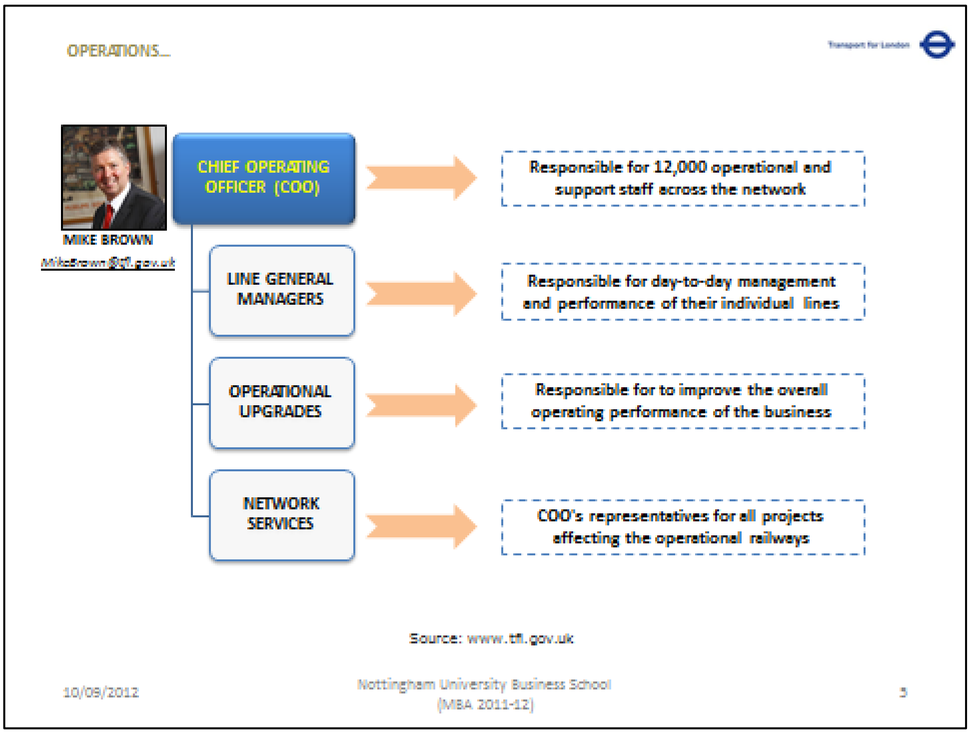
Current liabilities		
Short-term creditors	-1950.1	-1956.8
Short-term borrowings and overdrafts	-2179	-494.2
Short-term finance lease liabilities	-68.2	-69.2
Short-term derivative financial instruments	-8	
Short-term provisions	-140.8	-254.1
	-4346.1	**-2774.3**
Long-term liabilities		
Long-term creditors	-51.3	-55.6
Long-term borrowings	-4943.9	-5892.5
Long-term finance lease liabilities	-959.3	-1349.8
Long-term derivative financial instruments	-74	-0.5
Long-term provisions	-134.7	-165.7
Retirement benefit obligation	-2292.7	-1602.1
	-8455.9	-9084.2
Net assets	**16113.5**	**14709.2**
Reserves		
Usable reserves	2413.3	1870
Unusable reserves	13700.2	12839.2
Total reserves	**16113.5**	**14709.2**

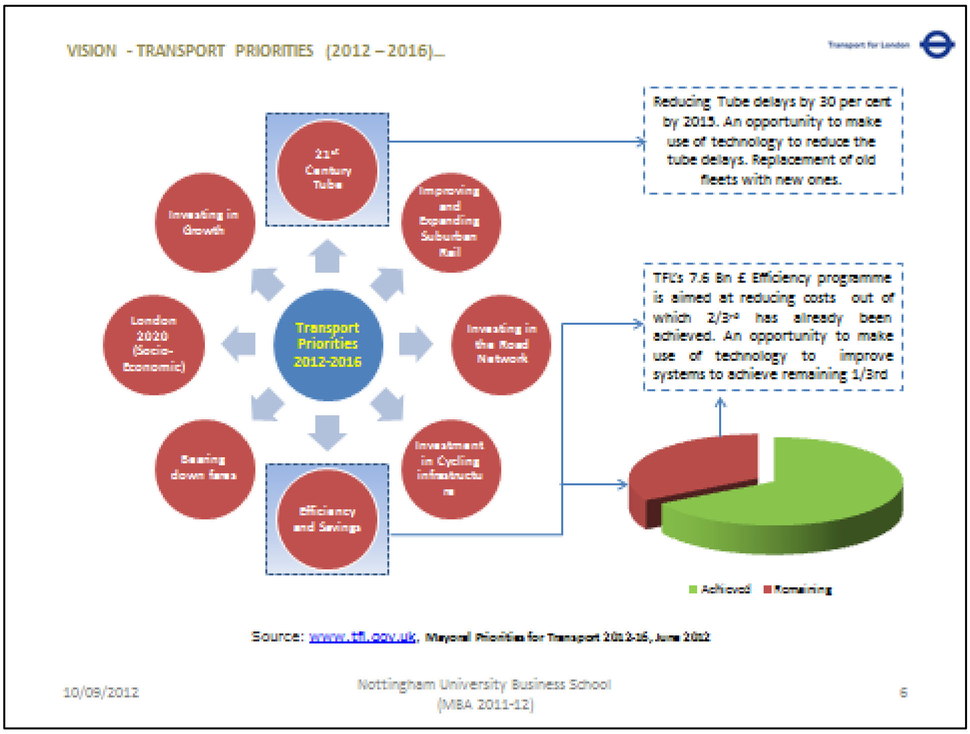
Presentation to TCS

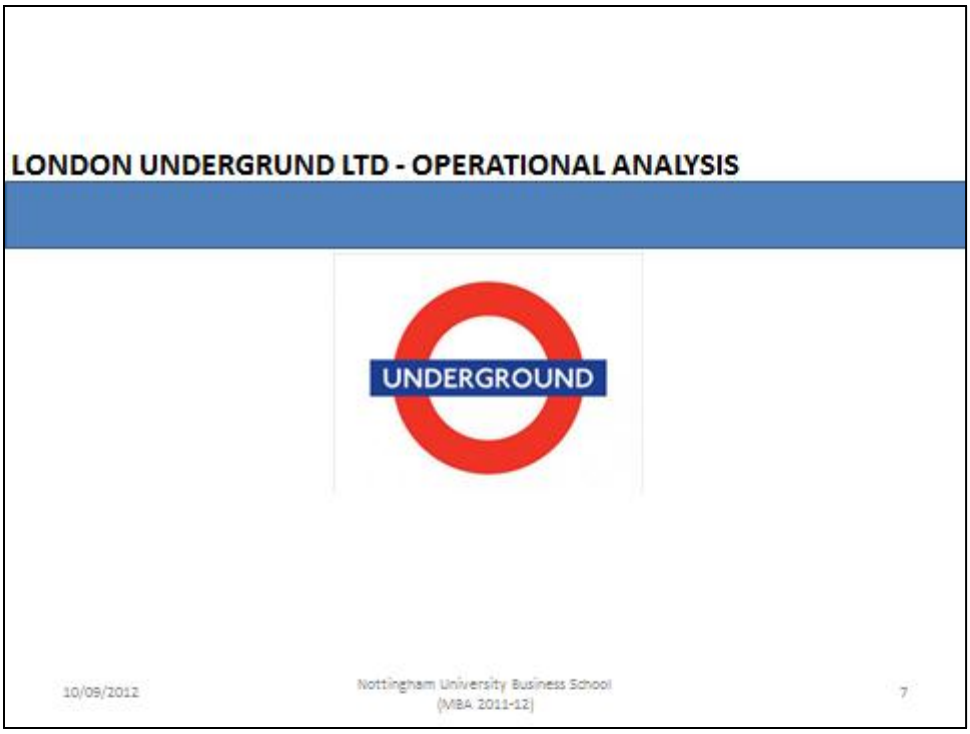


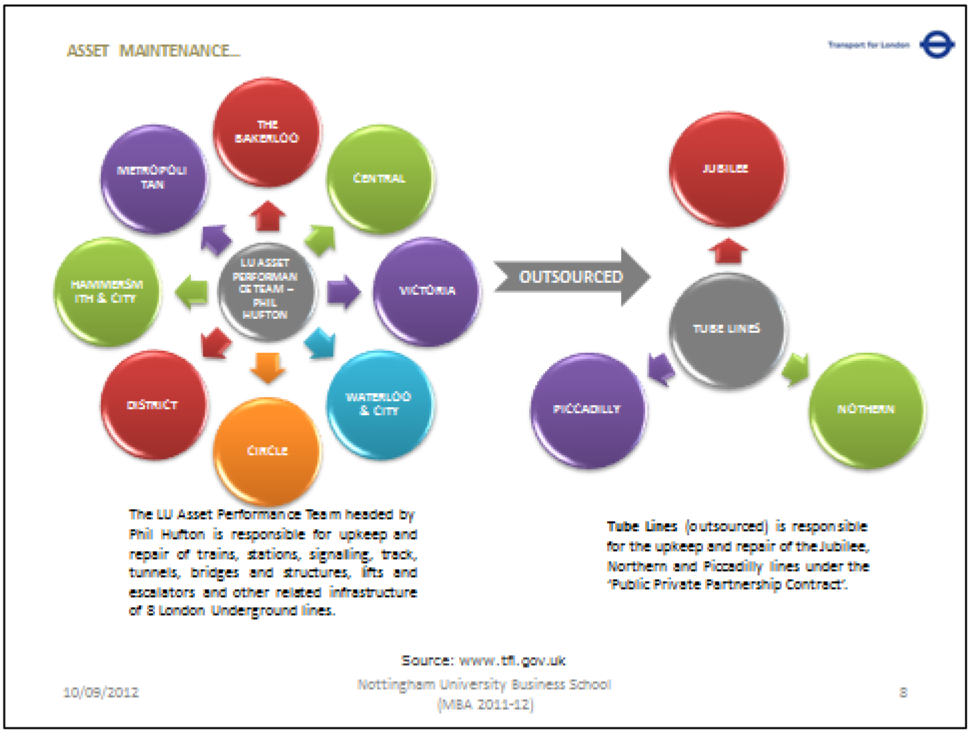

ORGANIZATIONAL STRUCTURE…
Transport for London
GREATER LONDON AUTHORITY (GLA)
LONDON TRANPORT INSURANCE GUERNSEY LTD (LTIG)
TRANSPORT FOR LONDON (TFL)
TRANSPORT FOR LONDON PENSION FUND (TFLPF)
TRAANSPORT TRADING LIMITED (TTL)
LONDON RIVER SERVICES LTD. (LRS)
DOCKLANDS LIGHT RAILWAY LIMITED (DLR)
LONDON BUSES LIMITED (LBL)
LONDON BUS SERVICES LTD. (LBSL)
UK TRAM LTD.
LONDON UNDERGROUND LTD. (LUL)
LUL NOMINEE SSL
LUL NOMINEES BCV
RAIL FOR LONDON LTD. (RFL)
LONDON DIAL-A-RIDE LTD.
CROSS LONDON RAIL LINKS (CLRL)
LONDON TRANSPORT MUSEUM LTD. (TRADING)
LONDON TRANSPORT MUSEUM LTD
VICTORIA COACH STATION LTD. (VCSL)
Source: www.tfl.gov.uk
10/09/2012
Nottingham University Business School
(MBA 2011-12)
3

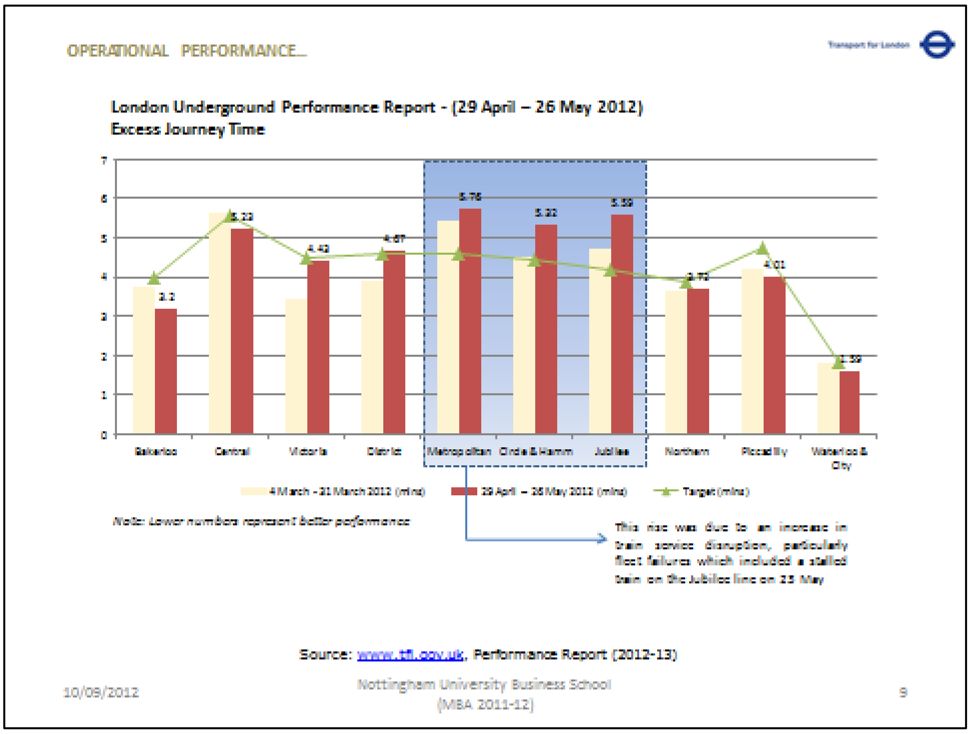

CHIEF OFFICERS…
Transport for London
Peter Hendy, Commissioner
Steve Allen, Managing Director, Finance
Mike Brown, Managing Director, London Underground and London Rail and COO
Howard Carter, General Counsel
Leon Daniels, Managing Director, Surface Transport
Michèle Dix, Managing Director, Planning
Vernon Everitt, Managing Director, Marketing and Communications
Source: www.tfl.gov.uk
10/09/2012
Nottingham University Business School
(MBA 2011-12)
4

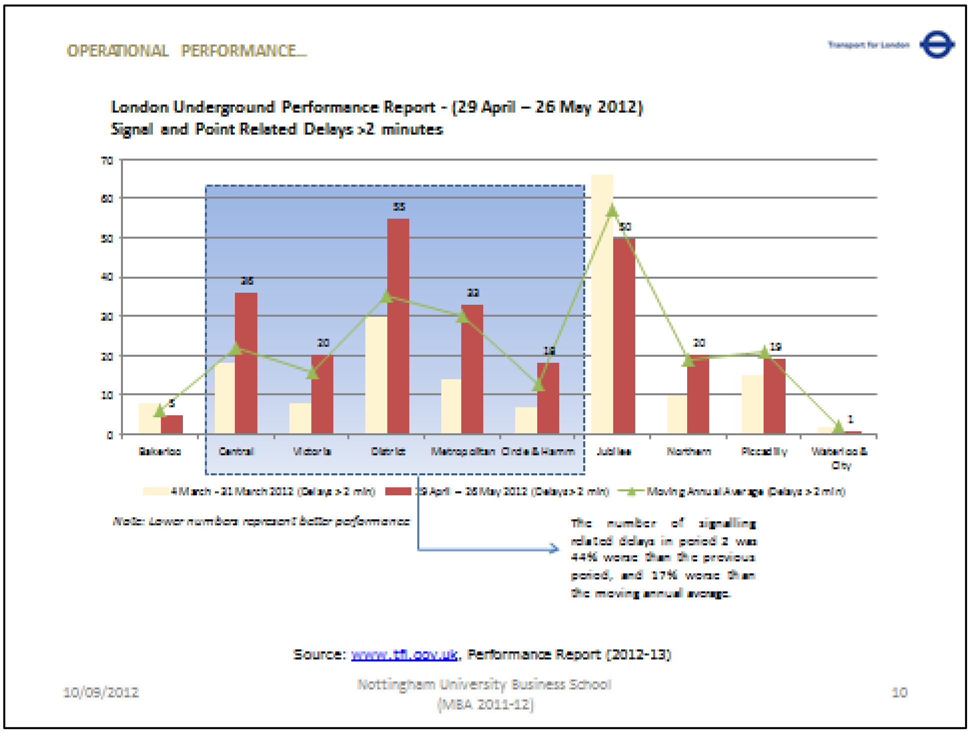

OPERATIONS…
Transport for London
CHIEF OPERATING OFFICER (COO)
MIKE BROWN
MikeBrown@tfl.gov.uk
Responsible for 12,000 operational and support staff across the network
LINE GENERAL MANAGERS
Responsible for day-to-day management and performance of their individual lines
OPERATIONAL UPGRADES
Responsible for to improve the overall operating performance of the business
NETWORK SERVICES
COO's representatives for all projects affecting the operational railways
Source: www.tfl.gov.uk
10/09/2012
Nottingham University Business School (MBA 2011-12)
5

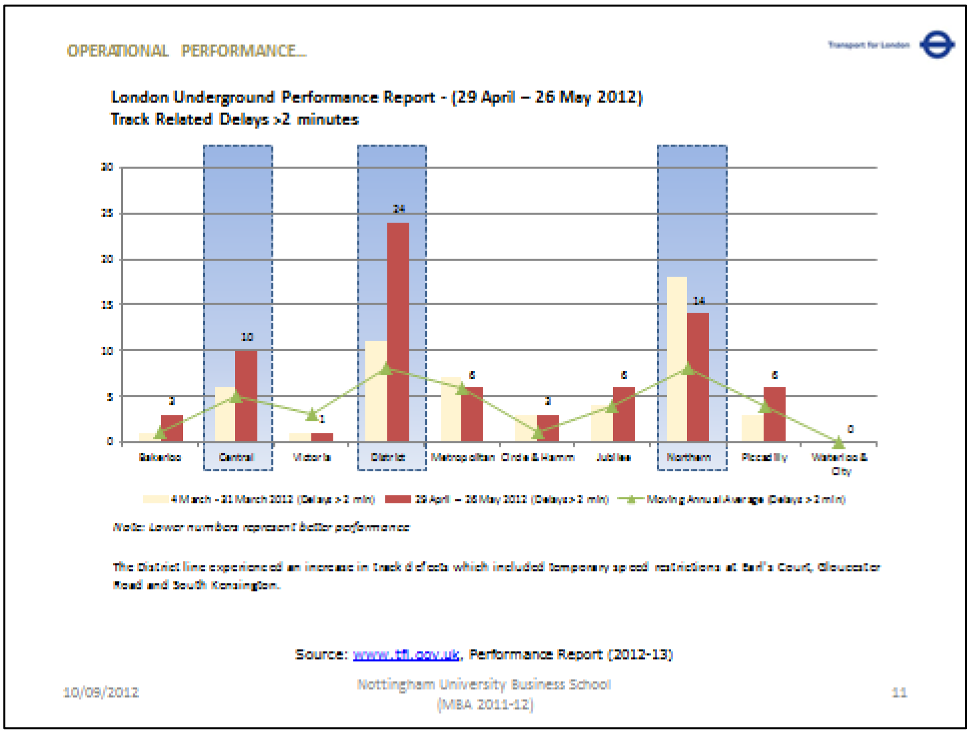

VISION - TRANSPORT PRIORITIES (2012 – 2016)…
Transport for London
21st Century Tube
Improving and Expanding Suburban Rail
Investing in the Road Network
Investment in Cycling infrastructure
Efficiency and Savings
Bearing down fares
London 2020 (Socio-Economic)
Investing in Growth
Transport Priorities 2012-2016
Reducing Tube delays by 30 per cent by 2015. An opportunity to make use of technology to reduce the tube delays. Replacement of old fleets with new ones.
TFL's 7.6 Bn £ Efficiency programme is aimed at reducing costs out of which 2/3rd has already been achieved. An opportunity to make use of technology to improve systems to achieve remaining 1/3rd
Achieved
Remaining
Source: www.tfl.gov.uk, Mayoral Priorities for Transport 2012-16, June 2012
10/09/2012
Nottingham University Business School (MBA 2011-12)
6


LONDON UNDERGRUND LTD - OPERATIONAL ANALYSIS
UNDERGROUND
10/09/2012
Nottingham University Business School
(MBA 2011-12)
7


ASSET MAINTENANCE…
Transport for London
THE BAKERLOO
CENTRAL
METROPOLITAN
HAMMERSMITH & CITY
LU ASSET PERFORMANCE TEAM – PHIL HUFTON
VICTORIA
DISTRICT
WATERLOO & CITY
CIRCLE
OUTSOURCED
JUBILEE
TUBE LINES
PICCADILLY
NOTHERN
The LU Asset Performance Team headed by Phil Hufton is responsible for upkeep and repair of trains, stations, signalling, track, tunnels, bridges and structures, lifts and escalators and other related infrastructure of 8 London Underground lines.
Tube Lines (outsourced) is responsible for the upkeep and repair of the Jubilee, Northern and Piccadilly lines under the 'Public Private Partnership Contract'.
Source: www.tfl.gov.uk
10/09/2012
Nottingham University Business School (MBA 2011-12)
8


OPERATIONAL PERFORMANCE…
Transport for London
London Underground Performance Report - (29 April – 26 May 2012)
Excess Journey Time
0
1
2
3
4
5
6
7
3.2
5.22
4.42
4.67
5.76
5.32
5.59
3.73
4.01
1.59
Bakerloo
Central
Victoria
District
Metropolitan
Circle & Hamm
Jubilee
Northern
Piccadilly
Waterloo & City
4 March - 31 March 2012 (mins)
29 April – 26 May 2012 (mins)
Target (mins)
Note: Lower numbers represent better performance
This rise was due to an increase in train service disruption, particularly fleet failures which included a stalled train on the Jubilee line on 23 May
Source: www.tfl.gov.uk, Performance Report (2012-13)
10/09/2012
Nottingham University Business School (MBA 2011-12)
9

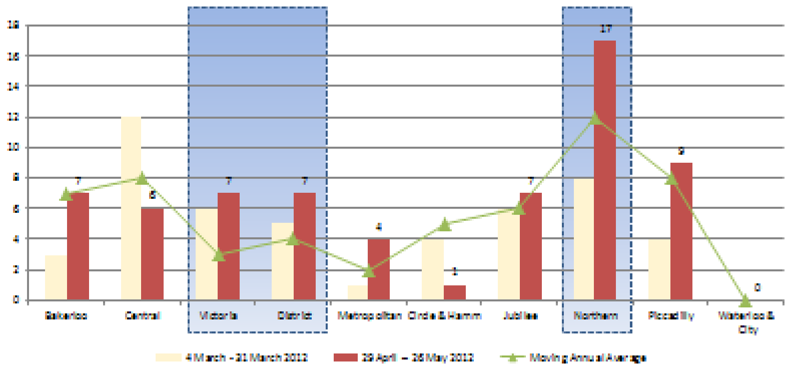

OPERATIONAL PERFORMANCE…
Transport for London
London Underground Performance Report - (29 April – 26 May 2012)
Signal and Point Related Delays >2 minutes
5
36
20
55
33
18
50
20
19
1
Bakerloo
Central
Victoria
District
Metropolitan
Circle & Hamm
Jubilee
Northern
Piccadilly
Waterloo & City
4 March - 31 March 2012 (Delays >2 min)
29 April – 26 May 2012 (Delays>2 min)
Moving Annual Average (Delays >2 min)
Note: Lower numbers represent better performance
The number of signalling related delays in period 2 was 44% worse than the previous period, and 17% worse than the moving annual average.
Source: www.tfl.gov.uk, Performance Report (2012-13)
10/09/2012
Nottingham University Business School (MBA 2011-12)
10


OPERATIONAL PERFORMANCE…
Transport for London
London Underground Performance Report - (29 April – 26 May 2012)
Track Related Delays >2 minutes
3
10
1
24
6
3
6
14
6
0
Bakerloo
Central
Victoria
District
Metropolitan
Circle & Hamm
Jubilee
Northern
Piccadilly
Waterloo & City
4 March - 31 March 2012 (Delays >2 min)
29 April – 26 May 2012 (Delays>2 min)
Moving Annual Average (Delays >2 min)
Note: Lower numbers represent better performance
The District line experienced an increase in track defects which included temporary speed restrictions at Earl's Court, Gloucester Road and South Kensington.
Source: www.tfl.gov.uk, Performance Report (2012-13)
10/09/2012
Nottingham University Business School (MBA 2011-12)
11

OPERATIONAL PERFORMANCE…

Transport for London

London Underground Performance Report - (29 April – 26 May 2012)
Station Closures



Note: Lower numbers represent better performance

Out of the total 67 closures that occurred in this period 16 closures were power related. Another 16 closures occurred various reasons outside LU's control. The longest closure occurred at Oval Station that for 7 hours as a result of a defective escalator.

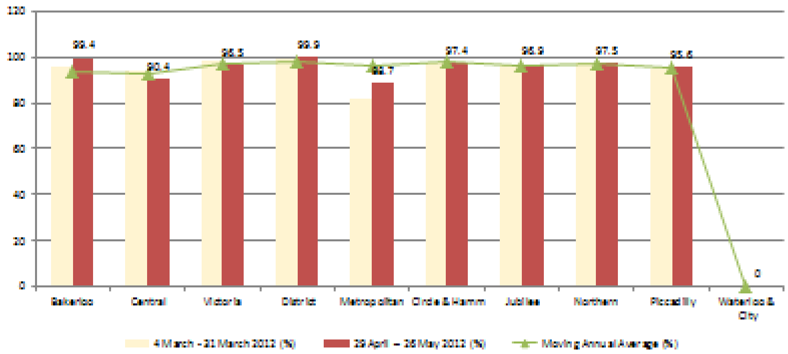
Source: www.tfl.gov.uk, Performance Report (2012-13)

10/09/2012 Nottingham University Business School (MBA 2011-12) 12

OPERATIONAL PERFORMANCE…

Transport for London

London Underground Performance Report - (29 April – 26 May 2012)
Escalator Availability (including planned works)

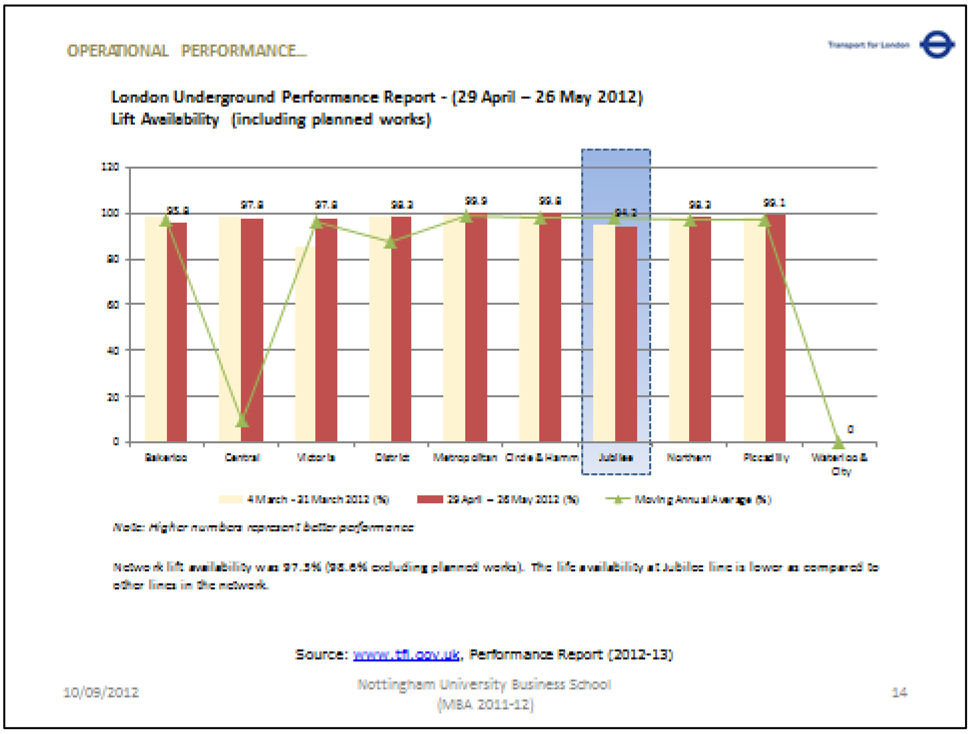


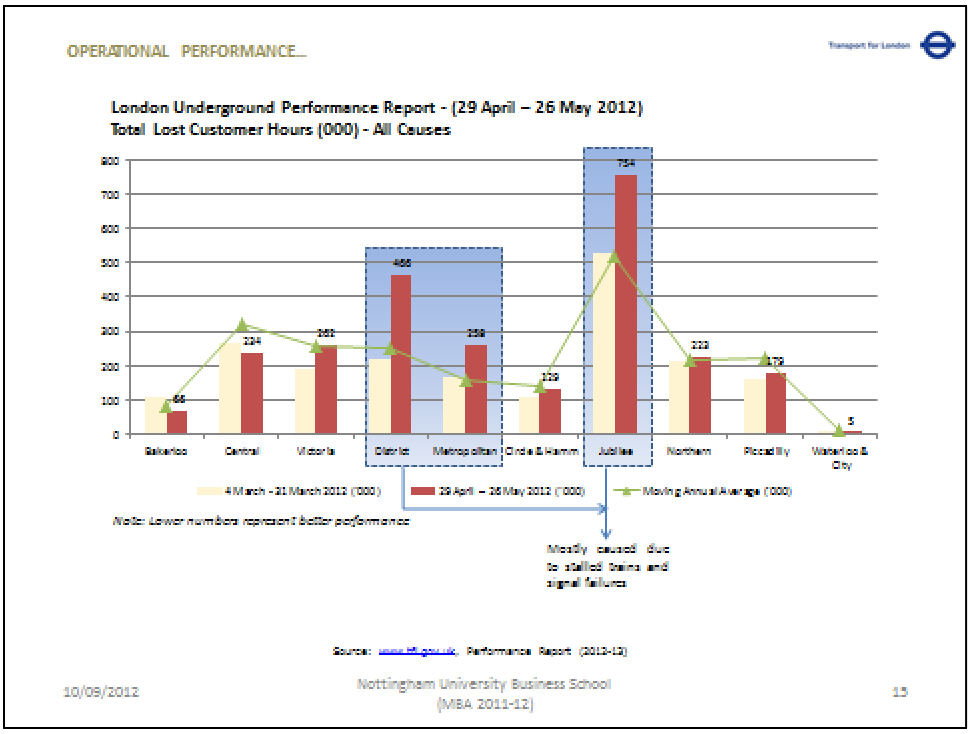
Note: Higher numbers represent better performance

Network escalator availability was 96.2% (99.4% excluding planned works).

Source: www.tfl.gov.uk, Performance Report (2012-13)

10/09/2012 Nottingham University Business School (MBA 2011-12) 13

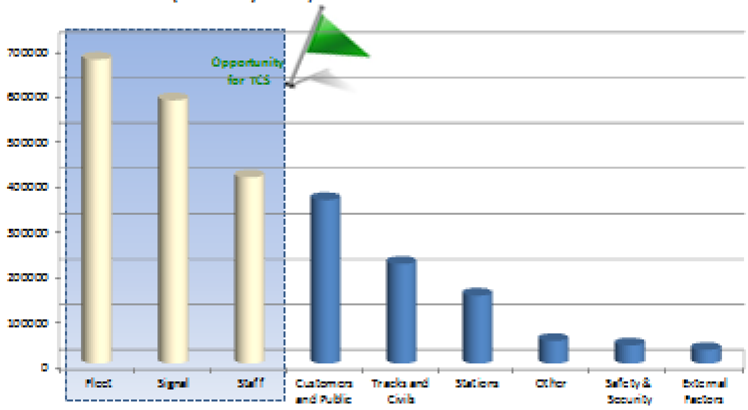

OPERATIONAL PERFORMANCE…
London Underground Performance Report - (29 April – 26 May 2012)
Lift Availability (including planned works)
120
100
80
60
40
20
0
95.8
97.8
97.8
98.3
99.9
99.8
94.2
98.3
99.1
0
Bakerloo
Central
Victoria
District
Metropolitan
Circle & Hamm
Jubilee
Northern
Piccadilly
Waterloo & City
4 March - 31 March 2012 (%)
29 April – 26 May 2012 (%)
Moving Annual Average (%)
Note: Higher numbers represent better performance
Network lift availability was 97.3% (98.6% excluding planned works). The lift availability at Jubilee line is lower as compared to other lines in the network.
Source: www.tfl.gov.uk, Performance Report (2012-13)
10/09/2012
Nottingham University Business School
(MBA 2011-12)
14


OPERATIONAL PERFORMANCE…
London Underground Performance Report - (29 April – 26 May 2012)
Total Lost Customer Hours (000) - All Causes
800
700
600
500
400
300
200
100
0
66
234
262
466
258
129
754
222
179
5
Bakerloo
Central
Victoria
District
Metropolitan
Circle & Hamm
Jubilee
Northern
Piccadilly
Waterloo & City
4 March - 31 March 2012 ('000)
29 April – 26 May 2012 ('000)
Moving Annual Average ('000)
Note: Lower numbers represent better performance
Mostly caused due to stalled trains and signal failures
Source: www.tfl.gov.uk, Performance Report (2012-13)
10/09/2012
Nottingham University Business School
(MBA 2011-12)
15

OPERATIONAL PERFORMANCE…

Transport for London

London Underground Performance Report - (29 April – 26 May 2012)
Lost Customer Hours (Ranked by Cause) in the Period



An opportunity to use technology to improve the fleets, signal equipment & control systems and an opportunity to train staff to reduce the LCH

Source: www.tfl.gov.uk, Performance Report (2012-13)

10/09/2012 Nottingham University Business School (MBA 2011-12) 16

OPERATIONAL PERFORMANCE…

Transport for London

London Underground Performance Report - (29 April – 26 May 2012)
Network Performance Summary

Target Measures	Unit	Year Ago	Last period	This period	Moving Annual Average
Customer Satisfaction - Overall Evaluation	score	79	81	79	80
Percentage of Schedule	%	97.3	96.9	96.9	97.0
Excess Journey Time	mins.	5.90	5.37	5.90	5.78

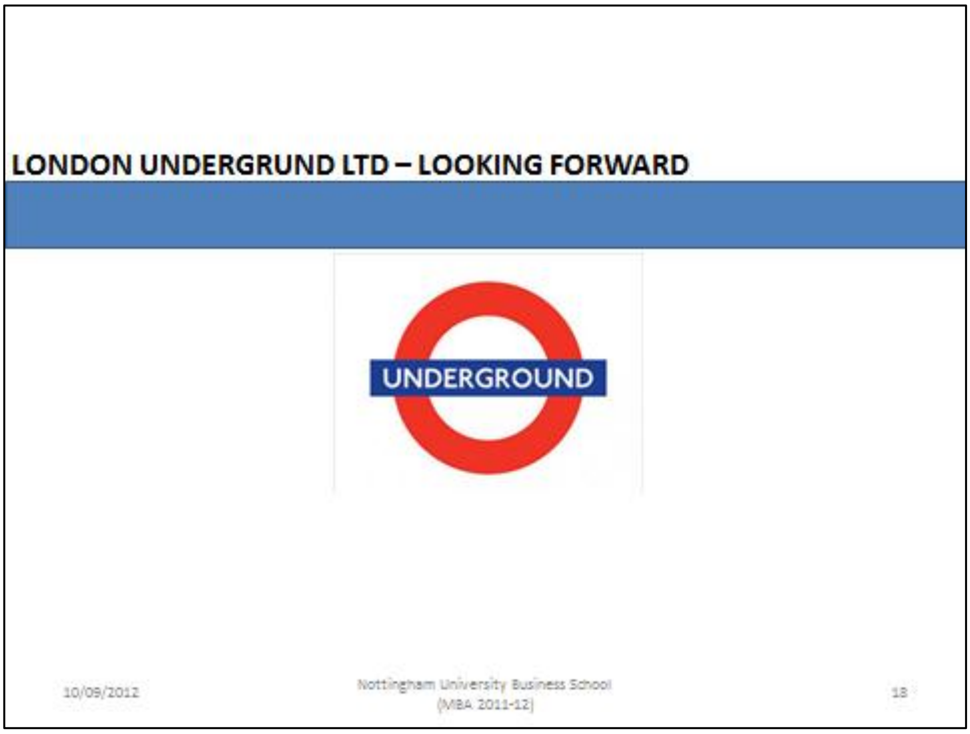
Other Measures	Unit	Year Ago	Last period	This period	Moving Annual Average
Signal & Points Related Delays > 2 minutes	no.	218	178	257	220
Track Related Delays > 2 minutes	no.	44	54	73	40
Lost Customer Hours	'000	2292	1966	2576	2171

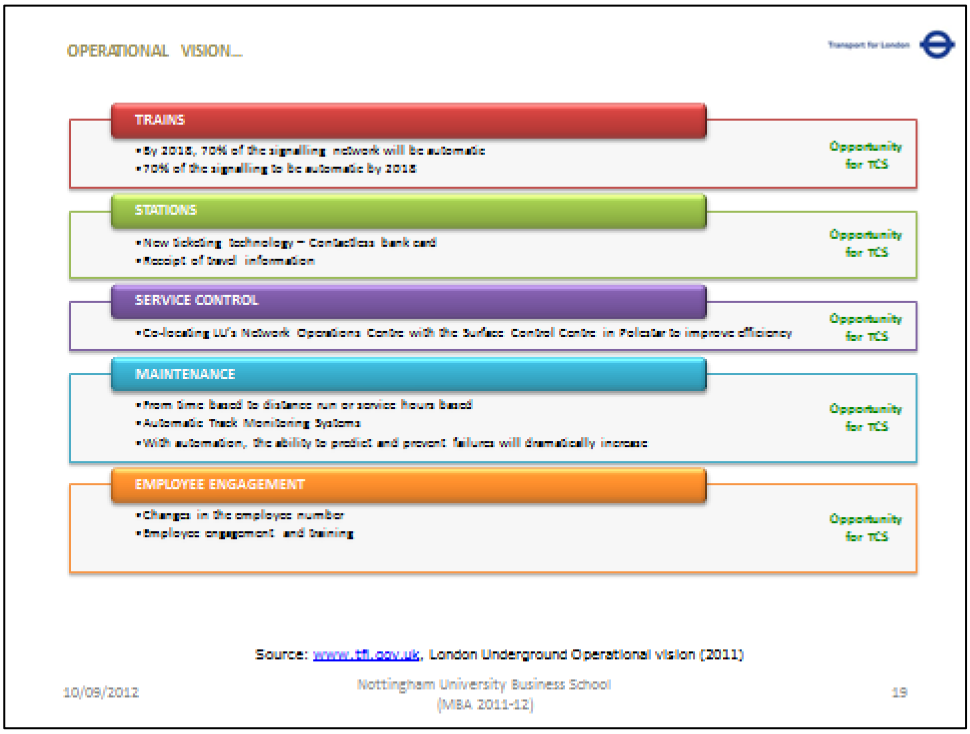
* *The 'Last period' of reporting was 4 March - 31 March 2012*

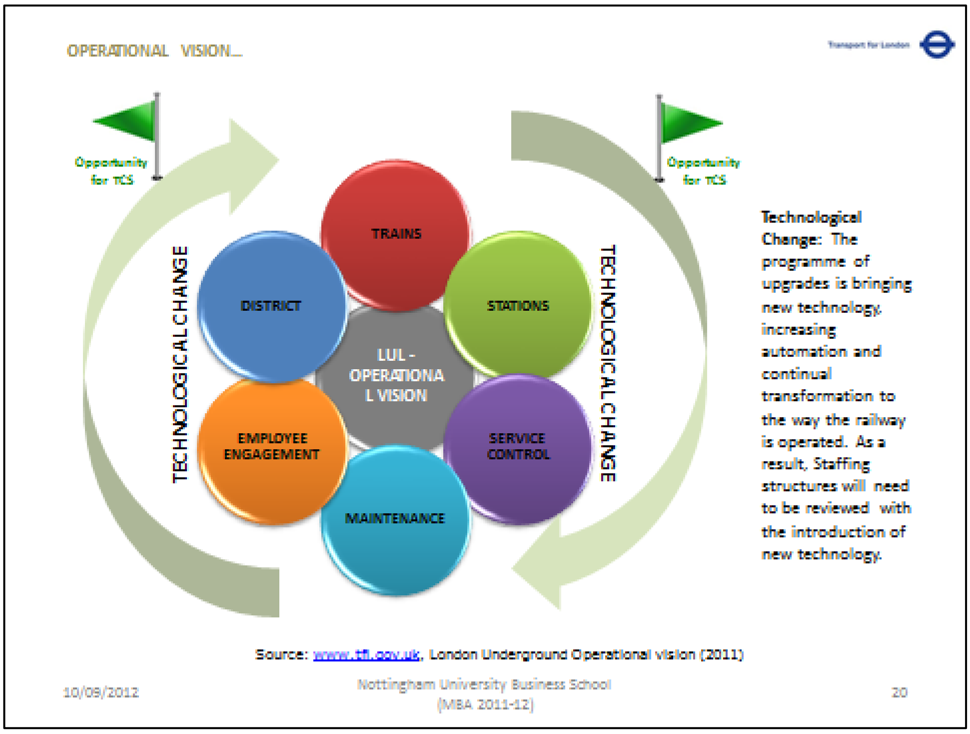
The target measures and the other key measures can be improved by making use of the technology to improve the overall operational performance of LUL.

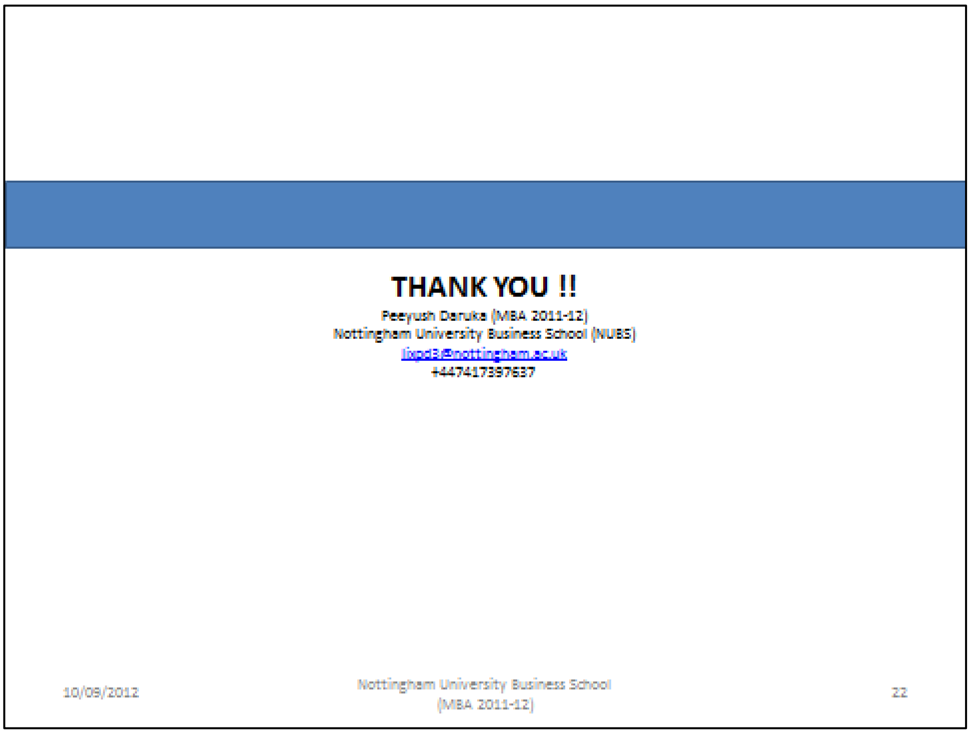
Source: www.tfl.gov.uk, Performance Report (2012-13)

10/09/2012 Nottingham University Business School (MBA 2011-12) 17


LONDON UNDERGRUND LTD – LOOKING FORWARD
UNDERGROUND
10/09/2012
Nottingham University Business School
(MBA 2011-12)
18


OPERATIONAL VISION…
TRAINS
•By 2018, 70% of the signalling network will be automatic
•70% of the signalling to be automatic by 2018
Opportunity for TCS
STATIONS
•New ticketing technology – Contactless bank card
•Receipt of travel information
Opportunity for TCS
SERVICE CONTROL
•Co-locating LU's Network Operations Centre with the Surface Control Centre in Palestra to improve efficiency
Opportunity for TCS
MAINTENANCE
•From time based to distance run or service hours based
•Automatic Track Monitoring Systems
•With automation, the ability to predict and prevent failures will dramatically increase
Opportunity for TCS
EMPLOYEE ENGAGEMENT
•Changes in the employee number
•Employee engagement and training
Opportunity for TCS
Source: www.tfl.gov.uk, London Underground Operational vision (2011)
10/09/2012
Nottingham University Business School
(MBA 2011-12)
19


OPERATIONAL VISION...
Transport for London
Opportunity for TCS
Opportunity for TCS
TECHNOLOGICAL CHANGE
TECHNOLOGICAL CHANGE
TRAINS
DISTRICT
STATIONS
LUL - OPERATIONAL VISION
EMPLOYEE ENGAGEMENT
SERVICE CONTROL
MAINTENANCE
Technological Change: The programme of upgrades is bringing new technology, increasing automation and continual transformation to the way the railway is operated. As a result, Staffing structures will need to be reviewed with the introduction of new technology.
Source: www.tfl.gov.uk, London Underground Operational vision (2011)
10/09/2012
Nottingham University Business School (MBA 2011-12)
20


THANK YOU !!
Peeyush Daruka (MBA 2011-12)
Nottingham University Business School (NUBS)
lixpd3@nottingham.ac.uk
+447417397637
10/09/2012
Nottingham University Business School (MBA 2011-12)
22

APPENDIX F: ATOC – RAIL SETTLEMENT PLAN LTD. (RSPL)

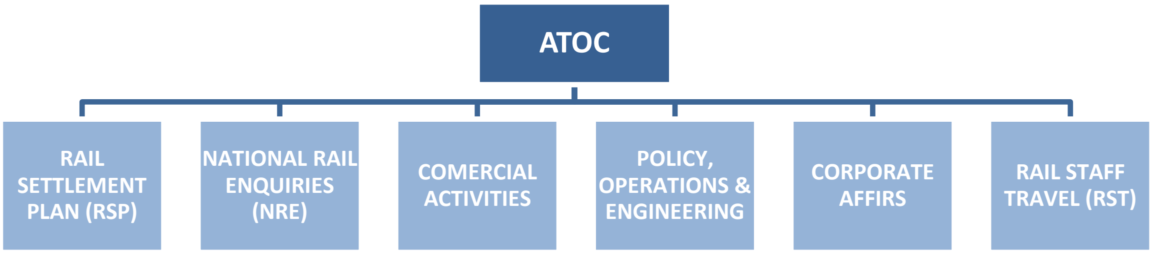
Overview

Association of Train Operating Companies' (ATOC) mission is to work for passenger rail operators in serving customers and supporting a prosperous railway. Set up after privatization in 1993, ATOC brings together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network. The following are the members of ATOC:

Source: www.atoc.org

Organization Structure

ATOC'S activities and services brings together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network, which jointly they do by providing the following key services:



Source: www.atoc.org

A. **Rail Settlement Plan:** A central clearing house for the train operators, allowing passengers to buy tickets to travel on any part of the rail network, from any station.

B. **National Rail Enquiries:** A customer service operation, giving passengers up-to-the-minute information on train times, fares, reservations and service disruption across the country

C. **Commercial Activities:** A range of discounted and promotional railcards, cutting the cost of travelling by train for groups including young people, families, senior citizens and people with disabilities.

D. **Policy Operations & Engineering:** The Policy, Operations and Engineering teams are part of the Trade Association work of ATOC. There are five main areas of activity all of which are undertaken in close liaison with train operators and their parent companies:
   - Policy Development
   - Railway Planning
   - Operations
   - Engineering

E. **Corporate Affairs:** Trade association activities include providing a national voice for Britain's train companies and seeking to generate and shape policy on the railways, mainly through Policy, Operations and Engineering.

F. **Rail Staff Travel Limited:** RSTL looks after Rail Staff Travel on a national basis, enabling most staff in the rail industry to benefit from some level of concessionary travel. We provide a service to both employees and employers, issuing cards and passes and dealing with queries. In addition, facilities for retired rail employees are now also handled directly by RSTL.

ATOC Council and Board Members

The ATOC Council is made up of representatives from full members of the association, and the ATOC Board is elected from ATOC Council representatives. Together the Board and Council have two key roles:

1. To give members a place to come together to oversee the operation of ATOC activities, all of which involve train companies working together to find more efficient and cost effective ways of operating their businesses, and enhance the benefits to passengers of the UK's national rail network
2. To shape national debate and influence the policy agenda for trains and the railways more widely by projecting a collective voice for members

Independent Chairman

Tom Smith is ATOC's independent chairman and has been a member of the ATOC Management Board since 2006. Previous to holding this role he was Managing Director – Rail Development for Go-Ahead. His first success for the group was to secure the Southern franchise in 2003, simultaneously closing a deal to secure £125 million of external finance to upgrade all its maintenance depots.

Since then he has led the group's successful bids for Southeastern, London Midland and, most recently in June 2009, retention of the Southern franchise. Prior to joining Go-Ahead, he was Managing Director of Midland Expressway Limited (MEL) from 1997 to 2001. MEL designed, financed, built and now operates M6 Toll, the UK's first toll motorway. He has also worked in a variety of senior positions for Trafalgar House plc. His initial career on graduating in 1979 was as a member of HM Diplomatic Service, for which he served in London, Hong Kong and Beijing.


Andrew Chivers, Managing Director, National Express Rail


Roger Cobbe, Policy Director, Arriva Trains


Tony Collins, Chief Executive, Virgin Trains


Charles Horton, Managing Director,Southeastern


Vernon Barker, Managing Director, UK Rail division,FirstGroup


Dominic Booth, Managing Director, Abellio UK


David Horne, Managing Director, East Midlands Trains


Michael Holden, Non-executive Chairman, East Coast

The following are the council and Board Members of ATOC:

Source: www.atoc.org

Vision, Mission and Ambition

ATOC's mission is to champion the interests of passenger rail operators in serving customers and supporting a safe, reliable, attractive and prosperous railway. They do this through:

- Trade association activity - influencing rail policy, acting as an advocate for rail in the media and with stakeholders, and promoting best practice; and
- Business service provision - running mission critical systems, such as settlement and National Rail Enquiries (NRE), and managing major commercial arrangements, such as Railcards and London & South-East contracts

ATOC's vision is one where rail is a thriving business sector which makes a growing positive contribution to national life. In *Planning Ahead 2010*, they have set out jointly with their industry partners our aim to ensure rail promotes sustainable development, by working with others to deliver the following over the next 25 years:

- Continued improvement in passenger satisfaction levels to at least 90%
- Capacity to carry twice as many passengers as today, with reduced journey times and better connectivity between services and between modes
- Levels of reliability and safety that are among the best in Europe
- Greater financial sustainability, through improved efficiency and revenue generation
- A move towards cutting rail CO_2 emissions by 50% in the longer term

ATOC's ambition, as a trade association for, and business service provider to, passenger rail operators is to enable TOC's to have a crucial role to play in delivering this vision by achieving excellence. They intend to do that over the next three years by:

1. Strengthening our work in representing TOC interests, e.g.
   - Reinforcing the resources devoted to their work on policy
   - Strengthening the stakeholder engagement work managed by corporate affairs
   - having in all their external material a consistent high-level narrative thread promoting TOCs, the rail industry and the role of the private sector in the industry
   - developing a more strategic dimension to the work of their operations and engineering teams
   - On-going engagement with the RDG and its supporting groups.

2. Enhancing their business services offering, e.g.
   - Continuous improvement in reducing the costs of service provision and driving further revenue growth from business services and managed products
   - Creating scope for TOCs to deliver significant customer improvements, e.g. through modernisation of Rail Settlement Plan (RSP) systems and developing a customer information strategy

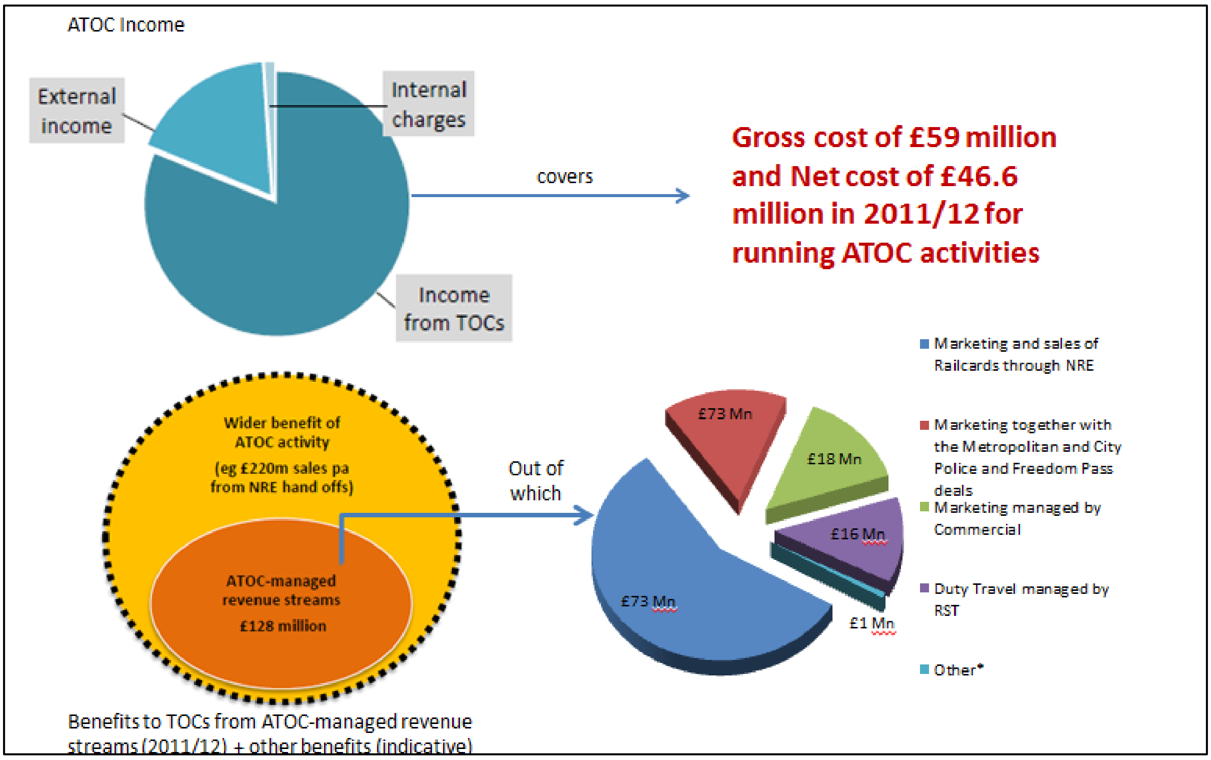
- Developing a business services strategy in 2012/13 which more closely aligns the work and priorities of our different business service functions

Source: www.atoc.org, Business Plan 2012/13 – 2014/15

Organizational Budget

ATOC's budget represents the net cost of running ATOC activities (£46.6 million in 2011/12). Its current size reflects their efforts over recent years to reduce the cost of activities run by ATOC, as well as securing more external income (e.g. from NRE advertising, travel agent refunds, associate membership and non-TOC contributors to RSP) – this now accounts for 20% of gross cost, which was £59 million in 201/12.

ATOC's resources not only enable the organisation to manage essential services increasingly cost-effectively for TOCs, but they also enable us to administer a number of TOC income streams. The four largest of these are the marketing and sales of Railcards, together with the Metropolitan and City Police and Freedom Pass deals, managed by Commercial, worth £73m, £20m and £18m respectively; and Staff and Duty Travel managed by RST, worth £16m. Other activities run by ATOC have a significantly wider benefit for our members, such as the savings arising from enabling collective procurement of energy or the estimated value of completed sales arising from ticket inquiries to NRE which are then handed off to TOCs or other retailers. ATOC's Income breakup, managed revenue streams and wider benefits can be explained with the help of the figure below:



Source: www.atoc.org, Business Plan 2012/13 – 2014/15

Within this three-year plan, ATOC anticipates that significant growth in their current sources of external income is likely to be difficult and that while further cost-efficiencies may be possible, their scope is likely to be more limited than in recent years following a real terms reduction in the ATOC budget in excess of 50% in the last decade. This plan is therefore based on the following:

1. A broadly neutral budget of approximately £46.6 million for each of the three years to 2014/15, by seeking to achieve cost-efficiencies (including business service contract renewals, measures to improve the affordability of pension provision for their employees and seeking opportunities from the break clause in their property lease in 2013/14) which help offset inflation and provide headroom to redeploy resources to priority activities (particularly in trade association-type work) for members

2. Flexibility to consider taking on new activities with the approval of ATOC Board which, if they mean an addition to gross ATOC costs, either are justified on the basis of clear and material overall financial value to TOCs (for example, by making possible

major savings in train companies' total cost base) or can be funded by non-TOC sources of income

3. A review in 2012/13 of potential new models for funding and financing activities currently run by ATOC including:

    - Making more extensive use of their RSP-linked loan facility. The current agreement ends in 2013 and they have the opportunity to renew it, albeit probably on a shorter-term basis than the present arrangement
    - Charging for ATOC-provided services through commission paid by members (and commercially exploiting the value of their services to third parties) based on delivering unit cost efficiencies and rates of return to fund on-going investment, agreed with their members
    - Divesting current assets, so enabling ATOC to hold any sale proceeds on behalf of all its members and to use the interest generated as an income stream to fund the running of worthwhile activities on their behalf

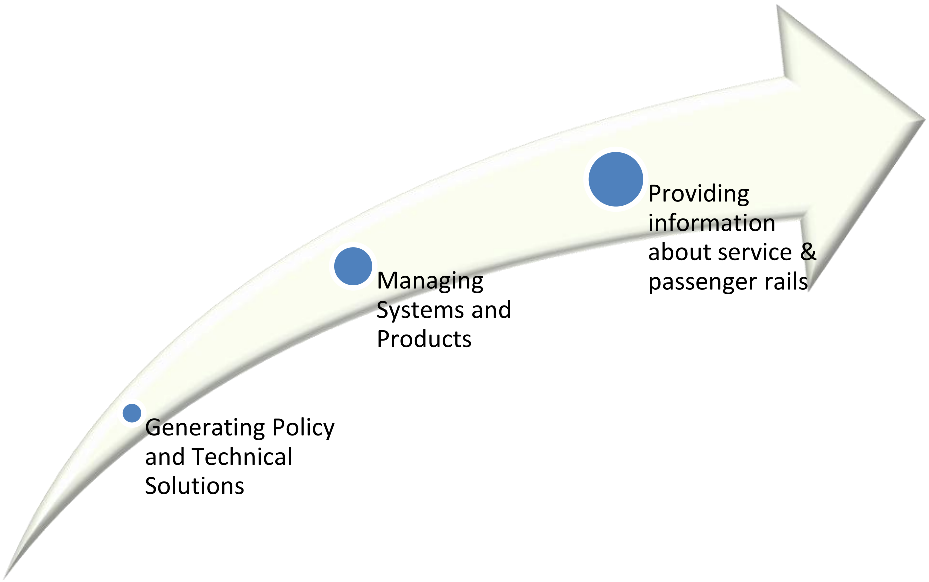
Source: www.atoc.org, Business Plan 2012/13 – 2014/15

ATOC Deliverables

Over the next three years, ATOC will focus on championing their members' interests in delivering a better passenger rail experience more cost–efficiently. All parts of ATOC can contribute to this through our standard range of activities, taking on new projects and building further on recent moves to more cross-departmental working. The following are the key planned deliverables in three areas where our trade association and business service activity can make a difference:

- Generating policy and technical solutions which support train companies and NR in providing better passenger rail services (mainly through Policy, Operations and Engineering, Commercial and Corporate Affairs)

- Managing systems and products which support their members in improving the retail environment for their customers (mainly through Commercial, RSP, NRE and RST)
- Providing information about services and passenger rail which better meets the needs of their members' customers and other key stakeholders (mainly through NRE and Corporate Affairs).



Source: www.atoc.org, Business Plan 2012/13 – 2014/15

Rail Settlement Plan (RSP)

Main Activity

Rail Settlement Plan (RSP) is a company owned by the franchised passenger rail operators. It provides a range of common; largely IT based services to those operators including open access operators and third party providers of information and retail services.

The company was established on the privatization of British Railways to enable the new rail operators to continue to provide a network wide retail service - something that passengers were familiar with prior to privatization. Since then, the company has increased the range of services it provides to rail operators and others. The company now:

- Collects retail sales data from 8,500 ticket issuing systems
- Carries out the correct allocation of ticket revenue to rail operators
- Settles that revenue to the rail operators
- Sets standards for and accredits all industry ticket issuing systems
- Maintains the central industry fares database and provides tools for rail operators to set fares
- Distributes fares, timetable, station and other industry data to ticket issuing and information systems
- Provides the National Reservations Service enabling retailers to book reservations on all trains with reservable seats
- Provides the capability to pick up pre-ordered tickets at self-service ticket machines (Ticket on Departure)
- Provides the industry standard ticket stock

Source: www.atoc.org

Key Executives

Michael Roberts, CEO, ATOC

Steve Howes, MD, RSPL

David Mapp, Commercial Director

Alec McTavish, Director, Policy and Operations

Chris Scoggins, CEO, NRE

Chris Wade, Finance Director

Edward Welsh, Corporate Affairs Director

Gary Cooper, Director of Operations and Engineering

Source: www.atoc.org

Michael Roberts, CEO, ATOC joined ATOC as Chief Executive in April 2008. He previously worked at the CBI, where he was Director of Business Environment from 2000. His previous CBI roles included Transport Policy Adviser from 1991 and Head of Industrial Policy from 1996. He and his team were responsible for developing and promoting the views of CBI members on transport, land use planning, environment, energy and health & safety. Michael has been a long standing member of the Commission for Integrated Transport (CFIT) and he was a Non-Executive Director of The Carbon Trust between 2001 and 2008. Before moving to the CBI, Michael worked for political consultants Decision Makers. He was a member of the Decision Makers team which won the PR Week award for best political campaign in 1991. Michael was educated at Prior Park College, Bath and St Benet's Hall, Oxford, where he obtained an MA in Modern History in 1987.

Steve Howes, MD, RSPL is responsible for ensuring that the Train Companies and other retailers can offer a network wide retail service to enable passengers to move seamlessly from one Train Company's services to another.

David Mapp, Commercial Director, is responsible for industry-level commercial activities including marketing national products such as Railcards, the management of third party retailers and policy in areas such as fares, integrated transport and disability matters.

Alec McTavish, Director, Policy and Operations is responsible for Policy & Planning, Engineering & Projects and Operations.

Chris Scoggins, Chief Executive, National Rail Enquiries is responsible for Britain's No1 travel and transport website, for one of the country's busiest call centres and for improving the overall quality of passenger information provided by Train Companies.

Chris Wade, Finance Director is responsible for overseeing Rail Staff Travel operations and has responsibility for Finance, Human Resources, Facilities, IT and Legal.

Edward Welsh, Corporate Affairs Director is responsible for Media Relations, Public Affairs, Internal Communications and the ATOC website.

Gary Cooper, Director of Operations and Engineering, is responsible for the engineering and operations directorate at ATOC. He is also a Business Director for the industry's National Task Force (the NTF is the most senior body concerned with train service delivery) and in this capacity he acts equally for Network Rail, train and freight operating companies, ORR and the Department for Transport.

RSP's Deliverable: Managing Systems & Products

As per ATOC's business plan 2012-2013, RSP aims to facilitate cost-effective industry delivery of a retail environment which supports our members in giving users choice, confidence and value in their buying decisions, by managing key industry-wide systems and products, as well as developing policy proposals. Success depends on many organisations playing their part, not just ATOC, that would lead to reducing the annual £400 million cost of retail to the industry. RSP plans to contribute to that by undertaking the following activities:

1. Shaping future fares and ticketing policy which better meets customer and stakeholder needs, independently and through input to DFT fares/ticketing review (2012/13)
2. Working with RDG, DFT and others to secure reform of the Ticketing and Settlement Agreement (TSA) through a new Regulatory Agreement on Fares and Ticketing (RAFT) as part of wider changes to improve the retail experience (2012/13)
3. Managing development and roll-out of the DFT's £45 million South-East Flexible Ticketing (SEFT) project (2012/13 onwards): benefits include new flexible products to enable better demand management
4. Managing extension of smart ticketing in London to EMV (Europay, MasterCard and Visa) card "wave and pay" technology (2013/14 onwards) and reviewing/re-negotiating London commercial agreements (Metropolitan and City Police in 2013/14 and Freedom Pass in 2014/15)
5. Modernising the RSP services portfolio to serve better an online, web-enabled world and reduce cost, including contract replacement for the fares service (2013/14) which will improve fares information quality for customers, contract replacement for the Rail Journey Information System (RJIS) in 2012/13, and seeking to reduce the cost of changes to ticket issuing systems (TIS) by streamlining processes
6. Completing the current programme of improvements to fares and ticketing, including re-design of CCST (Credit Card Sized Ticket) formats to provide clearer and better information to customers; support for TOC-managed improvements to ticket vending machines (2012/13); and continuing to identify and implement further improvements
7. Seeking to grow revenue from collectively-managed products through innovation and development in line with passenger needs e.g. complete the Two Together Railcard trial (2012/13); review Railcard product formulations (2013/14); migrate 50% of Railcard sales online (2014/15); complete the business case for automated

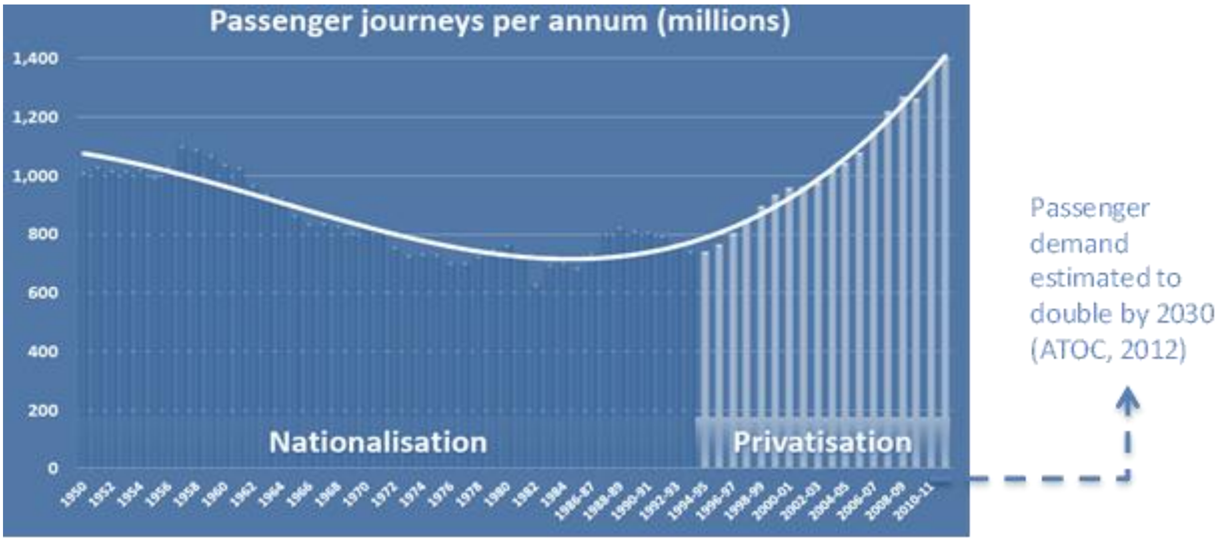
Railcard validation (2012/13); and evaluate national extension of the 2-for-1 attractions programme (2012/13)

8. Managing third party retail channels to drive new revenue; completing the trial of new international retail licences; reviewing the Britrail Pass (2013/14); and evaluating cross-Channel market opportunities (2013/14 onwards)
9. Maintain cost-efficiency improvements in, and modernisation of, providing Rail Staff Travel (2012/13).

Opportunities Ahead – A Snapshot

The rail industry is not broken. The case for a further round of major structural change, impacting safety, performance and cost as the industry struggles to adjust, has not been made. But the industry must continue to evolve. It remains unacceptably inefficient. Study shows that, as minimum, efficiencies worth some £2.5 billion by 2018/19 are achievable – the low end of the efficiency gap identified in Sir Roy McNulty's Rail Value for Money Study. However, the industry can and should deliver more than that. The strategy is to incentivise the industry to entirely close the £3.5 billion efficiency gap by 2019.

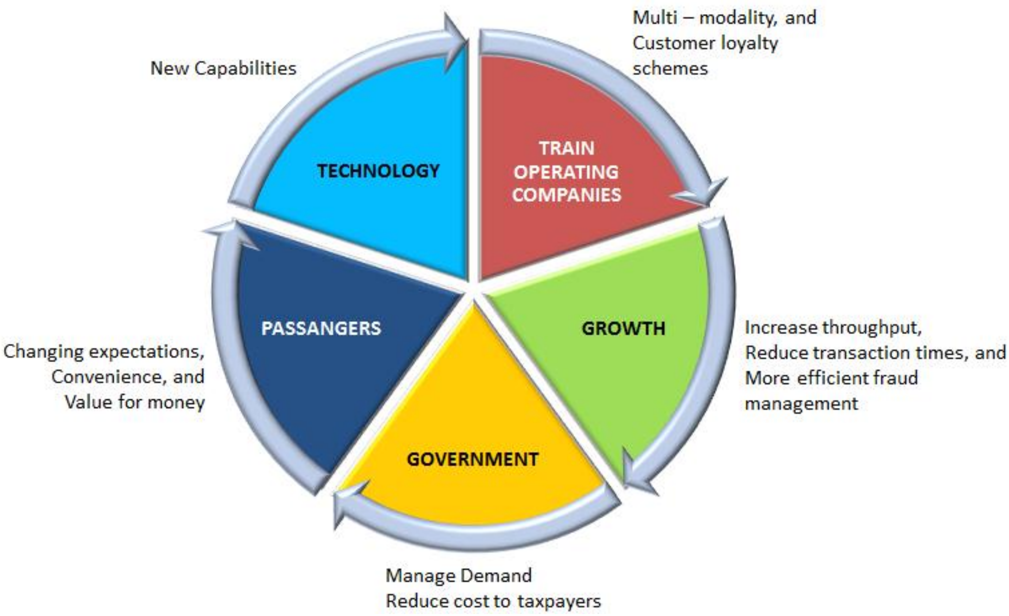
Growth since Privatization



Source: McNulty Report (2010)

Passenger demand estimated to double by 2030 (ATOC 2012) and, "the vast majority of journeys on the rail network are still made using card tickets." – McNulty Report (2010) therefore there is need for change.

Driving Change



Source: McNulty Report (2010)

Change: A Call of Action

Real Momemtum	▪ Smartcards, Self-print, Mobile/barcode, EMV contactless
New Standards	▪ Interoperable barcode ticketing standards – mobile and self-print ▪ Support for other new products and technology – on-going ▪ Interoperable interfaces allowing simplified fulfillment without the need to understand ITSO

Trials	▪ Online validation database trial – very good results, even on Wi-Fi connections ▪ Offline capabilities for less secure technologies (barcodes) proven to work effectively
Service Developments	▪ Systems and services are being modernised over the next few years to support the changes coming up as well as reducing the barriers to entry into the rail retailing and ticketing market
London and South East Smart Ticketing	▪ Government has allocated £45m to provide flexible smart ticketing. This will help manage demand and provide a greatly expanded interoperable customer proposition

Source: McNulty Report (2010)

Recommendation

Smart Ticketing

Government supports the introduction of smart ticketing technology, such as smart cards, to tackle industry costs, manage demand and make travelling by rail more attractive to passengers. Train operators are already introducing smart ticketing and smarter ways of purchasing tickets. We will specify the use of smart ticketing technology in franchise agreements as they come up for renewal.

Smart ticketing on our railways -

1. South West Trains introduced the first smartcard system on the UK rail network in 2008.
2. In October 2011 Southern opened 'the key' – a smart ticketing pilot scheme – trialling it with 100 users on the Brighton to Seaford line.
3. London Midland introduced its version of 'the key' for selected tickets on selected routes into Birmingham Snow Hill from January 2012.
4. East Midlands Trains launched its 'stagecoach smart' ticketing scheme on a limited basis between Derby and St Pancras in 2011 and is progressively expanding the scheme across its smart-enabled network.

Smart ticketing should allow passengers to benefit from greater convenience in buying tickets through new retail channels. This might include loading tickets onto smart media (e.g. smart cards and smart phones) at home or at station ticket barriers, or auto-renewing tickets by direct debit. Passengers could also benefit from a better range of products, such as flexible carnets or 'smart' season tickets that are more suited to their needs. These kinds of new products can deliver benefits that go beyond the purely economic. For example, the season ticket geared around a standard working day and a Monday to Friday working pattern does not best serve the needs of the many people, particularly women, who work part time. Those who work flexible hours (for example where they have caring responsibilities for children or elderly relatives) could benefit from carnets or smarter season tickets.

Smart ticketing could offer enhanced information to help passengers make informed choices. The technology can allow operators to offer passengers much more personalised travel products. It is also a pre-requisite for the intelligent management of demand – it will provide the insight and products to help spread demand more evenly across the day, making the railways more financially sustainable, benefiting passengers overall.

A switch to smart and greater self-service purchasing potentially means that the very high costs associated with retailing can be reduced. Operators would benefit from more accurate data about usage, using this to introduce a broader range of products and to improve the settlement of fares between rail companies

Transport for London's (TFL) Oyster card has been a resounding success and has delivered the benefits of smart ticketing to millions of passengers including the convenience and reassurance of daily fare capping on Pay As You Go. Oyster technology is evolving with the prospect of contactless bank card 'wave and pay' payments in the future. However, this type of technology has limitations. For example, it cannot store the wider range of tickets available on the national rail network (such as seat reservations and first class tickets). Moreover, passengers are unlikely to be comfortable with using Pay As You Go for long-distance journeys with more expensive tickets. Impressive though Oyster is, it is not best suited to meet the requirements of the broader rail network.

Government has specified the use of ITSO compliant ticketing in new franchises. The ITSO specification allows smart ticketing schemes across the country to be interoperable between train operators and integrated with other modes of public transport.

Approximately 60% of rail travel in the UK starts in, ends at or crosses London, so it is vital that London is capable of accepting ITSO smartcards. DFT, working with TFL, is funding a programme to enable the Oyster infrastructure to accept ITSO smartcards by 2014. This will allow passengers to travel to, from and through London using a single ITSO smartcard or product.

Source: Department of Transport, 2012

Buying tickets

Research by Passenger Focus and others has found that many passengers find the process of purchasing a ticket confusing. We need a more user-friendly ticketing system that communicates fares information to passengers in a straightforward way, so that they can confidently select the most appropriate fare for their journey.

Technology is changing the way people buy tickets. Over the last six years, the proportion of tickets sold through ticket machines has risen from 11% to 20% and online from 7% to 17%. Meanwhile the proportion of tickets sold from ticket offices has fallen from 44% to 34%.6

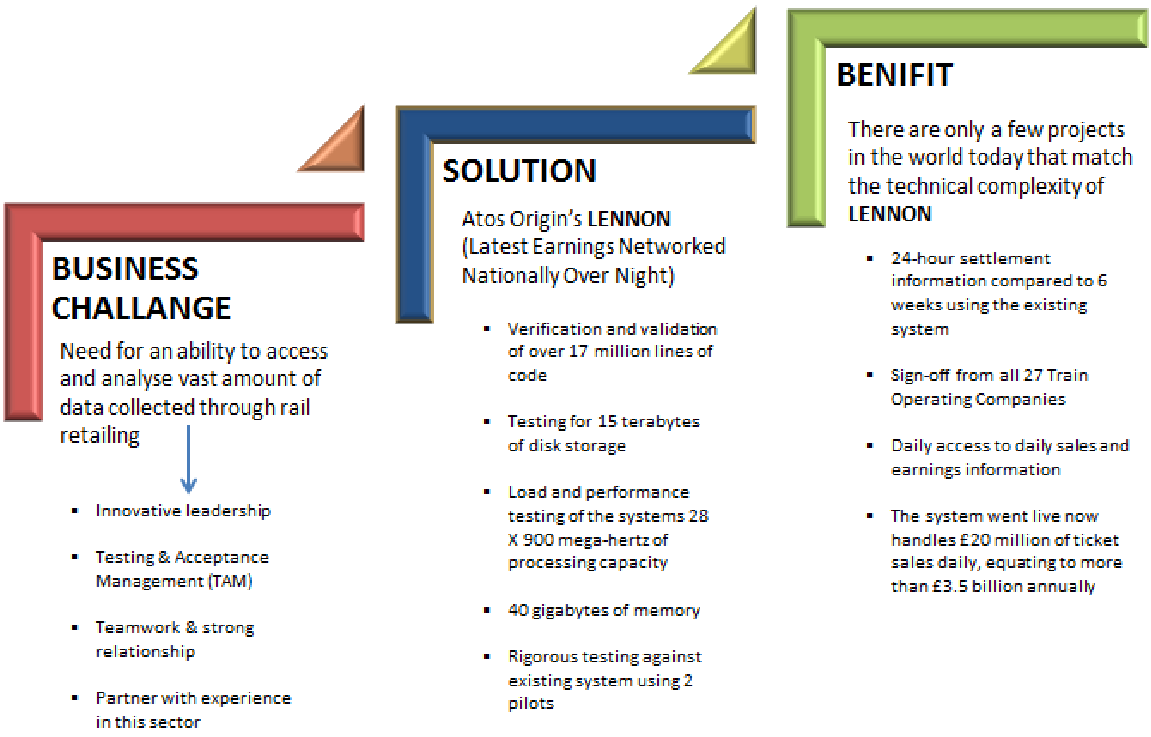
Research by Passenger Focus has found that, for 91% of passengers queuing at a ticket office, the ticket they wanted to purchase was available for purchase from a ticket machine, with in many cases shorter waiting times.

Train operators are already working on improvements to self-service ticket machines, but there is more that can be done. Increasing passenger confidence in buying tickets from a machine or online will play an important role in reducing the industry's cost base and offering better value for fare payers and taxpayers. The changing ways people buy tickets and the expansion of internet retailing and smart ticketing does require a fresh look at the regulation of ticket offices and retailing arrangements.

Source: Department of Transport, 2012

An Illustration: A Successful Revolution in the payment process

LENNON is an 18-year-old management information system that allows ATOC to see their earnings in close to real-time. It has the ability to easily access and analyse the large amounts of data needed for the operating companies to make more informed business decisions. It collects and authenticates the information from 8,000 ticket machines, a daily revenue calculation of some 700,000 tickets and allows revenue allocation to Train Operating Companies within 24 hours of ticket purchase. This represents a settlement of annual passenger revenues of £3.5 Billion to 27 Train Operating Companies. The following figure describes some of the challenges that come along in devising a solution of this kind and highlights some of the features and benefits of LENNON.



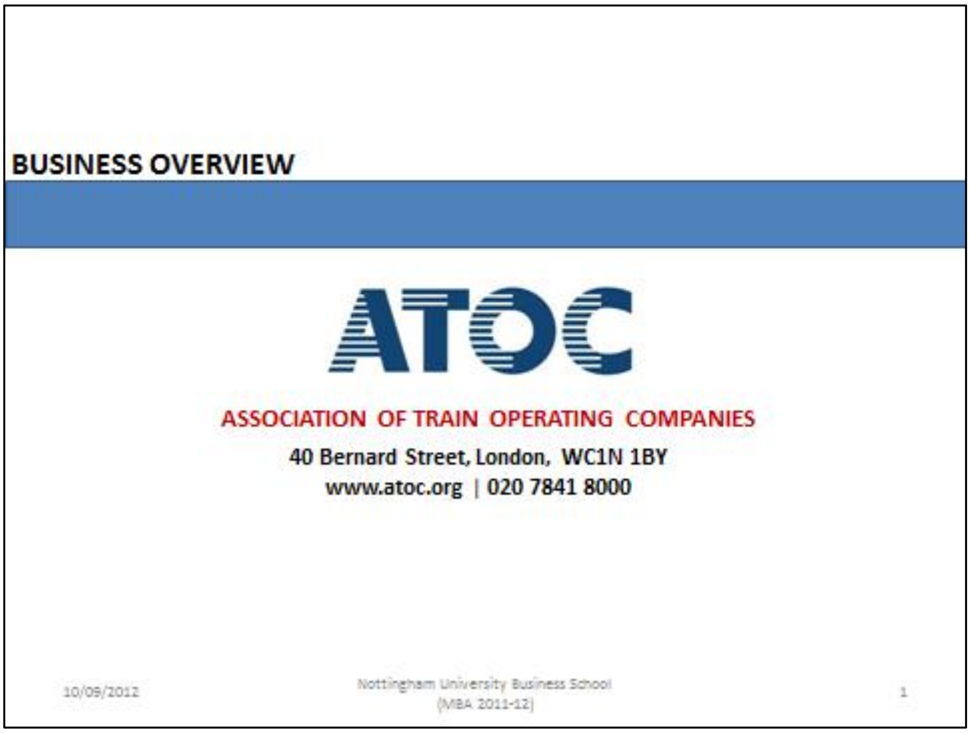
Source: www.atos.net, 2011

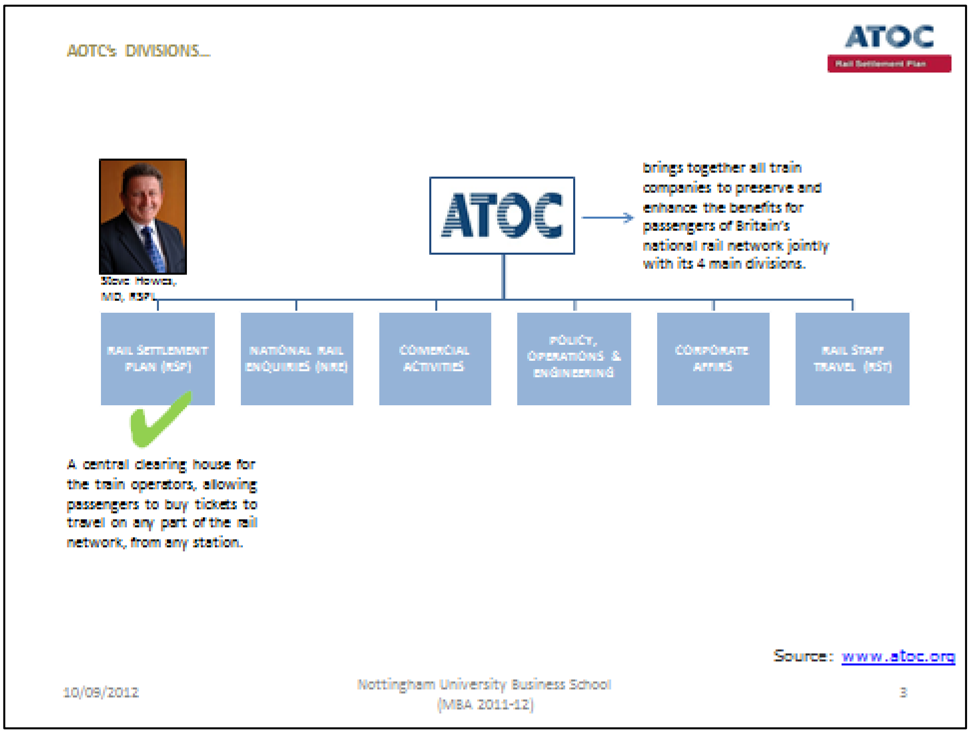
Conclusion

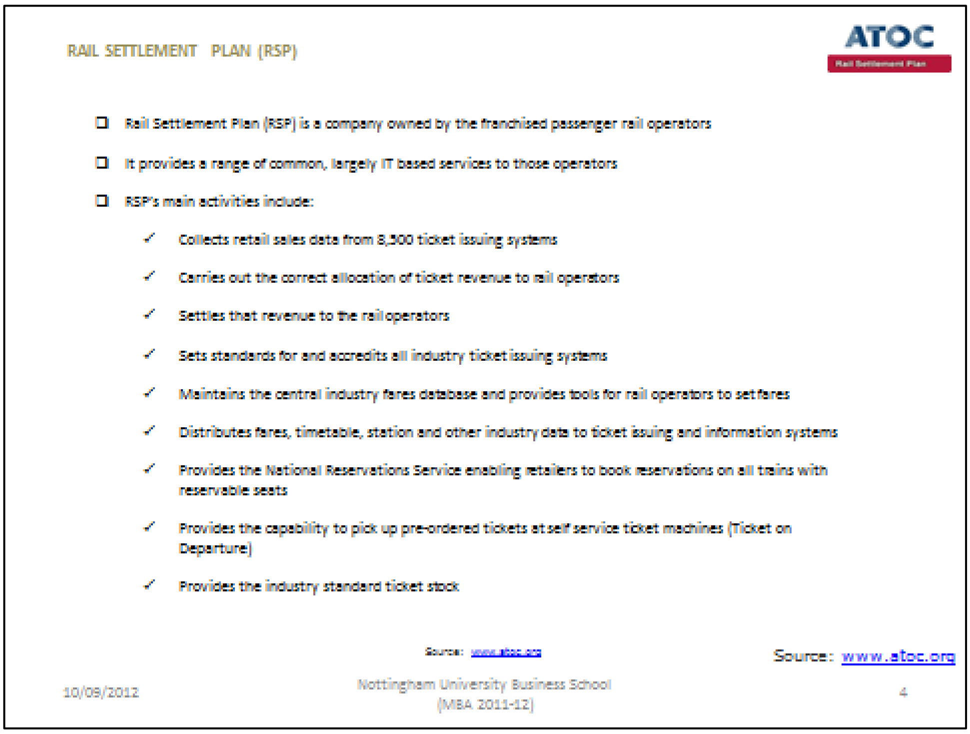
Earlier studies show that leading firms sometimes stagger when confronting any technology change. The reasons would be failing to cope with managerial, organizational and cultural responses to the technological change. This consideration around cultural and organizational change is called "Innovator's Dilemma". This is a very large area of focus related to the changes in technology and is centered on innovation. The company aiming for transition has to encourage employees regularly to avoid serious internal organizational/cultural conflicts.

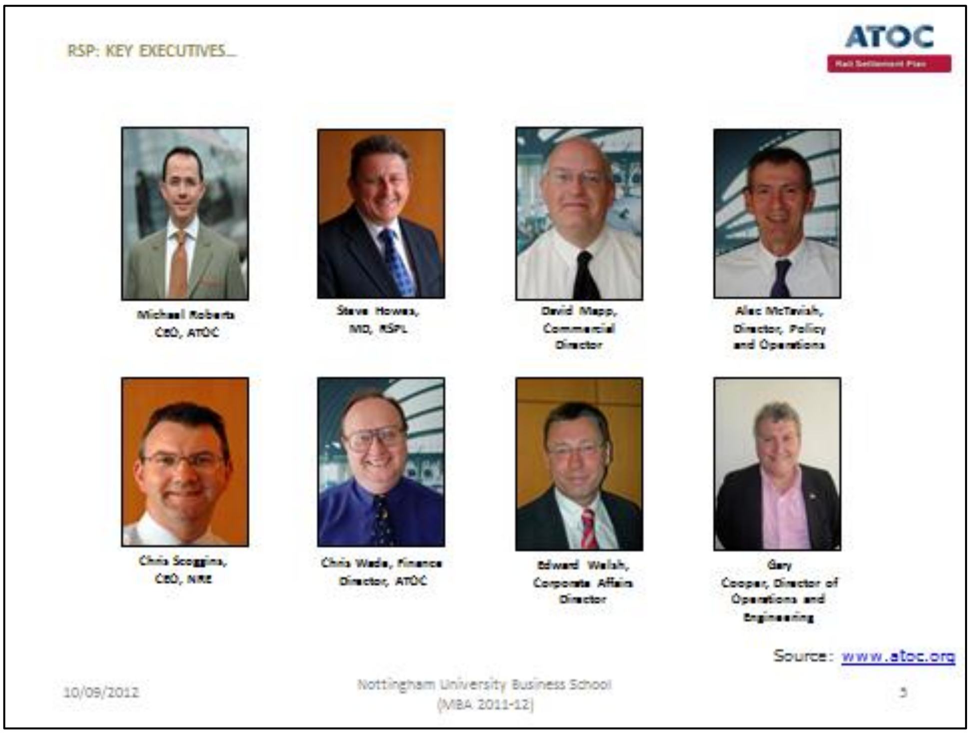
With introduction of new technology (Smart Ticketing) and changes in the systems, RSP has to produce sound business cases followed by careful planning and flawless execution. Generally achieving this transition would take between 3-5 years, therefore during this period the company has to have a clear vision, solid plan, committed management and team to run the business. One central business challenge will be sustaining and growing the business through the transition period. It is very critical to adopt an effective approach that links up the product development and product consumption monitoring. Customer usage analytics will be a key business enabler that facilitates success in of this model.

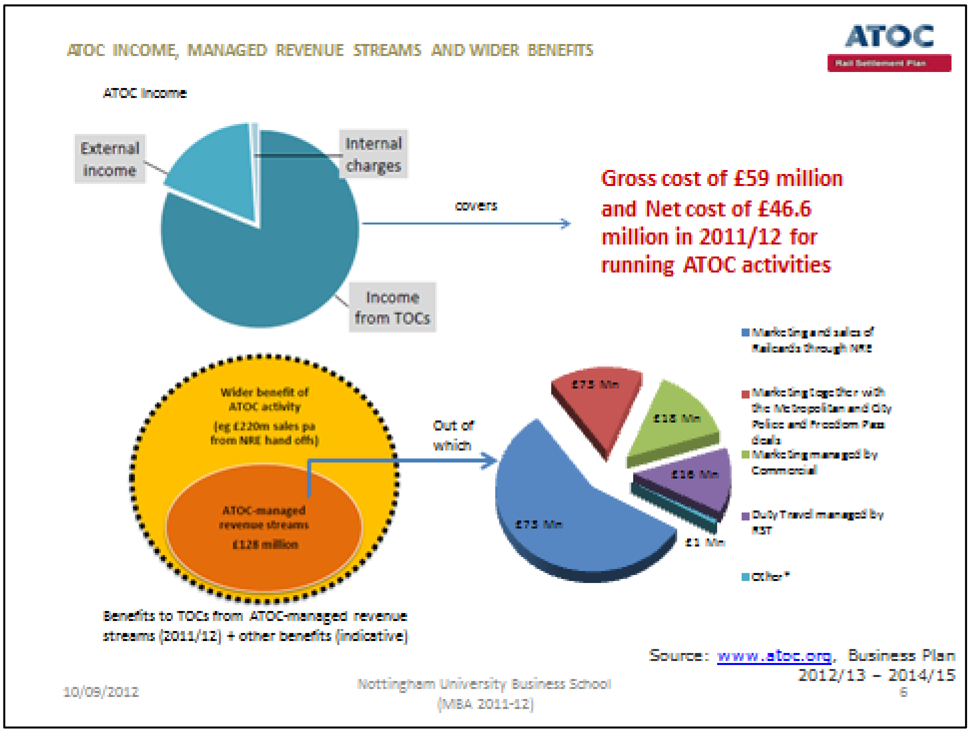
Presentation to TCS

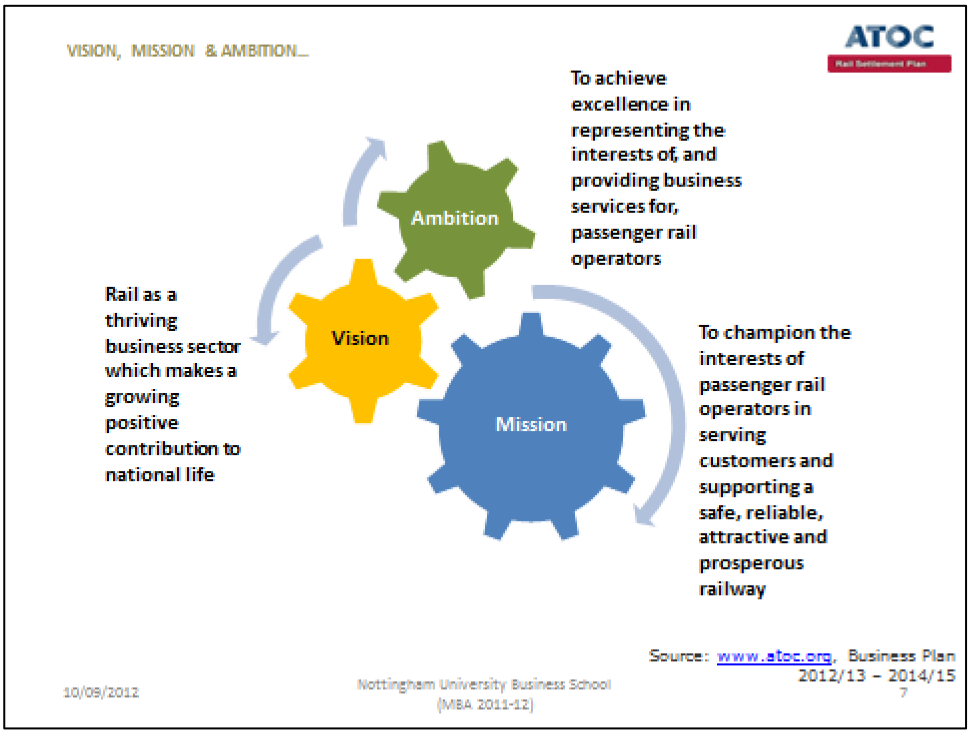


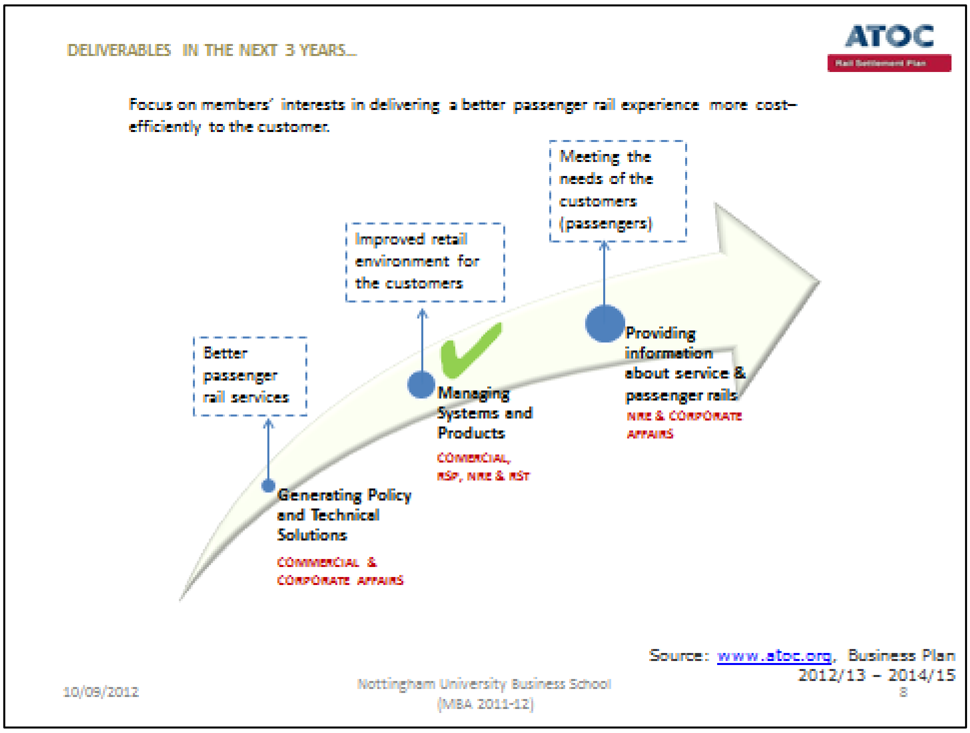

AOTC's DIVISIONS…
ATOC
Rail Settlement Plan
Steve Howes, MD, RSP
ATOC
brings together all train companies to preserve and enhance the benefits for passengers of Britain's national rail network jointly with its 4 main divisions.
RAIL SETTLEMENT PLAN (RSP)
NATIONAL RAIL ENQUIRIES (NRE)
COMERCIAL ACTIVITIES
POLICY, OPERATIONS & ENGINEERING
CORPORATE AFFIRS
RAIL STAFF TRAVEL (RST)
A central clearing house for the train operators, allowing passengers to buy tickets to travel on any part of the rail network, from any station.
Source: www.atoc.org
10/09/2012
Nottingham University Business School (MBA 2011-12)
3

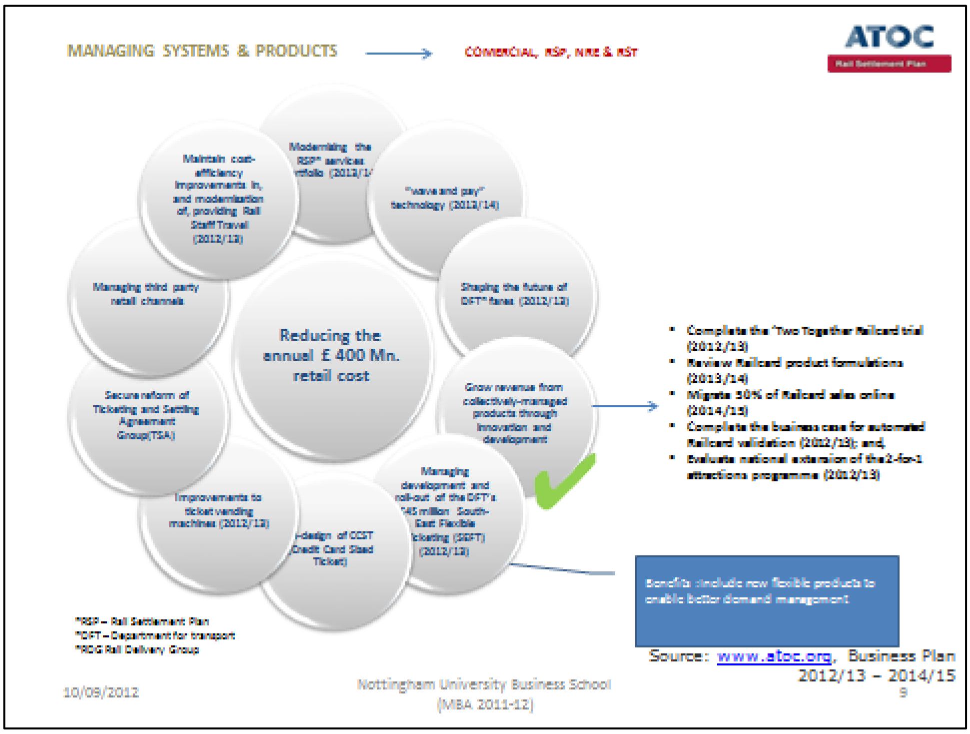

RAIL SETTLEMENT PLAN (RSP)
ATOC
Rail Settlement Plan
Rail Settlement Plan (RSP) is a company owned by the franchised passenger rail operators
It provides a range of common, largely IT based services to those operators
RSP's main activities include:
Collects retail sales data from 8,500 ticket issuing systems
Carries out the correct allocation of ticket revenue to rail operators
Settles that revenue to the rail operators
Sets standards for and accredits all industry ticket issuing systems
Maintains the central industry fares database and provides tools for rail operators to set fares
Distributes fares, timetable, station and other industry data to ticket issuing and information systems
Provides the National Reservations Service enabling retailers to book reservations on all trains with reservable seats
Provides the capability to pick up pre-ordered tickets at self service ticket machines (Ticket on Departure)
Provides the industry standard ticket stock
Source: www.atoc.org
Source: www.atoc.org
10/09/2012
Nottingham University Business School (MBA 2011-12)
4

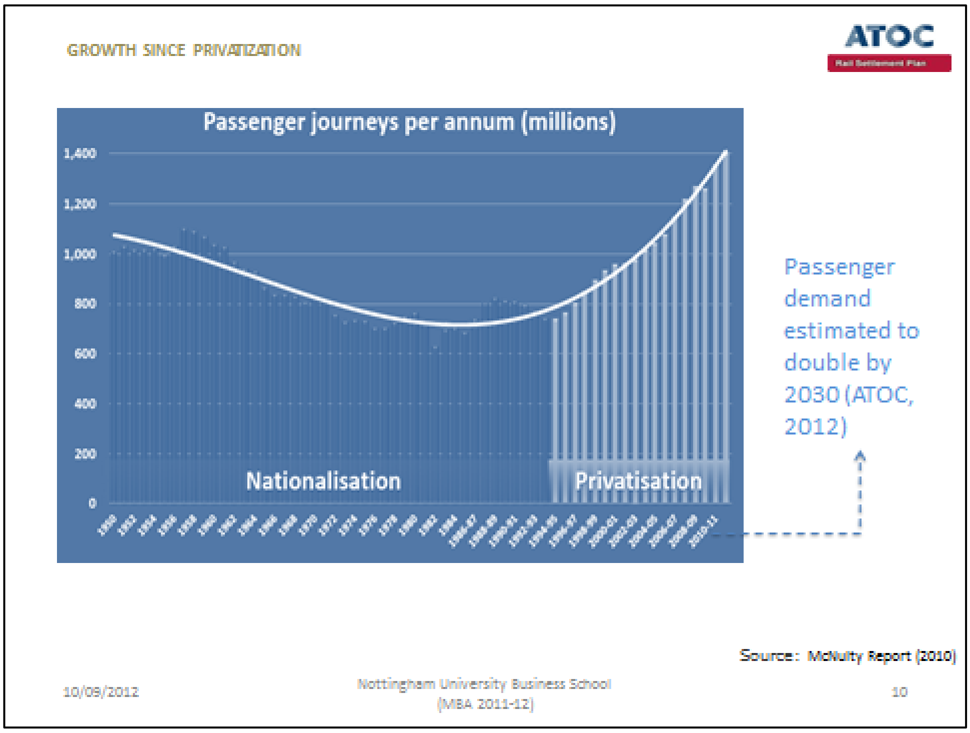

RSP: KEY EXECUTIVES...
ATOC
Michael Roberts
CEO, ATOC
Steve Howes,
MD, RSPL
David Mapp,
Commercial
Director
Alec McTavish,
Director, Policy
and Operations
Chris Scoggins,
CEO, NRE
Chris Wade, Finance
Director, ATOC
Edward Welsh,
Corporate Affairs
Director
Gary
Cooper, Director of
Operations and
Engineering
Source: www.atoc.org
10/09/2012
Nottingham University Business School
(MBA 2011-12)
5

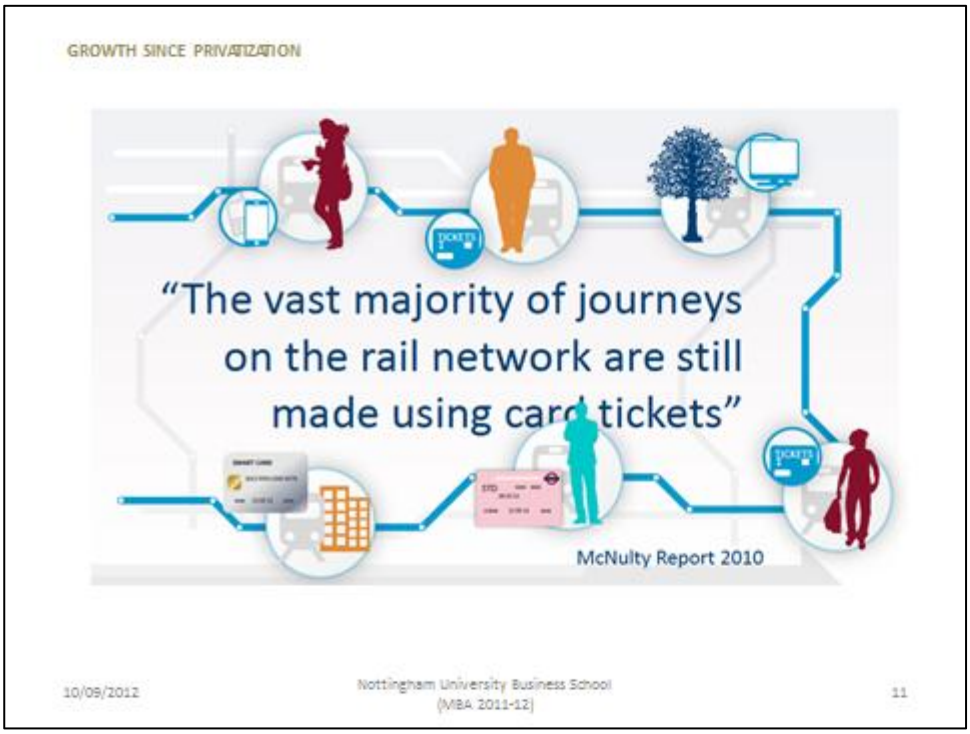

ATOC INCOME, MANAGED REVENUE STREAMS AND WIDER BENEFITS
ATOC
ATOC Income
External
income
Internal
charges
covers
Income
from TOCs
Gross cost of £59 million
and Net cost of £46.6
million in 2011/12 for
running ATOC activities
Wider benefit of
ATOC activity
(eg £220m sales pa
from NRE hand offs)
ATOC-managed
revenue streams
£128 million
Out of
which
£73 Mn
£18 Mn
£16 Mn
£73 Mn
£1 Mn
Marketing and sales of
Railcards through NRE
Marketing together with
the Metropolitan and City
Police and Freedom Pass
deals
Marketing managed by
Commercial
Duty Travel managed by
RST
Other*
Benefits to TOCs from ATOC-managed revenue
streams (2011/12) + other benefits (indicative)
Source: www.atoc.org, Business Plan
2012/13 – 2014/15
10/09/2012
Nottingham University Business School
(MBA 2011-12)
6

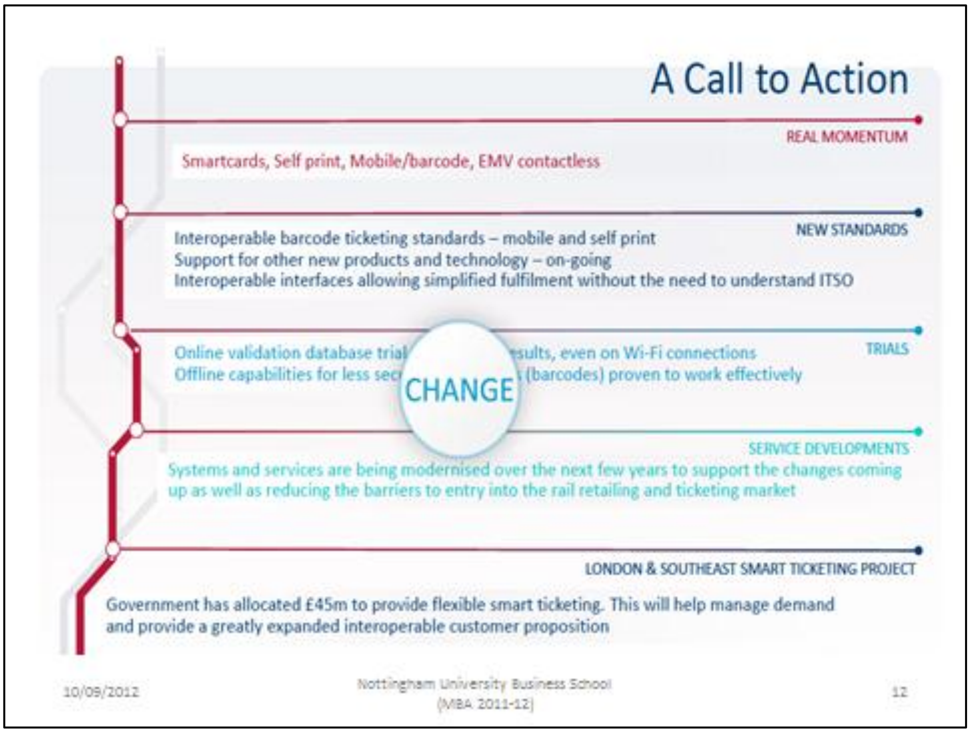

VISION, MISSION & AMBITION…
ATOC
Rail Settlement Plan
To achieve excellence in representing the interests of, and providing business services for, passenger rail operators
Ambition
Vision
Mission
Rail as a thriving business sector which makes a growing positive contribution to national life
To champion the interests of passenger rail operators in serving customers and supporting a safe, reliable, attractive and prosperous railway
Source: www.atoc.org, Business Plan 2012/13 – 2014/15
10/09/2012
Nottingham University Business School (MBA 2011-12)
7

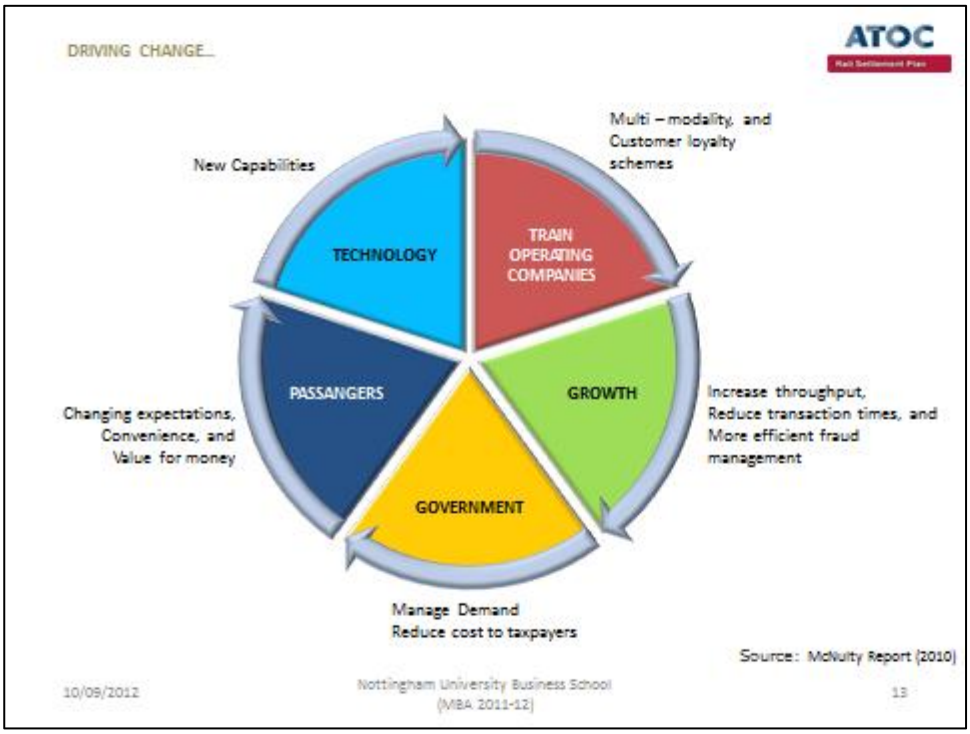

DELIVERABLES IN THE NEXT 3 YEARS…
ATOC
Rail Settlement Plan
Focus on members' interests in delivering a better passenger rail experience more cost–efficiently to the customer.
Meeting the needs of the customers (passengers)
Improved retail environment for the customers
Better passenger rail services
Providing information about service & passenger rails
NRE & CORPORATE AFFAIRS
Managing Systems and Products
COMERCIAL, RSP, NRE & RST
Generating Policy and Technical Solutions
COMMERCIAL & CORPORATE AFFAIRS
Source: www.atoc.org, Business Plan 2012/13 – 2014/15
10/09/2012
Nottingham University Business School (MBA 2011-12)
8

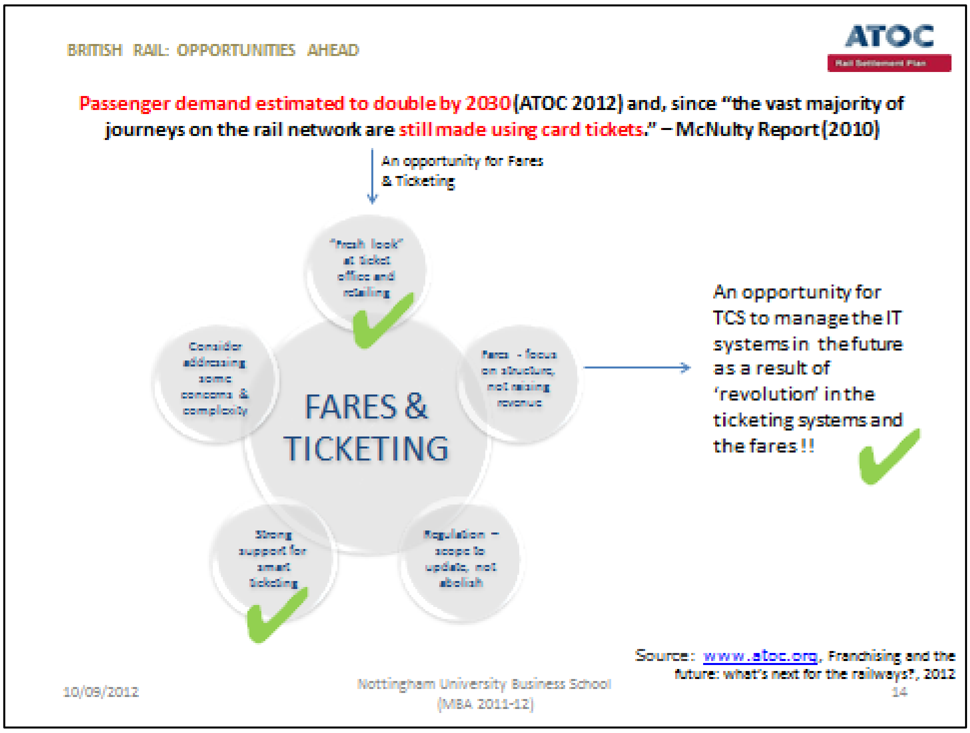

MANAGING SYSTEMS & PRODUCTS
COMERCIAL, RSP, NRE & RST
ATOC
Rail Settlement Plan
Reducing the annual £ 400 Mn. retail cost
Modernising the RSP* services portfolio (2012/1
Maintain cost-efficiency improvements in, and modernisation of, providing Rail Staff Travel (2012/13)
"wave and pay" technology (2013/14)
Shaping the future of DFT* fares (2012/13)
Managing third party retail channels
Grow revenue from collectively-managed products through innovation and development
Secure reform of Ticketing and Settling Agreement Group(TSA)
Managing development and roll-out of the DFT's £45 million South-East Flexible Ticketing (SEFT) (2012/13)
Improvements to ticket vending machines (2012/13)
design of CCST Credit Card Sized Ticket)
Complete the 'Two Together Railcard trial (2012/13)
Review Railcard product formulations (2013/14)
Migrate 50% of Railcard sales online (2014/15)
Complete the business case for automated Railcard validation (2012/13); and,
Evaluate national extension of the 2-for-1 attractions programme (2012/13)
Benefits :include new flexible products to enable better demand management
*RSP – Rail Settlement Plan
*DFT – Department for transport
*RDG Rail Delivery Group
Source: www.atoc.org, Business Plan 2012/13 – 2014/15
10/09/2012
Nottingham University Business School (MBA 2011-12)
9


GROWTH SINCE PRIVATIZATION
ATOC
Rail Settlement Plan
Passenger journeys per annum (millions)
1,400
1,200
1,000
800
600
400
200
0
Nationalisation
Privatisation
Passenger demand estimated to double by 2030 (ATOC, 2012)
Source: McNulty Report (2010)
10/09/2012
Nottingham University Business School (MBA 2011-12)
10


GROWTH SINCE PRIVATIZATION
"The vast majority of journeys on the rail network are still made using card tickets"
McNulty Report 2010
10/09/2012
Nottingham University Business School (MBA 2011-12)
11


A Call to Action
REAL MOMENTUM
Smartcards, Self print, Mobile/barcode, EMV contactless
NEW STANDARDS
Interoperable barcode ticketing standards – mobile and self print
Support for other new products and technology – on-going
Interoperable interfaces allowing simplified fulfilment without the need to understand ITSO
TRIALS
Online validation database trial
esults, even on Wi-Fi connections
Offline capabilities for less sec
(barcodes) proven to work effectively
CHANGE
SERVICE DEVELOPMENTS
Systems and services are being modernised over the next few years to support the changes coming up as well as reducing the barriers to entry into the rail retailing and ticketing market
LONDON & SOUTHEAST SMART TICKETING PROJECT
Government has allocated £45m to provide flexible smart ticketing. This will help manage demand and provide a greatly expanded interoperable customer proposition
10/09/2012
Nottingham University Business School (MBA 2011-12)
12


DRIVING CHANGE…
ATOC
Rail Settlement Plan
Multi – modality, and
Customer loyalty
schemes
New Capabilities
TECHNOLOGY
TRAIN
OPERATING
COMPANIES
PASSANGERS
GROWTH
GOVERNMENT
Changing expectations,
Convenience, and
Value for money
Increase throughput,
Reduce transaction times, and
More efficient fraud
management
Manage Demand
Reduce cost to taxpayers
Source: McNulty Report (2010)
10/09/2012
Nottingham University Business School
(MBA 2011-12)
13


BRITISH RAIL: OPPORTUNITIES AHEAD
ATOC
Rail Settlement Plan
Passenger demand estimated to double by 2030 (ATOC 2012) and, since "the vast majority of journeys on the rail network are still made using card tickets." – McNulty Report (2010)
An opportunity for Fares
& Ticketing
FARES &
TICKETING
Strong
support for
smart
ticketing
An opportunity for
TCS to manage the IT
systems in the future
as a result of
'revolution' in the
ticketing systems and
the fares !!
Source: www.atoc.org, Franchising and the
future: what's next for the railways?, 2012
10/09/2012
Nottingham University Business School
(MBA 2011-12)
14

RECOMMENDATIONS

ATOC
Rail Settlement Plan

Passenger demand estimated to double by 2030 (ATOC 2012) and, since "the vast majority of journeys on the rail network are still made using card tickets." – McNulty Report (2010)

As a result,

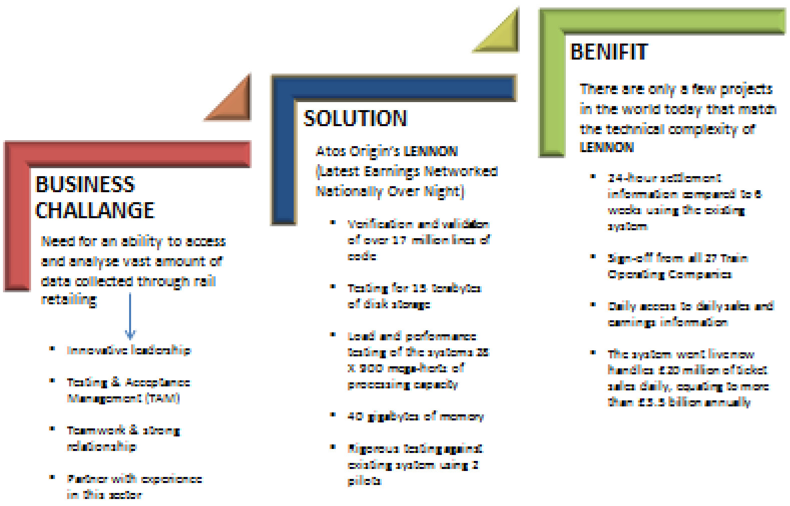
- The use of **Smartcard technology**, especially for frequent urban-based travel, and other mechanisms (mobile ticketing, print-at-home) will **increase access and demand** for the rail network while enabling **more efficient and lower retailing costs**.
- This technology will enable "intelligent ticketing", opening up opportunities for **more responsive pricing in peak hours**, and will thus aid **demand management**.
- **ATOC should promote** best-practice in terms of technology and in the clarity and transparency of behind (sic) different ticket prices.

Source: McNulty Report (2010)

10/09/2012 Nottingham University Business School (MBA 2011-12) 15

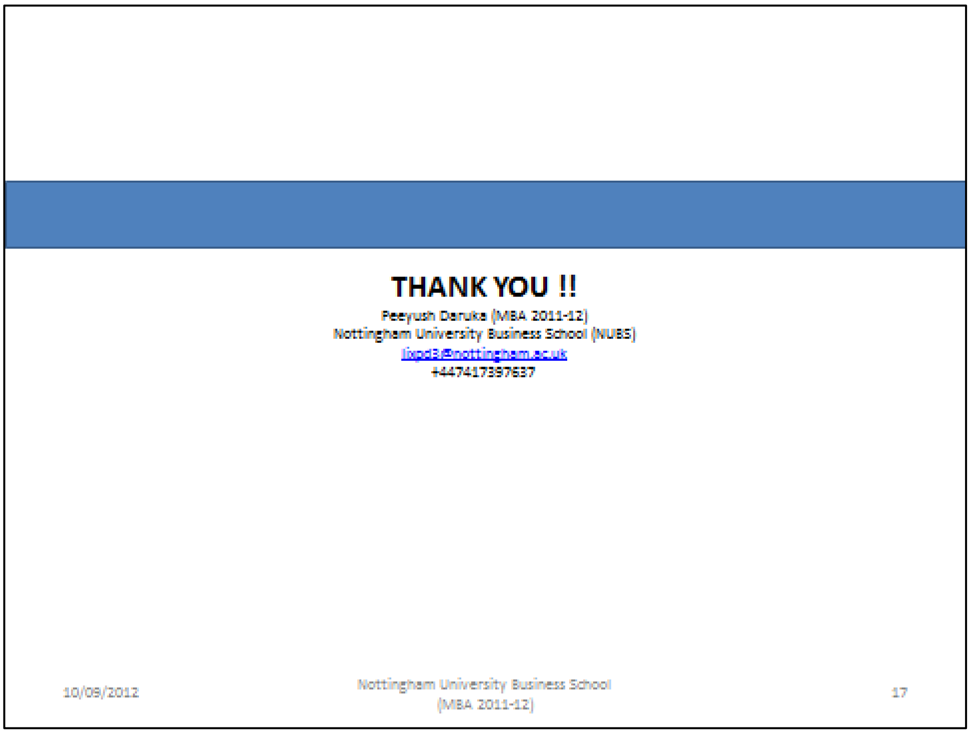
AN ILLUSTRATION: A SUCCESSFUL REVOLUTION IN THE PAYMENT PROCESS

ATOC
Rail Settlement Plan



Source: : www.atos.net, 2011

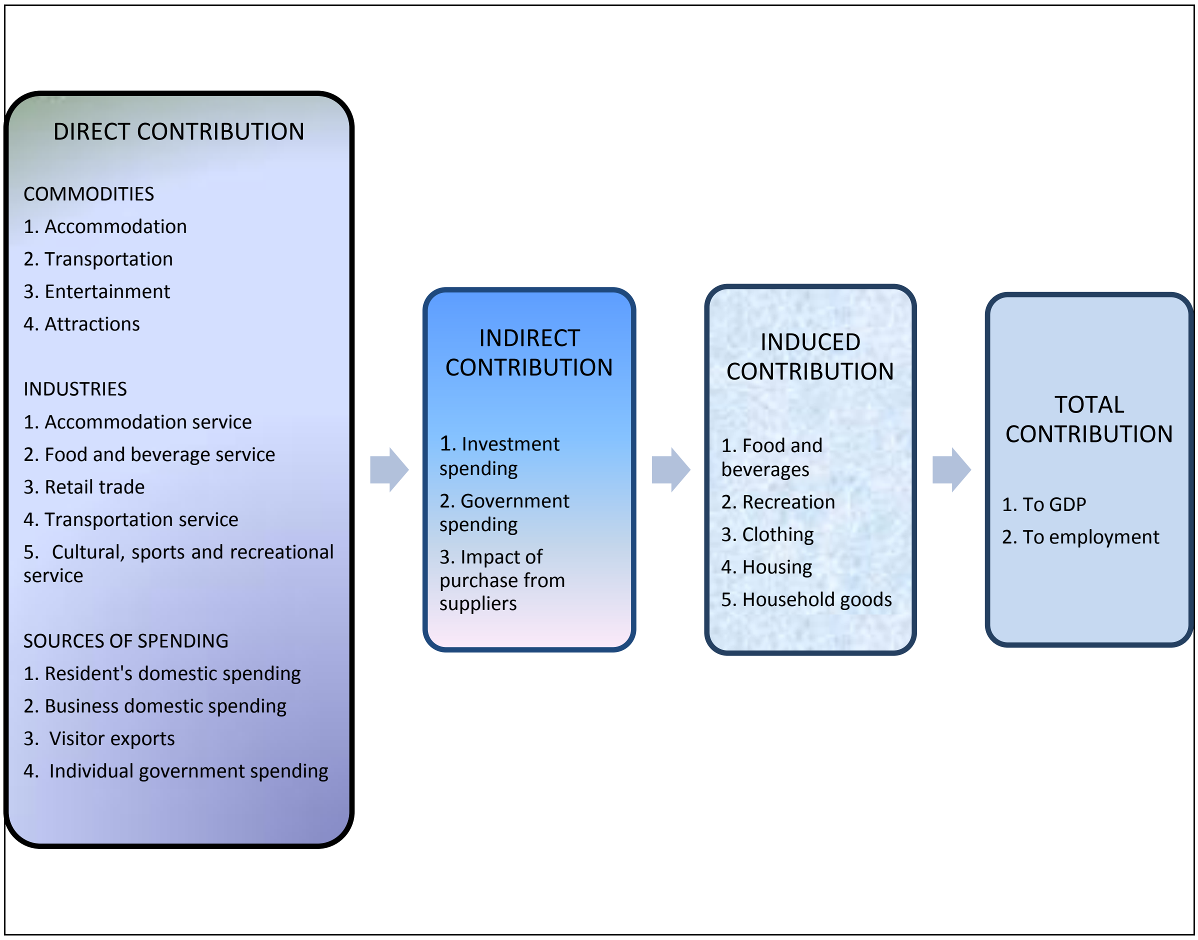
10/09/2012 Nottingham University Business School (MBA 2011-12) 16


THANK YOU !!
Peeyush Daruka (MBA 2011-12)
Nottingham University Business School (NUBS)
lixpd3@nottingham.ac.uk
+447417397637
10/09/2012
Nottingham University Business School
(MBA 2011-12)
17

APPENDIX G: INDUSTRY ANALYSIS – TRAVEL MANAGEMENT COMPANIES

Introduction

Travel and tourism is recognised as a critical economic activity globally and has a direct impact on the GDP of a country. The World Travel and Tourism Council (WTTC) recognises the indirect contribution of this industry as well. Some of these are illustrated as follows:



Source – Travel and Tourism Economic Impact 2012 (UK) report by WTTC

Direct contribution is defined as the internal spending which is the total spending by residents and non-residents within a country on business or leisure travel. It also includes government spending on services linked to visitors. On the other hand, indirect contribution includes the GDP and jobs supported by the industry. The direct and indirect contribution together forms the total contribution.

Despite various macroeconomic factors posing serious challenges to the industry, the projection remains positive in terms of growth in GDP and employment provided by travel and tourism. As with other industries, the emerging economies of BRIC, South and Latin America continue to contribute towards the demand for leisure as well as business travel. The former is largely due to the rising middle class in these regions and the latter can be attributed to the rise in international trade overall. The developed economies, on the other hand, are more scrupulous and the imposition of various austerity measures will only make them more so.

The recession and the resulting reduction in overall consumer confidence have had an understandable impact on UK travel and tourism industry. The most apparent effect has been seen in the decrease in outbound travel and an increase in domestic tourism. After two years of decline, a slow and steady growth has been predicted for this sector. Some of the key estimates and forecasts, which have emerged from the WTTC 2012 annual research, are as follows –

United Kingdom	2011 GBPbn[1]	2011 % of total	2012 Growth[2]	2022 GBPbn[1]	2022 % of total	2022 Growth[3]
Direct contribution to GDP	35.0	2.3	1.3	53.1	2.8	4.1
Total contribution to GDP	101.1	6.7	0.7	148.5	7.8	3.8
Direct contribution to employment[4]	938	3.0	1.7	1,189	3.6	2.2
Total contribution to employment[4]	2,308	7.4	0.3	2,846	8.5	2.1
Visitor exports	24.8	5.1	4.2	38.2	5.4	4.0
Domestic spending	52.2	3.5	-0.1	76.5	4.0	3.9
Leisure spending	51.4	3.4	2.0	78.6	4.1	4.1
Business spending	26.8	1.8	-0.1	37.3	2.0	3.4
Capital investment	9.5	4.4	1.8	13.0	4.3	3.0

[1]2011 constant prices & exchange rates; [2]2012 real growth adjusted for inflation (%); [3]2012-2022 annualised real growth adjusted for inflation (%); [4]000 jobs

Source – Travel and Tourism Economic Impact 2012 (UK) report by WTTC

Market Sectors

The UK travel and tourism market consists of the following two sectors:

Outbound

This sector refers to UK residents travelling outside the country for tourism and contributes more towards the market in terms of revenue. It has seen a slight decline over the past few years as customers are choosing to spend more domestically. The outbound has always been the more crucial and profitable sector for travel agents and operators; hence a decline in consumer expenditure has led to added pressure and in some cases closure of business as well. E.g. – Thomas Cook, in 2011, announced the closure of 200 high-street stores over the next two years after a reported loss of £398m. They attributed this to the recent unrest in Egypt and Tunisia, floods in Thailand and also the increasing use of the internet by customers to carry out holiday bookings. (http://www.bbc.co.uk/news/business-16173578)

Domestic

This sector refers to tourism within UK but travel agents do not play a significant role here as the travel distances in UK are relatively short. Where tour operators would come in would be in case of special packages for major cities, events or even organised coach tours. Domestic tourism has seen a welcome surge in terms of growth with events such as the Diamond Jubilee and London Olympics providing further incentive for people to travel within the country.

Market Trends

Stabilization of outbound market - The first half of 2010 saw a decline in outbound travel. This however was not as sharp as the decline observed in 2009. There have been signs of stabilization which are predicted to continue as per latest figures of 2011. (National Statistics' Travel Trends, 2010)

Disruptions due to natural forces - Recent natural phenomenon caused disruptions in the travel industry, specifically the airline and railway sector. The Eyjafjallajökull volcano in April 2010 resulted in airspace closure for 6 days. It had an impact on 1.2 million passengers a day and losses amounting to £1.1bn for global airlines, as per IATA figures. In comparison, the Grimsvötn eruption had a less damaging impact on the industry.

Besides volcanoes, the harsh winters in 2010 – 11 meant that Heathrow had to be closed for 2 days in December 2010. There were also significant delays in the rail and road network, including cancellations of Eurostar trains. Besides the inconvenience, the economy was impacted directly by these disruptions resulting in the GDP being reduced by 0.5% and a cost of £280mn per day. (Keynote report, 2012)

Increase in length of stay abroad - As compared to domestic length of stay, which has remained steady over recent years, the outbound length of stay has seen an increase of 10% in the last decade. Despite the recession, the number of nights spent abroad by UK residents seems to be on the rise. (National Statistics' Travel Trends, 2010)

Tour operators cease trading - As mentioned above the direct impact of the economic downturn has been felt across industry but for some it has been more adverse than the others. The most talked about has been the collapse of Holidays 4 UK, a Brighton based tour operator. Some companies licensed with Air Travel Organizers' Licensing also ceased trading in 2011.

Market Position

UK

The combined market consists of outbound, domestic and inbound markets which were worth £69.55bn in 2010, a decline of 0.9% compared to 2009. Outbound and domestic travel represents 75.7% of the total market, but its share has declined. On the other hand, the inbound market has continued to grow. 5-year comparisons reveal that the value of outbound travel has fallen by 7.5% and domestic by 0.6%, whereas the market for inbound travel and tourism has risen by 5.6%. (Keynote, 2012)

Overseas

The World Travel & Tourism Council (WTTC) has forecast that the UK will be the ninth-largest generator of travel and tourism GDP in 2010 and expected to account for 2.7% of world travel and tourism GDP.

Market Players

Acromas Holidays Ltd

A group engaged in the provision of inclusive holidays and travel services.

Holidaybreak Plc

A group engaged in the provision of worldwide educational and activity trips, hotel short breaks, worldwide adventure and mobile home and camping holidays on sites throughout Europe.

Kuoni Travel Ltd

A group engaged as travel agents and holiday tour operators.

Thomas Cook Group Plc

A group engaged in the provision of leisure travel services, including packaged holidays and the operation of aircraft.

Trailfinders Group Ltd

A group engaged in travel organization and the supply of related services

TUI Travel Plc

Detailed company analysis later in the report.

SWOT

Strengths

The UK is a well-connected transport hub, facilitating movement to global and local destinations.

After a difficult 2 years, the outbound and domestic sectors appear to be on the gradual road to recovery.

Domestic tourism in particular has had a strong first half of 2011, with growth in visits, bed nights and expenditure.

The UK Government recognises the economic benefits of tourism and is keen to invest to increase its return.

Trips for purposes such as business travel have also demonstrated an increase in the recent past.

Weaknesses

The economy plays a crucial role in boosting tourism and its overall stability is vital.

Tour operators have continued to cease trading throughout 2011 and this reduces consumer confidence.

High-street sales have been struggling against online sales, and the same can be said for high-street tour operators.

The volatility of the financial markets and currencies will have a negative impact on outbound tourism.

Opportunities

Emerging markets and exotic locations represent areas where a travel agent's expertise will still be required.

Increased interest in eco-tourism will provide agents and operators an opportunity to market new products

Major events in 2012 such as the Diamond Jubilee, the Olympic and Paralympic Games and the Cultural Olympiad represent opportunities for domestic tourism.

For those with no interest in the major events of 2012, a foreign holiday or domestic holiday to a remote location during the busiest period may be apriority.

Cloud computing represents an opportunity for agents and operators to improve the efficiency of their services.

Threats

The increased penetration of the Internet into consumers' lives has made it easier to independently organise holidays.

As shown during the winter of 2010 and with the volcanic ash clouds, UKtravel is highly vulnerable to severe weather conditions.

The proposed increase in Air Passenger Duty (APD) and introduction ofaviation into the EU Emissions Trading Scheme will significantly increase the cost of flying for the UK holidaymaker.

The increasing cost of fuel could deter consumers from travelling long distances for a domestic holiday if the car is their preferred transportation mode.

Flights can be disrupted by industrial action by transport operators' staff. Consumers may not want to risk flying abroad if they believe that their travel may be postponed.

Current Issues

Corporate Activities

Holidaybreak bought out - in July 2011 Holiday break was taken over by Cox & Kings for £312m.

Thomas Cook Co-op merger – in 2010 Thomas Cook merged with Co-op Travel to create the largest travel retail market player in UK. This move was to help Thomas Cook to reduce debt, costs and explore new revenue streams. However, in order to achieve critical synergies redundancies, wage cuts and hiring freeze were implemented across the company. (Euromonitor report, 2010)

Thomas Cook CE quits - Manny Fontenla-Novoa departed in August 2011.

Thomas Cook announces cuts - in September 2011, Thomas Cook announced closure of 24 high-street shops across UK. There were other announcements like the axing of six aircraft from the company fleet for the winter.

Kuoni acquires GulliversTravel Associates - in March 2011, Kuoni acquired Gulliver's Travel Associates (GTA) from Travel port for $720m, to further its plans to expand online.

Kuoni UK promotion and restructuring – as a result of the above-mentioned acquisition, Kuoni carried out a restructuring plan. The VP of Distribution and Operations was made UK Managing Director and the European operations will now function under a new division, Outbound Europe.

Lastminute.com agrees holiday deal with Lowcost - in September 2011, Lastminute.com agreeing a deal with Lowcost Travel Group which will allow them to expand their holiday offering.

British Airways and Iberia merge – the two airlines came together in January 2011 to form International Airlines Group, the third-largest airline in Europe and the sixth-largest in the world

Tour operator failures – as of September 2011 the following operators ceased trading; Fairway Golf Holidays Ltd, FT Tours Ltd, Pumpkin Tours Ltd, Pinnacle Travel Ltd, Holidays 4 UK Ltd and Aegean Flights, Highlife Travel & Tours, E and ME Gill Ltd, Dream Holidays Ltd, Crown Service UK Ltd, Selsdon Travel Ltd, Silverbird Travel Ltd, Complete World Travel Ltd, African Safari Club Ltd, Global Travel Agency Ltd, Rion Travel Ltd, Grus Travel PTY Ltd and Oriental Panorama Ltd.

Legislative Changes

Air Passenger Duty – APD is the charge levied for carrying a passenger from a UK airport. This has been frozen by the government for 2011, with a plan of a double-inflation rise in 2012. This will make flying significantly more expensive.

Impact November 2010 increase in APD will have on UK holidaymakers' flying habits (Survey of 1,000 UK Holidaymakers)

Yes, I plan to stop flying - 37%

Yes, I plan to reduce the number of flights I take - 8%

No, I plan to continue with my current flying habits - 55%

Source - World Travel Market 2010 Industry Report

ATOL reforms – the ATOL scheme protects travellers on package holidays and certain flights, in case of insolvency of their tour operator. Businesses pay £2.50 for each booking made, which funds this scheme. The government plans to bring about changes which will ensure 6 million more holidays receive protection.

EU tourism resolution – the EU parliament passed a resolution in September 2011 whereby declining areas in Europe will be rehabilitated and Europe's multicultural heritage will be built upon.

Environment

Emissions trading - from 1st January 2012, the aviation industry will be subject to the EU's Emissions Trading Scheme. Airlines will be given a carbon dioxide allowance and airlines exceeding this allowance will have to pay extra. This would be applicable to all airlines operating in EU airspace and countries like USA, China, India, Canada and Russia have lodged their protest against the same.

ABTA's Travelife – it is a tool for hotels and apartments to monitor and manage their social and environmental impact. A directory is maintained listing audited hotels which helps traveller make an informed choice.

World Events

Arab Spring effects – Tunisia, Egypt and Morocco are popular UK tourist destinations and have been affected by the recent uprising and political unrest in North Africa and Middle East. Cancellations cost Thomas Cook £22m.

Technology

Cloud computing – cloud computing is the next big thing and will have a significant impact on the way businesses store information. It is estimated that the elimination of the capital cost of buying hardware would save £50,000 - £75,000 over a 3 – 5 year period

TTA Worldchoice launches Honeycomb – it is an online booking system launched by travel consortium TTA, to help members boost margins and access products more efficiently. Agents can also access net rates from cruise lines and consumer financial protection products.

Government

Strategy for tourism – the government and private sector plan to jointly fund a £100m marketing campaign to attract 4 million extra visitors over the next four years, increase the proportion of UK residents who holiday within UK to match those who holiday abroad and improve the sector productivity to become one of the top five most efficient and competitive visitor economies in the world.

£3m marketing campaign for domestic tourism – the said amount is part of the Olympic budget which is to be spent to promote domestic tourism with the aim of generating additional 5.3 million short breaks and a spend of £480m by 2015.

Future Trends

Decline in UK high street – the recession along with the rising popularity of online sales has forced many high-street shops to cease trading. The trend will continue due to lower operating costs and higher flexibility offered by cloud computing.

Increased cost of air travel – the cost of flying is predicted to rise due to the EU ETS and the increase in APD. This will have a negative impact on outbound travel but can help boost domestic tourism.

Tough times for agents and operators - smaller businesses continue to struggle and costs need to be brought down for operators to survive. Mergers and acquisitions are likely.

APPENDIX H: INDUSTRY ANALYSIS – LOGISTICS

UK Economy: KPIs

In 2011, the UK grew at 0.7 per cent, less than half the rate of 2010. Growth was strongest in the first half of 2011 but later fell away, with the result that the economy shrank by 0.3 per cent in the final quarter. This weak growth over the year as a whole was upheld by a strong export performance; the latest trade data suggests that export volumes expanded by 4.3 per cent in the last three months of the year compared to a year earlier. However, domestic demand was disappointing, as consumer spending reduced, especially over the Christmas period; the UK domestic economy shrank by 0.5 per cent over the year. A double dip recession is not ruled out but PwC and most forecasters anticipate that the economy will be broadly flat in 2012. Although business investment increased in 2011, growth was subdued at 1.3 per cent per annum; this was from a very low base following falls of 13 per cent in 2009 and 2 per cent in 2010. Business investment is expected to fall in 2012, as a result of weak prospects for domestic and foreign demand.

The table below shows an analysis of some of the Key Economic Indicators for the UK and its Y-o-Y change result between 2008 and 2011.

S.NO	ECONOMIC INDICATORS	2008	2009	2010	2011	Y-o-Y Change
(A)	**UK ECONOMIC ACTIVITY**					
1	GDP (Q4 annual percentage change) (%)	-5.4	-0.8	1.7	0.7	
(B)	**UK EXPORTS**					
1	Volume of goods exported to the EU (annual percentage change) (%)	-2.5	-15.9	10.9	4.1	
2	Volume of goods exported to the rest of the world (%)	7.1	-10.9	15.8	10.5	

(C)	**UK IMPORTS**					
1	Volume of goods imported from the EU (annual percentage change) (%)	-2.9	-14.2	11.1	2.1	
2	Volume of goods imported from the rest of the world (annual percentage change) (%)	2.0	-12.9	16.4	-1.0	
(D)	**UK INFLATION & CURRENCY**					
1	Retail Prices Index (annual inflation in December) (%)	0.9	2.4	4.8	4.8	
2	Consumer Prices Index (annual inflation in December) (%)	3.1	2.9	3.7	4.2	
3	£/$ exchange rate (average for December) ($)	1.4854	1.6242	1.5588	1.5614	
4	£/e exchange rate (average for December) (E)	1.107	1.1115	1.1791	1.1849	
(E)	**COSTS**					
1	Wage settlements (annual change in basic pay) (%)	2.7	0.1	2.1	2.6	
2	Total hgv operating costs (annual change for 44t gvw artic) (%)	-1.4	5.4	7	4	
(F)	**FUEL**					
1	Bulk diesel (average pence per	82.35	89.99	103.3	112.05	

	liter in December ex VAT)					
2	Gas oil (average pence per liter in December ex VAT)	39.01	44.05	55.11	64.92	
3	Rotterdam diesel (average per tone in December) ($)	479.78	624.50	797.65	948.10	
4	Brent blend (dated) (average per barrel in December) ($)	40.26	74.52	91.78	108.19	
5	Jet fuel (Rotterdam kerosene) (average per tonne in December)	482.64	663.11	831.09	987.35	
6	Rotterdam gas oil (average per tone in December)	457.73	610.95	761.87	926.87	

Source: Price Waterhouse Coopers, 2011

UK Logistics Market: KPIs

The table below shows an analysis of some of the Key Performance Indicators for the logistics Industry and its Y-o-Y change result between 2008 and 2011.

S.No	KPIs	2008	2009	2010	2011	Y-o-Y Change
(A)	**ROAD TRANSPORT INDUSTRY**					
1	Reported profit margin of top 100 road haulers (%)	2	1	4	4	

2	Number of goods vehicle operator licenses	95,436	91,200	87,747	-	
3	Population of hgvs licensed	4,16,328	3,97,160	3,89,761	-	
4	Population of vans licensed	32,53,416	32,41,047	32,58,445	-	
5	Population of hgv trailers (based on number tested)	2,40,094	2,30,966	2,27,043	-	
6	Hgv registrations	57,410	34,746	34,458	42,944	
7	Van registrations	2,89,463	1,86,386	2,22,915	2,60,153	
8	Number of hgv drivers in employment in transport industries (thousands)	320	309	285	299	
9	Claimant count (hgv drivers for December)	8,880	10,665	6,550	5,870	
10	Hgvs laid up (SORN)	63,390	64,109	60,709	-	
(B)	**EFFICIENCY**					
1	Percentage of hgvs empty running (%)	28	28	29	-	
2	Percentage of inland freight moved by rail (billion net tonnekilometres) (%)	9	9	9	-	

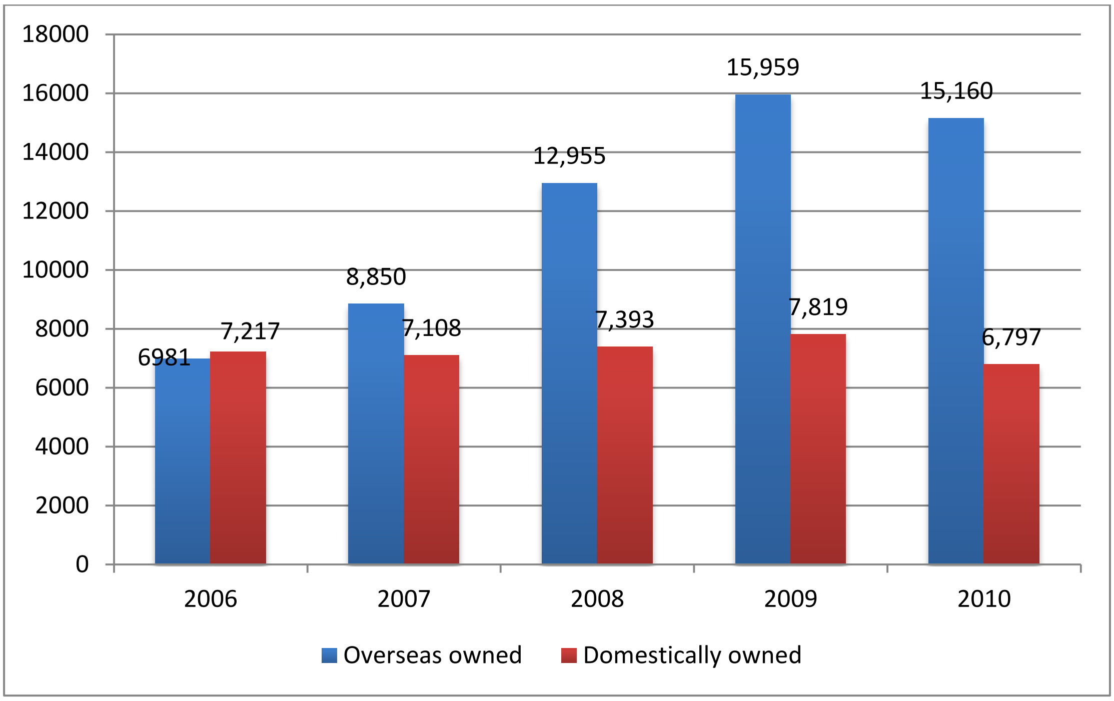
3	Lading factor percentage (by weight) for hgvs (>3.5 tonnesgvw) (%)	58	57	59	-	
4	Hgv fuel consumption (mpg) (articulated vehicles)	7.7	7.7	7.6	-	
5	Use of alternative fuels in hgvs	0.8mt of oil equivalent	1.0mt of oil equivalent	1.1mt of oil equivalent	-	
6	Average hgv payload capacity (tonnes)	7.2	6.9	7.4	-	
(C)	**TRAFFIC FLOWS**					
1	Containers handled by major UK ports (thousand TEUs)	8,714	7,373	8,222	-	
2	Freight handled by air (tonnes)	22,82,153	20,47,861	23,24,822	-	
3	Goods moved by hgvs (>3.5 tonnesgvw) (billion tonnekms)	146	125	139	-	
4	Van kilometres (billion vehicle kilometres)	68.1	66.6	67.2	-	
5	Cabotage within the UK (million tonnekilometres)	1,712	1,231	1,224	-	
6	Goods moved by rail (billion tonnekilometres)	21.1	19.2	18.6	21.0	

7	Goods moved by domestic intermodal rail (billion tonnekilometres)	5.3	5.3	5.6	6.2	
8	Channel Tunnel rail freight volumes (tonnes)	12,39,445	11,81,089	11,28,079	13,24,673	
9	Number of rail freight train movements	3,16,684	2,78,431	2,65,127	-	
10	Percentage penetration of cross Channel market by UK hgvs (%)	19	20	21	20	
11	Hgv movements to mainland Europe (unaccompanied trailers only)	7,09,000	6,11,000	6,73,000	6,60,000	
12	Hgv movements to mainland Europe (all powered vehicles)	20,60,000	17,64,000	17,94,000	18,12,000	

Source: Price Waterhouse Coopers, 2011

Industry Profile

In 2006, 54% of Britain's largest 50 logistics firms – representing 51% of combined sector turnover – were still UK-owned. There were two UK publicly listed companies among the top three largest British logistics firms: Wincanton Plc. and Christian Salvesen Plc. By 2010, UK firms represented just 31% of total turnover and only 48% of the largest 50 logistics companies were UK-owned. The largest foreign-owned company by turnover is now CEVA Logistics (formerly TNT Logistics), with German-owned Exel in second place. Wincanton is still the largest UK-owned firm, however, its £2.2bn 2010 turnover is less than half that of CEVA and is £500m behind Exel. The 'super logistics companies' that have emerged from overseas seem to be pulling away from the local players.

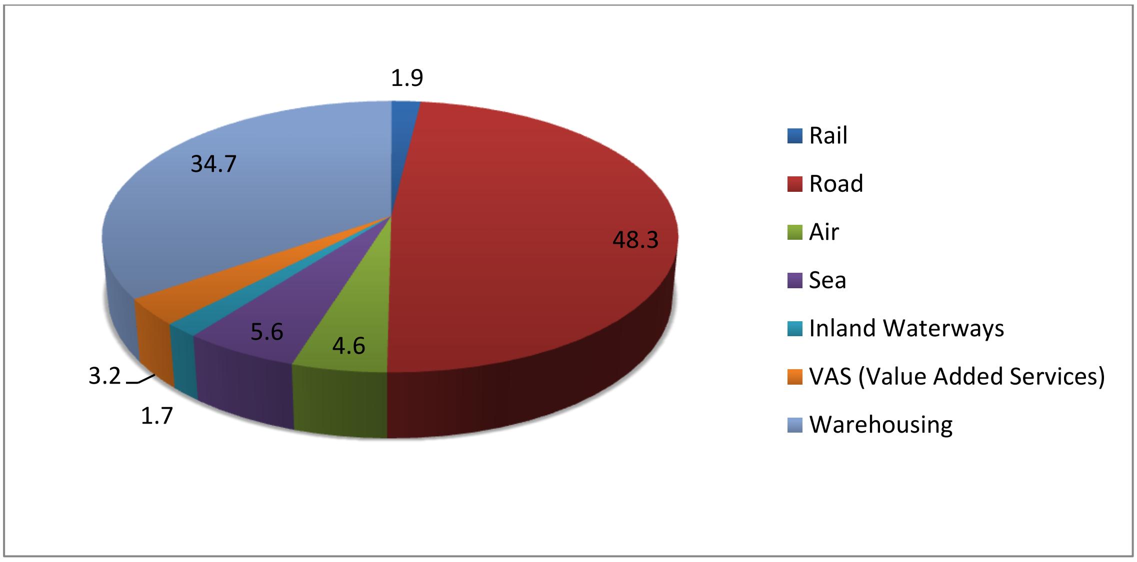


Source: Grant Thornton (2011)

Road freight (including express) is the most widely used mode of freight transport in the UK and is responsible for 48.3% of the total revenue generated by the logistics sector. It recorded a cumulative value of $51bn in 2009, and this is forecast to rise to $55.7bn by 2011. Warehousing is the second largest segment with a contribution of 34.7%, while sea, rail, air (including express), inland waterways, and valued-added services (VAS) contribute a combined share of 17.0%. The UK express market was valued at $9.6bn in 2010, accounting for 9.3% of the total logistics sector.

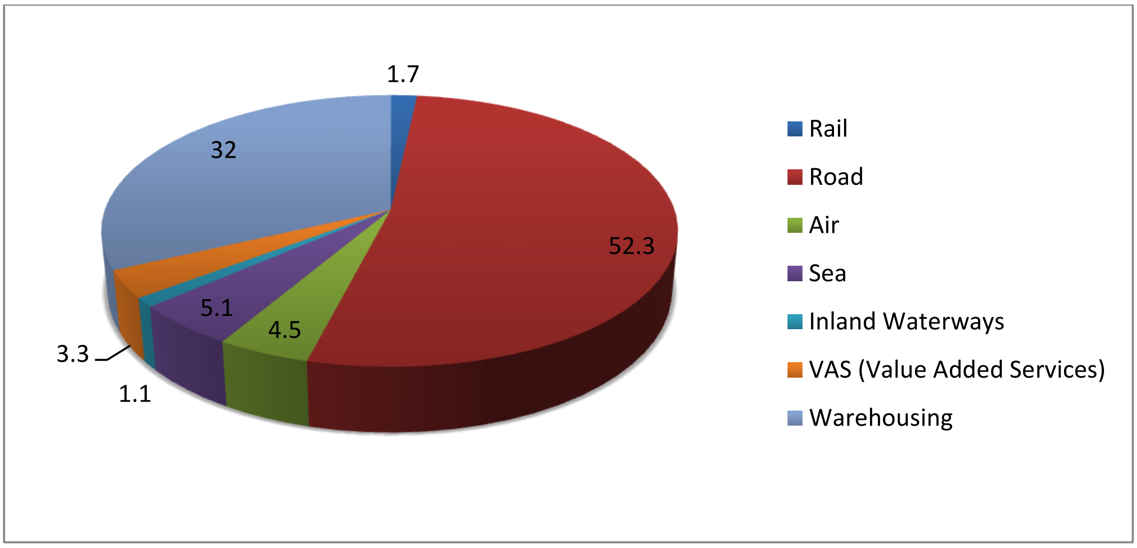
The figure below depicts the market split of the UK logistics sector in 2009, and the forecast split for 2014.

2009, Total logistics value: $105.7bn



Source: Data Monitor's Global Logistics and Express Analyzer

2014(E), Total logistics value: $130.7bn



Source: Data Monitor's Global Logistics and Express Analyzer

The UK road freight market is among the most developed in the world, and is supported by one of the largest road transport networks in Europe. Despite rising operating costs and environmental concerns this market is expected to grow at a CAGR of 7.3% during 2010–14, due to its prominence in the UK logistics sector and increased government spending on infrastructure. The UK has around 110 million sq meters of warehouse stock, which makes it one of the largest warehousing markets in Europe. It is expected to grow at a CAGR of 3.3% during 2010–14 as a result of rising road congestion, which is prompting the need for better distribution centers. There is also an increasing demand for port-centric logistics in the country, initiating

the construction of new warehouses at major airports and shipping ports. The UK rail freight market is currently worth $1.9bn and is expected reach $2.3bn by 2014, on account of substantial government investments in the Strategic Freight Network and high-speed rail.

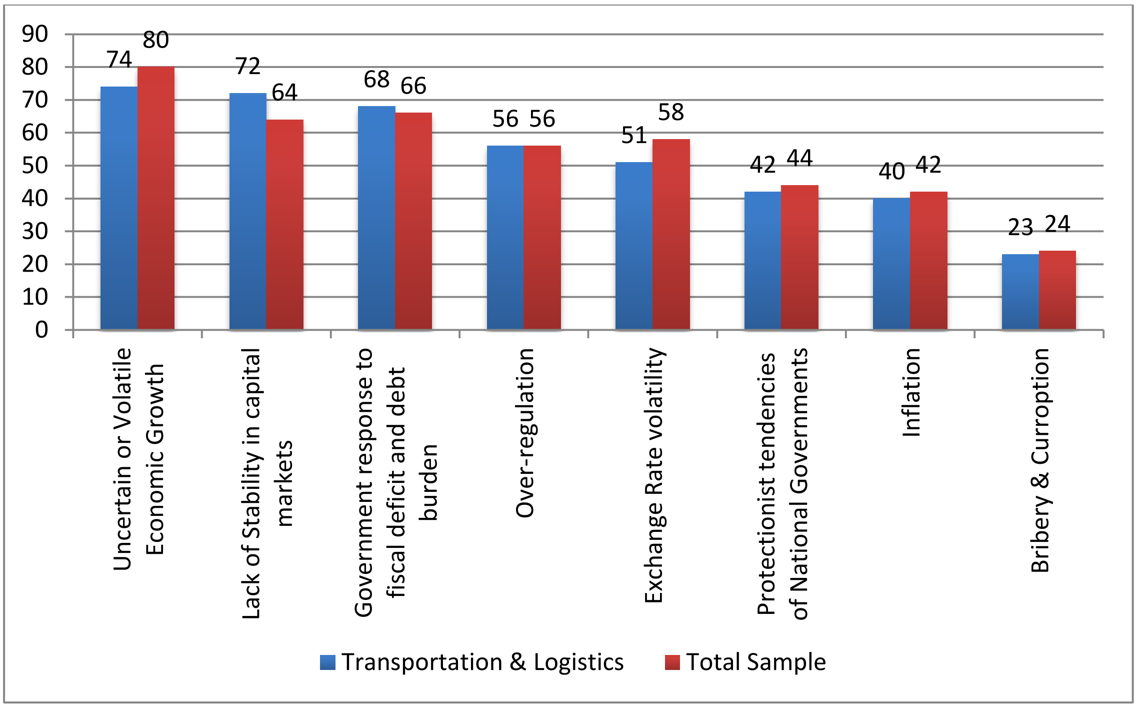
Opportunities and Threats

OPPORTUNITIES	**THREATS**
1. Emerging market economic growth 2. Affluent consumers in developing economies 3. Stable oil prices 4. Trade opportunities in China, India, South Korea and other stable emerging economies	1. A Eurozone break-up 2. Heightened market volatility 3. Policy uncertainty 4. Capital outflow from risky emerging economies and vulnerable European countries

Source: Economic Views: Global, PwC, December 2011

Risk Analysis

How concerned are you about the following potential economic and policy threats to your business growth prospects?



Source: 15th Annual CEO Survey, PwC, 2012

PESTLE

Political	1. Government plays an important role in as investors and promoters of investments in setting up Logistics Infrastructure. 2. Government plays an important role in planning at national and regional level to provide efficient transport corridors using policies such as road pricing. 3. Policies around usage of Land 'Delivering Sustainable Development'. 4. Safety and Security at ports, roads, train stations and airports becoming increasingly important. 5. Taxation on Fuel and road pricing.
Economic	1. Globalization has lead to increase in the volumes of goods being moved from one place to another. Increase in cross border trade has led to changing

	logistical flows, inventory levels and the nature of services required. 2. Price and cost sensitive industry with pricing as the most important factor. 3. Longer and more complex chains are decreasing visibility and increasing risk. 4. Migration of clients from commoditized transport, freight forwarding and warehousing companies to integrated supply chain specialists. 5. Fragmentation has led to fall in margins and consequently leading to underinvestment and risk aversion. 6. Mergers and acquisition are creating large global players, allowing economies of scale and increasing bargaining power. 7. Costs and margins are highly dependent on fuel prices.
Social	1. High employment rate in certain areas leading to lack of efficient manpower 2. Increasing number of accidents and its negative impact on the society 3. Consumer needs and preferences changing in terms of quicker home delivery, quick response, fresh produce, reduction in carbon emission, and Increasing returns of products and increasing the need for reverse logistics
Technological	1. Web-enabled communications 2. Warehousing / distribution center management 3. Transport management for both planning and execution 4. Transport technologies (e.g. more efficient vehicles)

	5. Visibility tools (shipment tracking/tracing/event Management) including telematics, GPS and RFID
Legal	1. Working time directive 2. Road transport directive 3. Deregulation and liberalization of EU transport 4. Environmental regulations (see below) 5. Lorry Road User Charging (LRUC) [scrapped] and other 6. Proposals for taxation
Environmental	1. Increasing contribution of Transportation to Global warming (CO2 Emissions) 2. Increase in air, water and noise pollution 3. Reverse logistics: Increasing importance of recycling /reuse of material has led to increase in the importance of warehouses and reverse logistics operations. 4. Directives such as End-of-Life Vehicle Life (ELV) legislation and the Waste Electrical and Electronic Equipment (WEEE) directive have an impact on the industry 5. Oil and gas are not sustainable. There is a need for alternative solutions.

Sources: Fenn, D, 2007, Johnson and Harrison, 2007; C

APPENDIX I: INDUSTRY ANALYSIS – RAILROAD

Introduction

The demand for rail travel in the UK has grown strongly since privatisation, especially since the demise of Railtrack, which was established in 1996 as part of the then Conservative government's privatisation program. This private company was responsible for the infrastructure of the UK rail network. Initially Railtrack achieved profit, but significant maintenance work incurred as a result of the Hatfield rail crash in 2000 saw Railtrack's profits fall. On top of the spiralling maintenance costs, Railtrack also had to pay compensation to the delayed train operating companies (TOCs). Railtrack's continually increasing debt resulted in the Government-backed Network Rail taking over from it in2002.

Between 2001 and 2006 the Strategic Rail Authority (SRA) looked after the strategic direction of UK railways. However, the SRA had no regulatory power as this was held by the Rail Regulator, a statutory office created in the Railways Act 1993. This office was abolished in 2004 after the Railways and Transport Safety Act 2003 and the Office of Rail Regulation (ORR) was formed. With the implementation of the Railways Act 2005 the SRA was abolished, with its powers being allocated between the ORR and the Department for Transport (DfT).The UK's rail infrastructure is complex, with regulation primarily the role of the ORR. The ORR is responsible for regulation of the mainline rail and the health and safety regulation of underground systems and light rail/tramways.

Total market revenues have continued to increase year on year, with grow that its highest level in 2007. In this final year before the recession, revenue from passenger receipts increased by 11.3%, passenger journeys grew by 6.9% and passenger kilometres (pkms) rose by 7%. This growth was maintained throughout 2008, but in 2009 there was a slump in growth. Growth in ticket receipts remained high due to price rises. In 2010, growth slowed further with the number of journeys decreasing by 1.9% to 2.54 billion and pkms increasing by just 0.4%. Continued increases in ticket prices helped to maintain growth in ticket revenues, however, at a much lower 3.4%. Overall, the total market for rail travel in the UK was worth£8.96bn in 2010, which equates to 34.3% growth over the 5-year period.

Market Sectors

UK rail travel is divided into the following sectors –

National rail infrastructure - responsible for the maintenance and development of the tracks, signalling systems, bridges, tunnels, level crossings, viaducts and 18 key stations in the UK.

Inter-regional and city services - provide inter-regional and city services throughout England, Wales and Scotland. The majority caters for the business and leisure markets. Heavy commuter traffic is seen in highly urbanised regions. Most companies operate under franchise agreements awarded by the Government and run their services on tracks maintained by Network Rail. A certain number of operators also operate under an ‘open access’ arrangement (Eurostar, Grand Central, Heathrow Connect, Heathrow Express and First Hull Trains).

Urban rail services - provide commuter service and include the underground system in London and Glasgow. Other metro, light rail and tram operators include: The Docklands Light Railway, Nottingham Express Transit, Tyne and Wear Metro and the Blackpool Tramway.

International rail services - consist of the shuttle services provided by Eurotunnel operational between Folkestone and Calais. These carry vehicles through the Channel Tunnel and are mostly used by the leisure market. The Eurostar high-speed rail service carries passengers from London to Paris and Brussels. It caters to both business and leisure travel.

Northern Ireland–this networkdoes not come under Network Rail’s jurisdiction. The operator is a subsidiary of Translink, a further subsidiary of the Northern Ireland Transport Holding Company. It is a Government-owned body which means that it is one of two state train operators, the other being East Coast Rail.

Market Trends

UK travel trend - Travel within the UK is predominantly by private cars. Data from the Department of Transport (DfT) suggests that, of the 797 billion pkms travelled in 2009, 85.3% were by private car. This is opposed to 7.7% by rail. In the 1950s this percentage used to be 15-18% for rail. The increased use of private vehicles and the closing of many lines in the 1960s led to a decline in the same.

Lately, the number of people using public transport and rail travel in particular has gone up, after the all-time lows of the late 1980s and early 1990s. Between 2006 and 2010, journeys via public transport in the UK increased overall by 11.7% whilst rail travel saw the largest increase of 12.9%. Northern Ireland Railway has seen the largest percentage increase in journeys (25%), but national rail (16.3%), light rail and trams (13.4%) and the London

Underground (9.2%) all recorded overall increase. The only one not to record a change was the Glasgow Underground, which returned to 2006 and 2007 levels in 2010.

The total number of journeys completed in 2010 through rail services was 2.53 billion. This 5-year increase is the continuation of a decade-long trend, although journey numbers by rail fell slightly by 1.9% in 2010.

Fares continue to increase – Annual fare price rises averaged 6.2% in 2011. This is due, in part, to Government policy placing the greater burden of rail costs onto the traveller, as opposed to the tax payer. However, some season tickets have increased in price by almost 13%, and some have passed the £5,000 mark.

Market Position

UK

DfT statistics show an increase in market share for rail travel in terms of pkms from 6.6% to 7.7% between 2006 and 2010. Rail travel is in second place in terms of pkms behind cars, vans and taxis, which, although declining by 0.9% during the same period, still represent around 85.3% of all pkms travelled. Despite a 29.7% increase in the total number of pkms since 1999, the share of the market accounted for by rail only increased by 1.1%.

Overseas

The 51.78 billion pkms travelled in the UK in 2009 accounted for 8.5% of the total pkms travelled in Western and Eastern Europe, with the TOCs contributing to the vast majority travelled in the UK (97.5%). In terms of individual European countries, the UK has the fourth-highest level of pkms travelled, behind Russia (153.58 billion), France (85.7billion) and Germany (75.58 billion).

Competitor Analysis

Market Leaders

First Capital Connect Ltd.

Part of rail operator FirstGroup, it provides services between London, Brighton, Bedford, Peterborough, Cambridge and King’s Lynn.

Depending on performance, the franchise rights will carry on to November 2015.

In December 2010, the company announced over 6,500 extra daily rush-hour seats, 3,050 from King's Cross and 3,800 from Moorgate.

After recent power line problems resulting in passengers being stranded for 3 hours, a St Albans councillor has called for the FCC to be stripped of its franchise.

Annual turnover for FY 2010 was recorded at £481.1m, a 6.8% increase on the previous financial year. However, while pre-tax profit in 2009 was £8.7m, in 2010 the company managed a pre-tax loss of £957,000. This can be partly attributed to a 35.1% decrease in non-trading income.

First Great Western Ltd.

It has been a subsidiary of FirstGroup since the merger of Great Western Holdings in 1998.

The current franchise operations began in April 2006 and are composed of the First Great Western, First Western Link and Wessex Trains franchises. Its services run from London to Brighton, Gatwick, Carmarthen, Pembroke, Penzance, Banbury, Hereford and Worcester.

The current franchise is due to run out in 2013.

In May 2011, FGW announced that it did not wish to execute its option to extend its current franchise beyond 2013. This is, in part, due to Government plans for a £1bn electrification of the London via Bristol to Cardiff line. This prompted FGW to forego its contract extension and rebid for the franchise under the tougher economic conditions that were not present when the franchise was initially agreed. FGW hopes to secure a longer franchise agreement than the planned 3-year extension outlined in the current franchise.

Turnover for FY 2010 was £845m, 10.2% up from 2009. After making a £12.5m pre-tax loss in 2009, FGW achieved a pre-tax profit of £7.2m in 2010.

First ScotRail Ltd.

It is part of FirstGroup and took over the ScotRail franchise from National Express in 2004.

It initially operated as First ScotRail, but was rebranded ScotRail in 2008.

In April 2008, it was awarded a 3-year franchise extension, running to 2014. This will see ScotRail running rail services during the Commonwealth Games in 2014.

In April 2011, ScotRail announced that it was to install automatic ticket gates in five stations in Glasgow city centre. The £5.7m scheme was funded by Network Rail.

In February 2011, seven Highlands ScotRail stations were installed with solar panels.

In FY 2010 the turnover was £524.6m, down 8.9% from 2009. This resulted in a 16.5% fall in pre-tax profit, from £26m to £21.7m.

London Eastern Railway Ltd.

Part of the National Express Group,it operates under the brand name National Express East Anglia (NXEA).

It has operated services on the Greater Anglia franchise since 2004, running 43,000 trains every month; its contract ends in 2012.

Following the failure of the National Express East Coast Franchise in 2009, resulting in its re-nationalisation, the DfT ruled that NXEA would lose the Greater Anglia franchise in March 2011. However, following the formation of the coalition Government, this ruling was put on hold. In March 2011, the DfT announced that NXEA was unsuccessful in retaining the rights to the franchise.

Financial results for FY 2009 show that turnover was down 1.7% on 2008 levels, at £510.3m. However, pre-tax profit was 7.4% higher, at £16.3m.

London and South Eastern Railway Ltd.

A subsidiary of the Govia partnership, this company operates under the brand name Southeastern.

It has operated services on the integrated Kent franchise since 2006, with the current agreement set to end in 2014.

Southeastern operates a high-speed service on the High Speed One line between London and Ashford International, mainline services in Kent and East Sussex, and metro services in the South East and south London.

The Olympic Javelin train is a planned high-speed service to carry those travelling to the Olympics. Southeastern will run the service, with Stratford International, Stratford Regional and West Ham stations being served by 12 lines dubbed the ‘gateways to the games’. The ‘Javelin’ train will run from King’s Cross to Stratford International in 7 minutes, carrying 25,000 passengers an hour.

Annual turnover for FY 2010 was £631.1m, 9.2% higher than in 2009. However, pre-tax profit fell by 58%, from £22.5m to £9.5m.

London Underground Ltd.

In 2003 Transport for London (TfL) took over from the DfT in the running of the LU.

The LU is responsible for the trains that run on the network, the stations and control centres, collecting fares and ensuring the safety and security of the network.

It was a public-private partnership until 2010, when the last private company responsible for track maintenance (Tube Lines) became a wholly owned subsidiary of TfL. Two years previous, Metronet, which was responsible for the maintenance of nine lines, required a Government bailout and its responsibilities were transferred over to TfL.

All tube lines are being upgraded to improve capacity and reliability, with new computerised signalling, automatic train operation, track replacement and station refurbishment.

In 2010, London Mayor Boris Johnson unveiled plans to provide mobile network coverage on the Underground, funded by the major UK mobile networks.

More than 2,000 extra services will be run during the Olympic Games and trains will also leave central London at a later time of 2am.

The National Union of Rail, Maritime and Transport Workers are hoping to secure a 10% wage rise and one-off pay increase of £500 during the Olympic Games.

In April 2011, TfL announced that Bombardier Transportation had been selected as the preferred bidder for a major signalling contract.

The work on the Circle, District, Hammersmith & City and Metropolitan lines will improve reliability and increase capacity.

In April, TfL announced plans to reduce its budget by £7.1bn over the next 7 years. The cutbacks will include job losses, expected to include 800 ticket office staff, 800 permanent and non-permanent ‘back office’ staff, and 278 full-time workers from the LU and Tube Lines Company.

Turnover was recorded at £1.78bn in FY 2010, 1.5% higher than 2009. However, the LU made a pre-tax loss of £751.4m in 2010, after making a pre-tax profit of £742.2m in 2009.

Northern Rail Ltd.

It has operated Network Rail’s Northern franchise since 2004 and is owned by a joint partnership of Serco Group Plc and Abellio, a subsidiary of NS Dutch Railways. The franchise agreement ends in 2013.

The franchise agreement was subject to a performance-related extension in 2010.After meeting targets, the franchise was extended until 2013.

In March 2011, Northern Rail introduced a Mobile Surveillance Vehicle that will roam the operator’s network and mainly cover large-scale events such as football matches.

In December 2010, the RMT commenced strike action over pay on some Northern Rail lines. The RMT wanted conductors to receive double pay for working holidays.

In FY 2010 turnover was reported at £614.7m, 6.7% higher than 2009. Pre-tax profit was up 5.1% to £29.9m.

Southern Railway Ltd.

Southern is the brand name of Southern Railway Ltd, a subsidiary of Govia, the Go-Ahead and Keolis partnership.

Southern has operated the South Central franchise since 2003 and the Gatwick Express since 2008. Southern provides services between London, East and West Sussex, Surrey, Kent and Hampshire, managing 117 stations.

In June 2009, the DfT announced that Govia had retained the franchise and would continue to operate it until 2015. Govia has the possibility of extending the franchise until 2017.

As part of the winning bid, Southern pledged to increase train capacity by 10%, provide new late-night services and invest £76m in trains and stations over the lifetime of the agreement.

Annual turnover in FY 2010 was £443.8m, 26.1% down from revenues in 2009.

Stagecoach South Western Trains Ltd.

It began operating the South West franchise in 1996. In 2007, it retained the franchise for a further 10 years.

The network includes routes through Hampshire, Surrey, Dorset, Wiltshire, Berkshire, Devon, Somerset and Greater London. The Island line, which runs on the Isle of Wight, also operates under Stagecoach South Western Ltd.

In February 2011, South West trains launched a new initiative designed to cut energy consumption on its trains by 10%. The Train Energy Management System (TEMS) was to be piloted on 20 of the company's trains by May 2011. The meter allows engineers to accurately determine the energy used by trains on a specific route.

Annual revenue for FY 2010 was £702.7m, 2.5% up on revenues achieved in 2009. Pre-tax profit was also up by 9.7% to £26.3m.

West Coast Trains Ltd.

It is part of Virgin Rail Group Ltd, a joint venture between Virgin Group (51%) and Stagecoach (49%).

They operate the Intercity West Coast franchise with services between London, the West Midlands, the North West, North Wales and Scotland.

The franchise was supposed to end in April 2012, but in May 2011 the DfT extended the contract until January 2013 in light of the McNulty Review.

Annual turnover for FY 2010 was £720.9m, an 11.1% increase on the previous year. However, pre-tax profit was down by 33.6% to £69.4m.

Other Operators

Arriva Trains Wales

c2c

The Chiltern Railway Company Ltd

East Coast

East Midlands Trains

Eurostar

First Great TransPennine Express

London Midland

London Overground

Northern Ireland Railways

SWOT

Strength

The popularity of rail travel for commuting and business trips remains high, and is likely to increase as more people work in cities.

The legislation allowing above-inflation price hikes has kept revenues high during the recession, despite the decline in number of journeys.

For business and commuting trips in the country, rail travel is perceived as quicker and cheaper compared to the private car. The cost would vary depending on the distance.

Rail travel is more environmentally friendly than a short-haul flight to the same destination.

The UK government values the railways and light rail infrastructure. Many planned investments have survived the Coalition's spending review in 2010.

Weakness

There is less luggage space on trains compared to cars and this could be a deterrent for families travelling on holidays.

Although a lot has been invested in infrastructure andimprovements have been made; work is still on-going which leads to delays and disruptions.

The industry also suffers from an image problem as a result ofyears of neglect.

Many commentators, particularly unions, still advocate the re-nationalisationof the railways.

The frequent battles between operators and unions haveled to strike disruptions, further worsening the reputation of the railways.

Opportunity

The increased use of smartphones is an opportunity for marketing and customer service through 'apps'.

The environmental credentials of rail travel over air and car travel can help it to play a significant role in helping Governments reach their carbon reduction targets.

Increasing urban road congestion and pedestrianisation of urban areas will improve the popularity of rail journeys for leisure and work travel.

Opening competition for international travel should be of benefit to customers, providing a greater choice of travel destinations and operators.

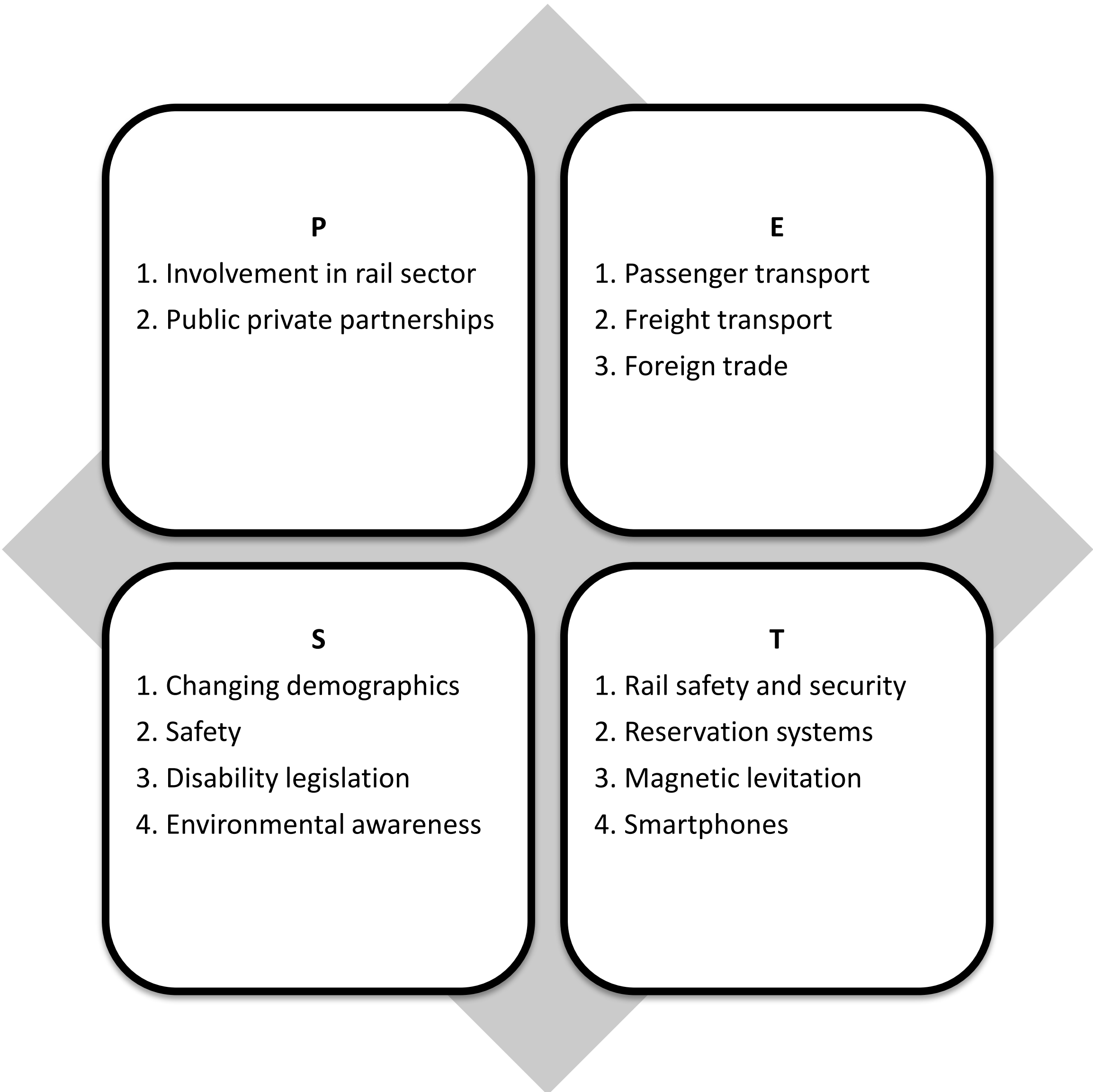
With increasing fuel prices, rail operators can promote themselves as being a more cost-effective alternative.

Threat

Threat of terrorist attacks represents a significant risk to security services, particularly in major cities. The London Olympics in 2012 is likely to lead to heightened security on London's rail network.

International rail travel is in direct competition with budget airlines and cross-Channel ferries. Longer national rail journeys are also in competition with internal budget flight

PEST



Current Issues

Government

High Speed Two – HS2 was established in 2009 to explore the possibility of a high-speed rail link between Scotland and London. A line has been proposed to link London to Birmingham, Manchester, Leeds and other stops in East Midlands and South Yorkshire. It will also link in Heathrow and the already operational HS1.

Investment – investments have been approved for various modernisation and extension plans for rail networks like Tyne and Wear Metro, Midland Metro, Nottingham Express Transit, Sheffield Tram Train and London to Cardiff.

Security–from 2011 British Transport Police will be allowed to deploy armed officers at stations.

Union activity – the McNulty report which recommends that the driver only operation should be the default position in train operations will lead to job losses and the union plans to oppose it on the basis of safety and efficiency. They also demonstrated against the £3bn contract awarded to Siemens of Germany rather than British companies like Bombardier or First Capital Connect.

2012 Olympics – there will be certain changes introduced for the Olympic period. These will include a third peak period, special fares for ticket holders, extension of operating hours, extra trains and special routes.

High Speed One line operating rights sold – in 2009 the operator of the HS1 ran into financial trouble which led to the government taking over and inviting bids to manage the lines in 2010. It was awarded to a consortium for a bid of £2.1bn.

Europe

Standardising rail bookings – from next year EU law will require all rail operators to have standardised IT systems. This will help to compete with airlines that have a universal ticketing system.

The third railway package – The European Commission introduced this package in 2007 and majority of the measures have been implemented.

Corporate Activity

Deutsche Bahntakeover Arriva–DB, Germany's state-owned rail company, acquired Arriva for £1.6bn in 2010. Arriva currently operates the Wales and Cross-country franchises. DB subsidiary DB Regio also operates Chiltern Railways.

National Express c2c franchise extended – under the Labour government the bid could not be extended but the decision was overturned when the Coalition came into power. The extension is till 2013.

FirstGroup to terminate Great Western contract – the contract was agreed in 2007 when economic conditions were more favourable. By terminating the contract the company will avoid paying a large sum of money to the government. They plan to re-enter the bidding process in a new period for a longer franchise.

FirstGroup sells freight arm – this was acquired by Eurotunnel and now the company is only involved in UK passenger rail and bus services.

Eurostar restructures - in 2009, Eurostar (UK) Ltd changed its name to Eurostar International Ltd. The largest structural change occurred in 2010, when Eurostar International became a standalone business, as opposed to a joint venture. This is composed of French National Railways (55%), LCR (40%) and the National Railway Company of Belgium (5%).

International UK rail travel increases range – by 2014 Eurostar will offer services to Amsterdam and Geneva with its new fleet of trains. Agreements between France and Spain will also help link Paris with Madrid. A joint venture between Trenitalia and Veolia will operate between Paris, Rome and Venice.

More operators on High Speed One - DB have announced plans to launch services linking London to Frankfurt and Amsterdam. This will be in direct competition with Eurostar; however, DB plans to be running services to Amsterdam a year before Eurostar. The South East England Development Agency (SEEDA) and the Conseil Regional Nord-Pas de Calais are investigating the possibility of an inter-regional rail service connecting Kent and Calais in Northern France. The Transmanche Metro would run on the current HS1 rail lines and link areas that the Eurostar service currently rarely serves.

Environment

Greener fuel trial - the results of a trial between East Midlands Trains and Fuel Technology Inc. estimate that using the DiesoLIFT™ 10 fuel additive will save 350,000 litres of fuel a year, which is equivalent to eliminating 350 cars from the road or the average CO2 emissions of 10,000 UK households.

Technology

Smartphone applications – internet has revolutionised the way travellers book tickets and access data. This has been made more convenient with smartphone apps, which allows people to carry out these functions on the go. London Tube, UK Train Times and thetrainline.com are some of the available apps.

Contactless payment – TfL plans to accept contactless payments on bus services before the Olympics and extend this service to other transport networks. Over 20,000 Oyster users will need to be upgraded to this service, which will take time.

ITSO–it is a Government-backed, non-profit organisation responsible for developing and defining UK-wide technical specification for smart ticketing. Common standards will allow travellers to be linked across transport networks, developing the card for multiple uses like libraries and using data gathered to improve services.

Legislative Changes

Network rail devolution – the devolution process started in 2011 and created smaller businesses run by managing directors. This has been done with the aim of serving the customers' needs better.

The McNulty review – this was commissioned by the Labour government and sponsored by the DfT and the ORR. The aims were to identify opportunities and barriers to improve the value for money.

International Travel

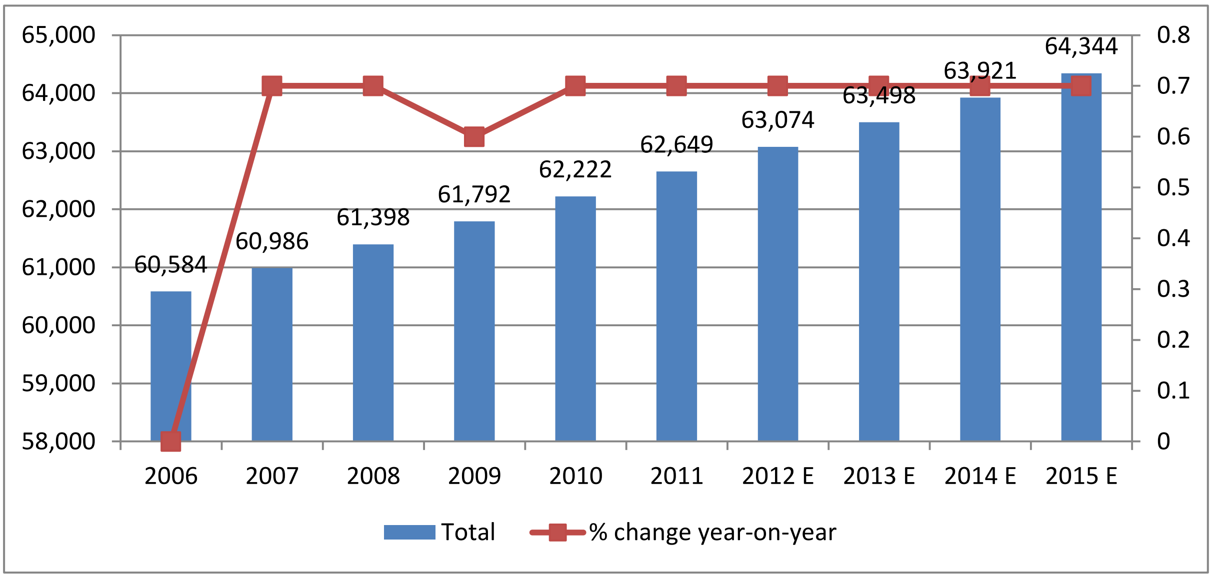
Fire and breakdown in Channel Tunnel – a fire on a freight shuttle in the tunnel in 2008 and extreme weather in December 2009 and January 2010 led to delays and breaks in service.

Positive impact of Eyjafjallajökull on rail travel – the ash cloud led to Eurostar carrying extra 100,000 travellers and also helped boost business for regional operators.

APPENDIX J: INDUSTRY ANALYSIS – AIRLINES

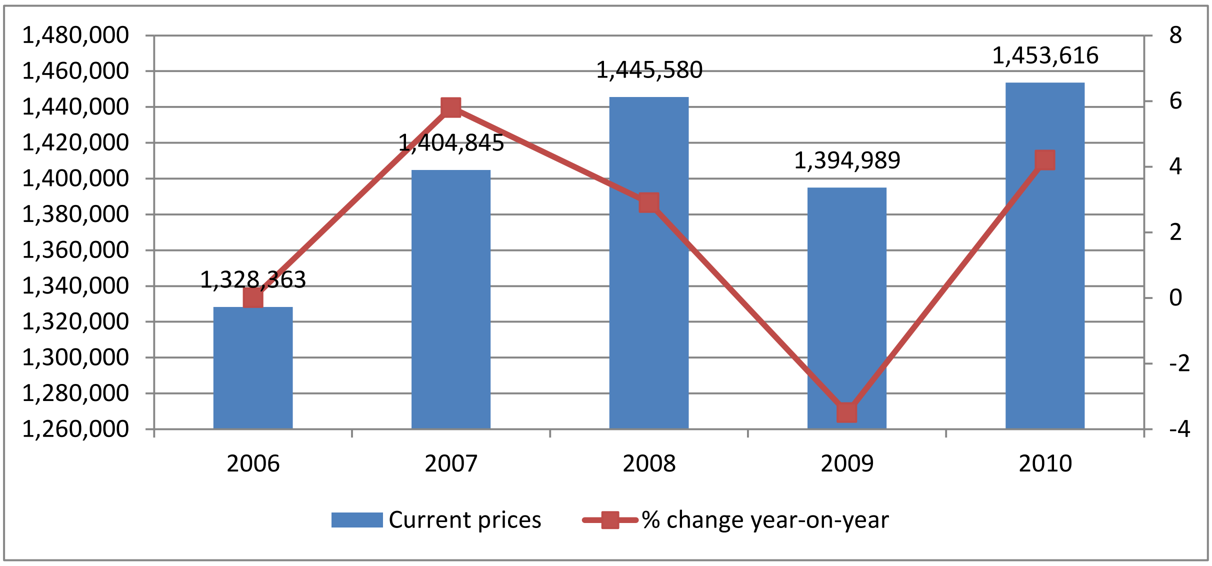
Key Economic Indicators

UK Resident Population Estimates by Sex (000), Mid-Years 2006-2015(E)



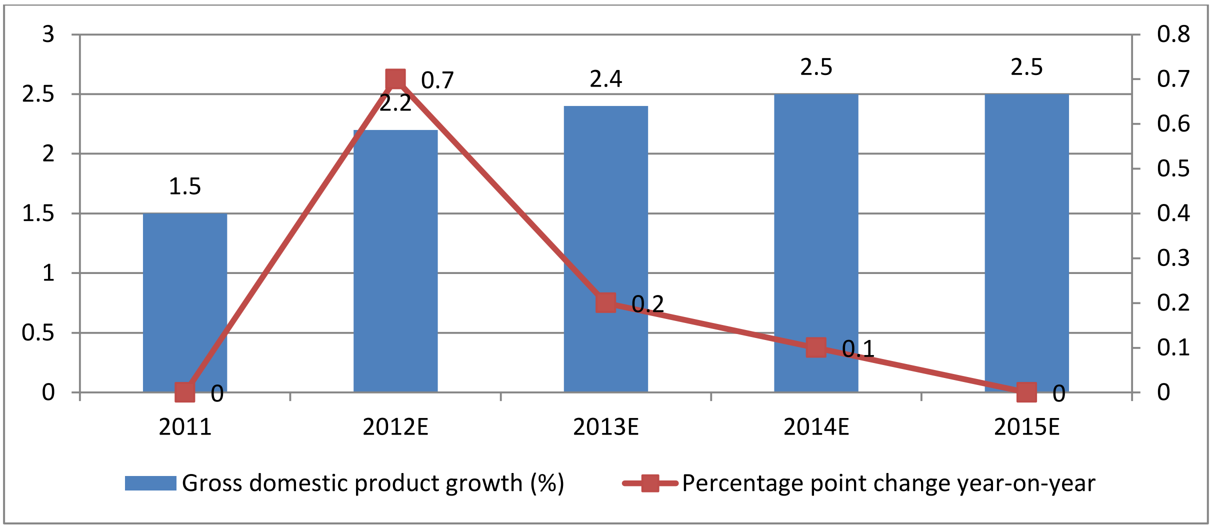
Source: Time Series Data — Monthly Digest of Statistics (accessed June 2011)/Population Projections Database (2008-based projections), National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland); Population Projections Database (2008-based projections), National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

UK Gross Domestic Product at Current and Annual Chain-Linked Prices (£m), 2006-20



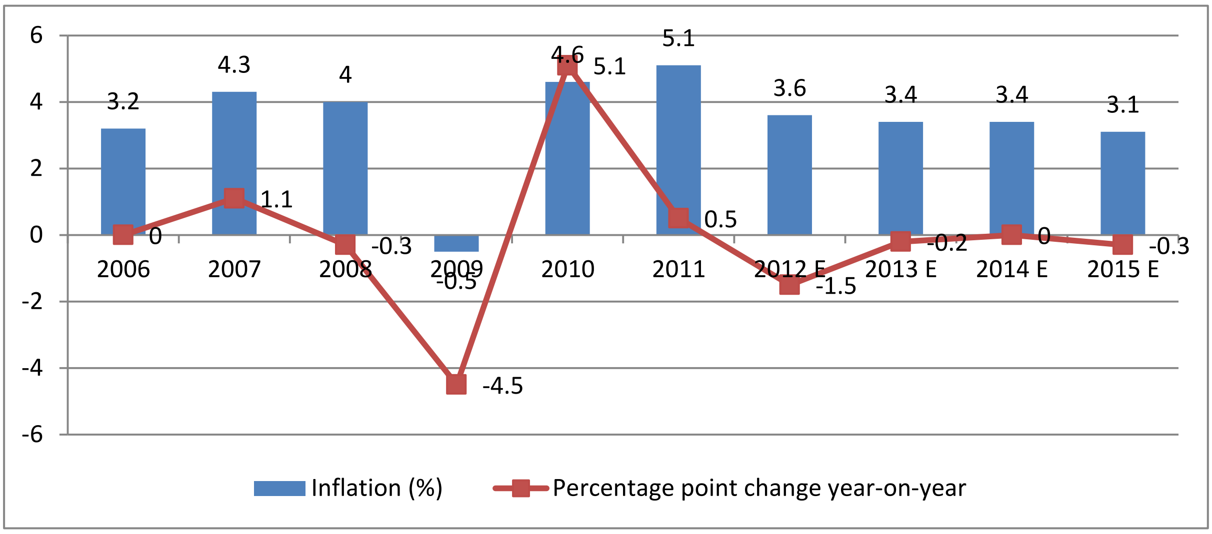
Source: Time Series Data — Monthly Digest of Statistics (accessed June 2011)/Population Projections Database (2008-based projections), National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Forecast UK Growth in Gross Domestic Product in Real Terms (%), 2011-2015



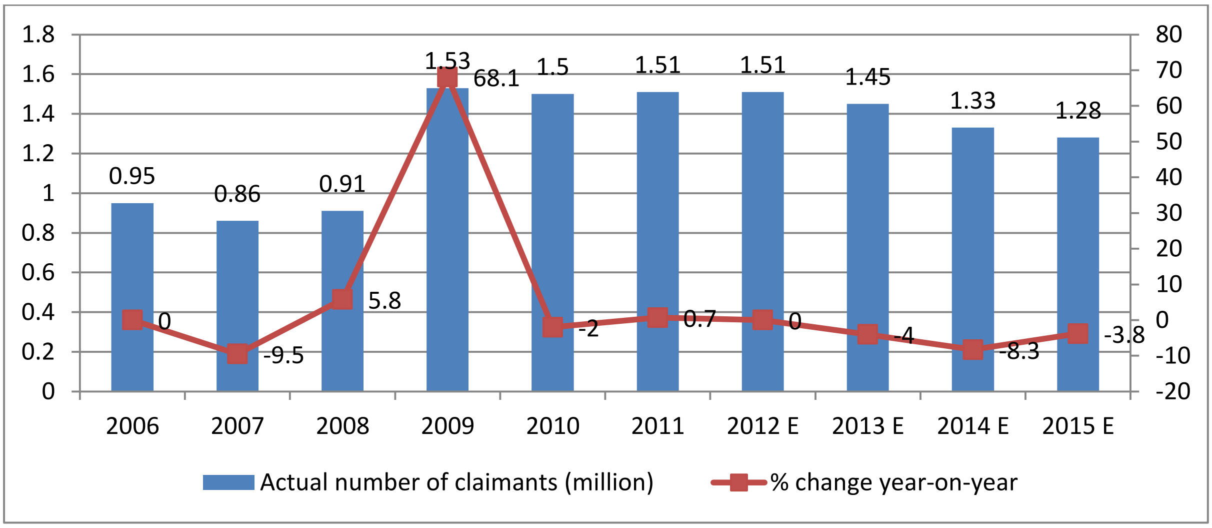
Source: Forecasts for the UK Economy, May 2011, Treasury Independent Average © Crown copyright

UK Rate of Inflation (%), 2006-2015(E)



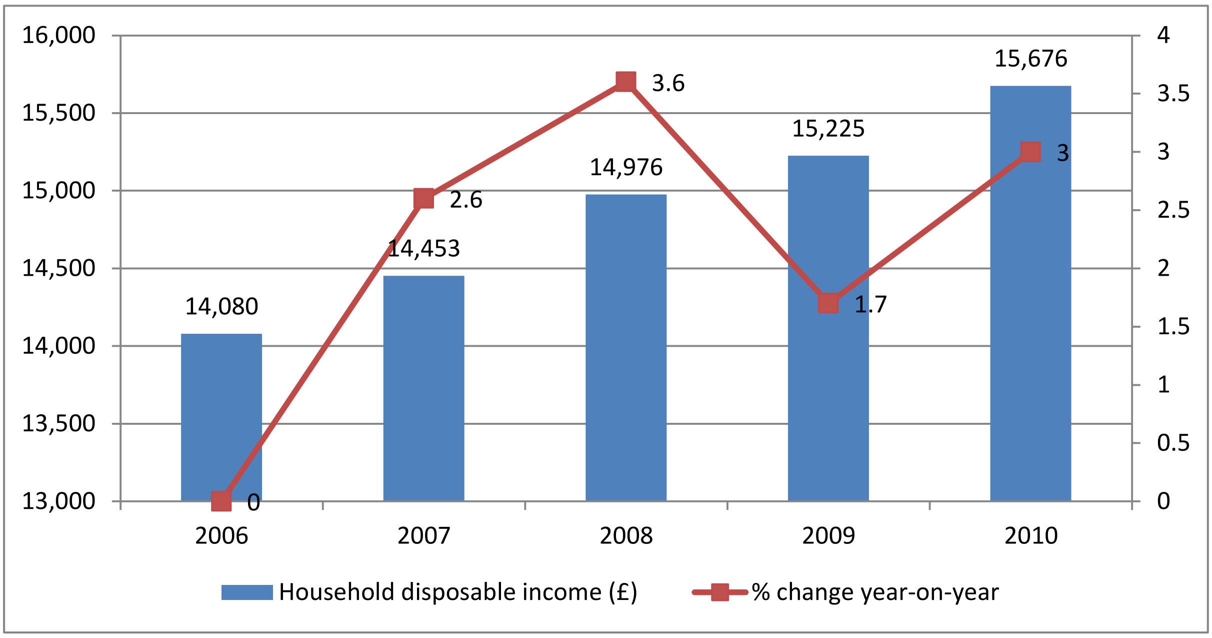
Source: Focus on Consumer Price Indices — Data for April 2011, published May 2011, National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland); Forecasts for the UK Economy, May 2011, Treasury Independent Average © Crown copyright

Actual Number of Unemployed Persons in the UK (million), 2006-2015(E)



Source: Time Series Data — Monthly Digest of Statistics (accessed June 2011), National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland) ; Forecasts for the UK Economy, May 2011, Treasury Independent Average © Crown copyright

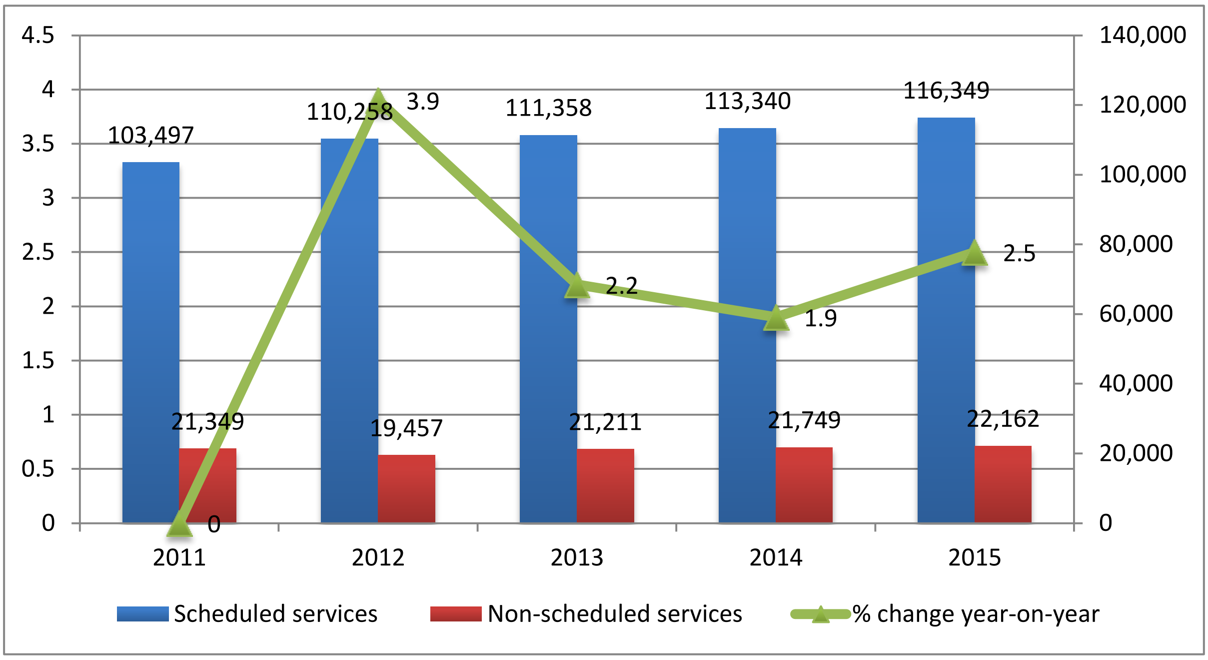
UK Household Disposable Income Per Capita (£), 2006-201



Source: Economic & Labour Market Review, May 2011, National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Market Trend

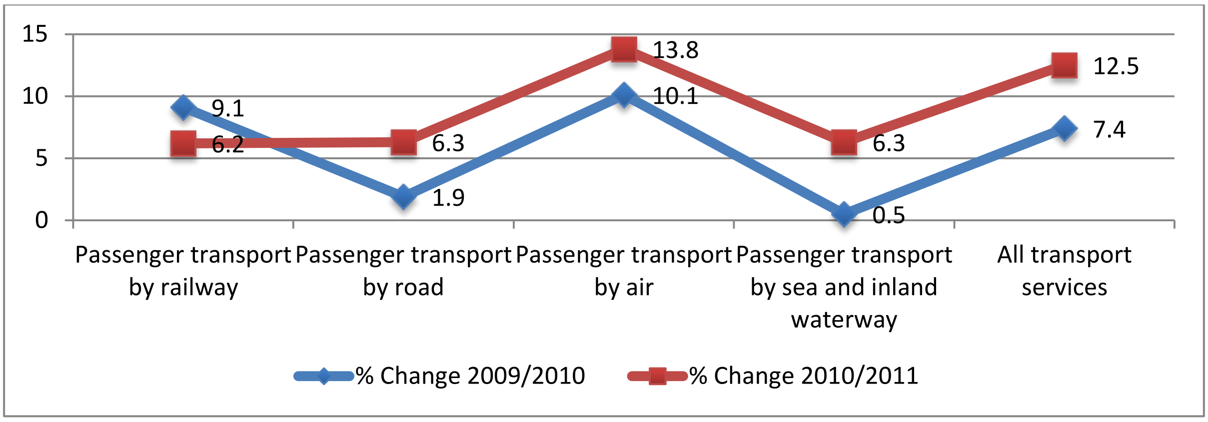
Forecast Number of Passengers Uplifted by UK Airlines on Scheduled and Non-Scheduled Services (000), 2011-2015(E)



Source: Key Note

Consumer Price Indices for Transport Services (%), Years Ending May 2010 and 2011

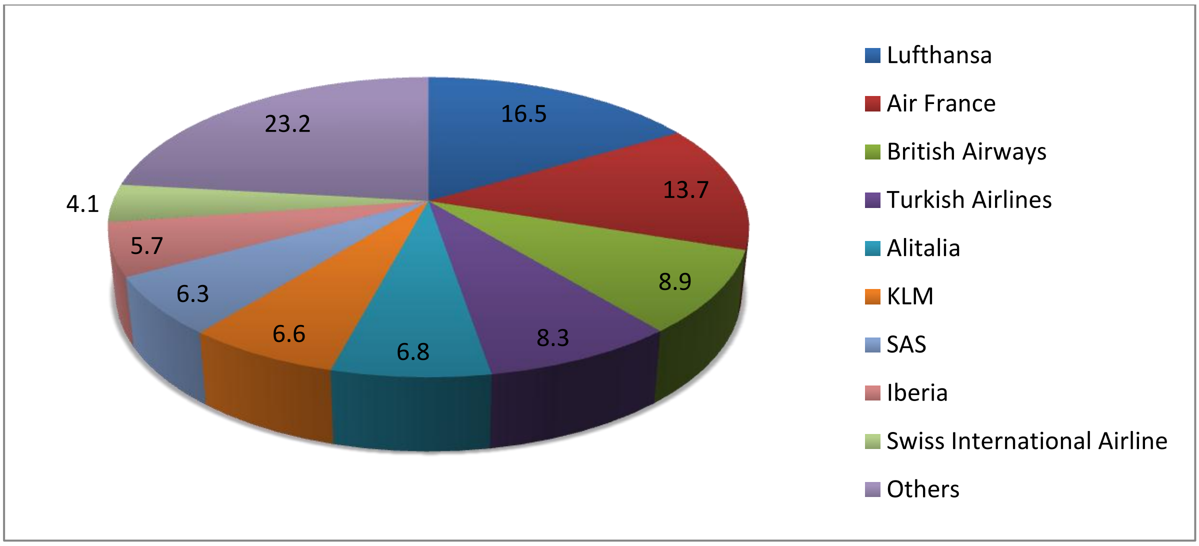
Category	**% Change 2009/2010**	**% Change 2010/2011**
Passenger transport by railway	9.1	6.2
Passenger transport by road	1.9	6.3
Passenger transport by air	10.1	13.8
Passenger transport by sea and inland waterway	0.5	6.3
All transport services	7.4	12.5



Source: Consumer Price Indices, June 2010 and 2011, National Statistics website © Crown copyright material is reproduced with the permission of the Controller of HMSO (and the Queen's Printer for Scotland)

Passengers Carried on Scheduled Services by Association of European Airline Members (million and %), 2010

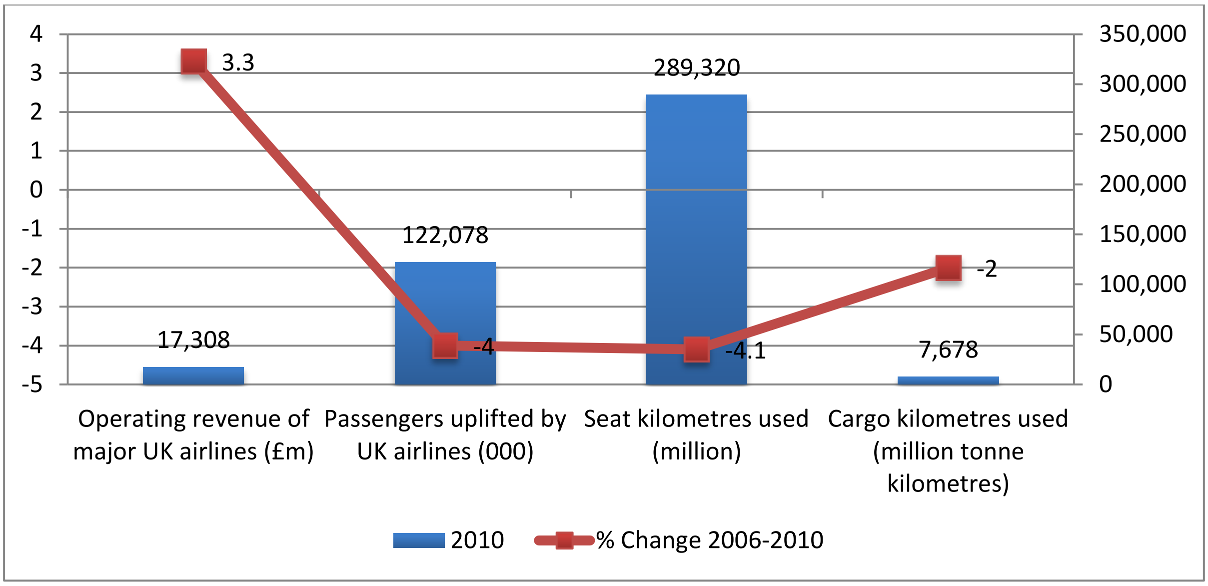
Airline	**Million**	**% Of Total**
Lufthansa	56.6	16.5
Air France	47	13.7
British Airways	30.5	8.9
Turkish Airlines	28.3	8.3
Alitalia	23.4	6.8
KLM	22.8	6.6
SAS	21.5	6.3
Iberia	19.7	5.7
Swiss International Airline	14	4.1
Others	79.6	23.2
Total	**343.4**	**100**



Source: Association of European Airlines

The Total UK Air Travel Market by Value and Volume (£m, 000, million sea kilometres and million tonne kilometres), 2010

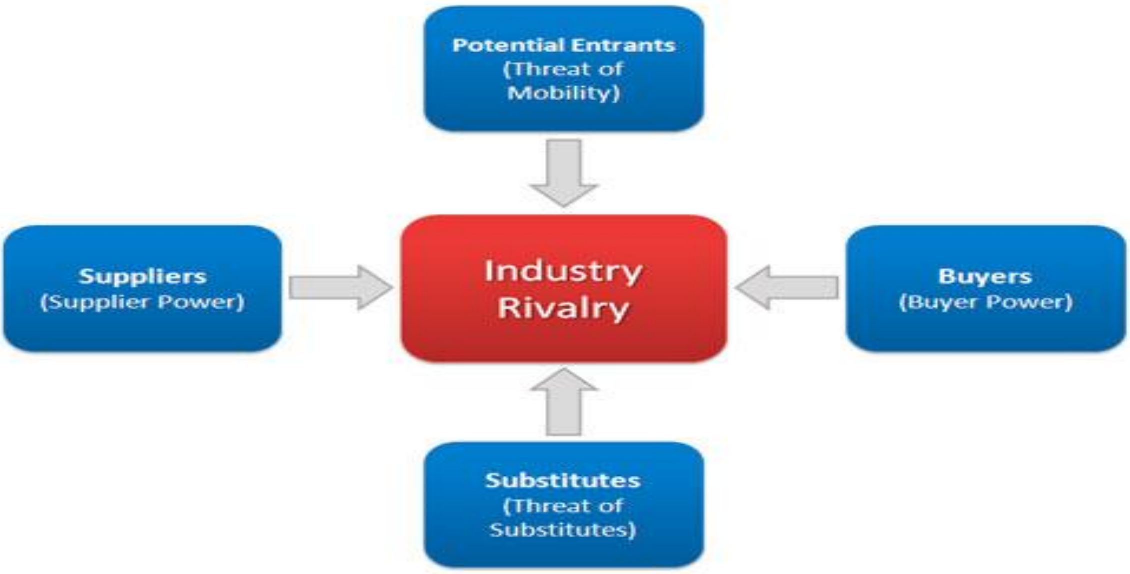
	2010	**% Change 2006-2010**
Operating revenue of major UK airlines (£m)	*17,308*	3.3
Passengers uplifted by UK airlines (000)	1,22,078	-4
Seat kilometres used (million)	2,89,320	-4.1
Cargo kilometres used (million tonne kms)	7,678	-2
Passengers uplifted by UK airlines (000)	*17,308*	3.3



Source: UK Airline Statistics, Civil Aviation Authority/Key Note

Porter's Five Forces

The Porter´s Five forces (Porter, 1980) is a very useful tool to analyse the competitive environment of the airline industry.



Threat of new entrants

- Setting up an airline company requires huge investment. (Slots, aircrafts, staff, advertising. etc.)
- The high fixed and variable cost due to diseconomies of scale in the initial stage

- Restrictive regulations by the freedom of the air and routes.
- Collusion among Oligopolistic firms by setting some pricing regulations and policies.

Threat of substitutes

- Regarding the length and geographical distance, the customer takes either aeroplanes for long journeys or other types of transportation, such as train, coach, car for shorter journeys.
- If the customer is price sensitive, it will not be able to find another substitute regarding the nature of the trip (transatlantic). However it will be encouraged to find other low cost alternatives (e.g. BMI, easy jet, Ryanair).

Bargaining power of the Buyers

- The buyers bargaining power is linked to the Economic cycles: recession and growth. In the former the buyer acquires more power due to the low demand vs the high supply, while in the later, the buyer loses power.
- The high competition among rivals and the use of Internet, allows the customers to make more rational-informed decisions.

Bargaining power of suppliers

- An aircraft manufacturers´ Duopoly (Boeing and Airbus) is translated to high bargaining power.
- IATA high regulations related to the availability of landing slots.
- The Inability to deal with another fuel supplier different that the Airport ‘supplier.

Competitive Rivalry

- Alliances of competitors have increased competition (Sky team and Oneworld).
- Virgin is one of the biggest competitors in the UK´s “premium” tier, and Ryanair and Easyjet for the value or “economic” Tier.
- High fragmentation of the “low Cost” market.

PESTLE

Political

1. The political environment under which an airline business operates is different from nation to nation and thus affects the decision making of the company.
2. The taxation policy of a nation affects the business of an airline industry. The taxes such as income tax, service tax, VAT, taxes on carbon emissions add a significant amount of pressure on the BA's profitability.
3. The government spending on creating infrastructure has a significant impact on the airline business. For example the construction of Terminal (T3) in New Delhi resulted in creating more slots for airlines like BA.
4. The government's relations with other countries are an important factor for companies to internationalize. The relationship defines the political challenges that will lie ahead for airlines industry as a whole

Economic

1. The disposable income of a country affects the market of the airline industry. The countries with a significantly lower disposable income would prefer budget airless like Ryan Air, Easy jet in comparison to British Airways.
2. The disposable income of a country affects the market of the airline industry. The countries with a significantly lower disposable income would prefer budget airless like Ryan Air, Easy jet in comparison to British Airways.
3. Interest rates have a direct effect on the bottom line of the airlines. The emerging markets have higher interest rates as compared to saturated markets such as UK and US.
4. The volatility of exchange rates have a direct impact on the performance of the airline industry

Social

1. The level of income distribution affects the market of the airlines in a given country

2. The literacy rate also is a major determinant of the success of airlines in a particular economy. The less educated nations still prefer to travel by other modes of transportation.
3. The level of education and the distribution of income also influence the life style of the people. This further effects the environment in which an airline company operates

Technological

1. The use of E commerce is extensive in the airline industry and therefore changes within the web portals can affect its operational efficiency.
2. The use of advanced engines and superior navigation systems

Legal

1. The employment laws in a country interferes with the wage levels, contractual terms and conditions that the company puts forward to its employees
2. The competition laws in terms of 'protection' of the home industry often is a big factor that affects the airline industry
3. The environmental laws are now being taken very seriously by all the nations thus creating an obstruction in a smooth its smooth functioning.

Environmental

1. The environmental laws with regard to the emission of carbon into the atmosphere affects the company's CSR strategies
2. Over the past few years the companies have been negatively affected by the strong presence of volcanic ash in its direct flight path thus increasing its operating costs.

Opportunities & Threats

Opportunities: Global Air freight Industry is on a recovery mode. As per the Air Transport Association (IATA), the airfreight market continues to grow at a good pace and there is a significant increase of 28% in the worldwide cargo demand. The strongest recoveries has been witnessed by Latin America, Asia Pacific and North America with an increase in demand by 48%, 34% and 32% respectively creating favourable opportunities for BA. Besides the increase in passenger and worldwide cargo demand there has been an improvement in the global tourism market. According to United Nations World Tourism Organization (UNWTO), the international tourist’s arrivals have increased by 7% in the first two months of 2010. The merger of BA with the Spanish company Iberia has given them access to the Latin American Market, which seems to be showing tremendous improvements in demand.

Threats: The volatility of petroleum prices has a direct impact on the bottom line of the airline company. The inability of obtaining engine fuel at competitive prices in the future could have a negative impact on the growth of BA. Apart from the volatility in the oil prices, the airline industry is highly competitive. The biggest threat that lies ahead of BA is the competition that it faces from Budget Airlines such as Easy Jet, Ryan Air, Southwest Airlines, etc. whose prices are significantly lower than BA. Besides budget airlines, it faces severe competition from other airlines in the premium segment such as AMR, Air France KLM, Cathay Pacific Airways, Continental Airlines, Delta Air Lines, Lufthansa, Qantas Airways, UAL and Virgin Atlantic Airways. This leads to price war between different airlines proving to be a significant threat to British Airways. Finally the political factors are always a threat to an airline business as the industry is highly regulated and are subject to significant cost as a result of extensive regulatory and legal compliances making the future unstable.

APPENDIX K: INDUSTRY ANALYSIS – HOSPITALITY

Introduction

As per the British Hospitality Association (BHA) the hospitality economy consists of –

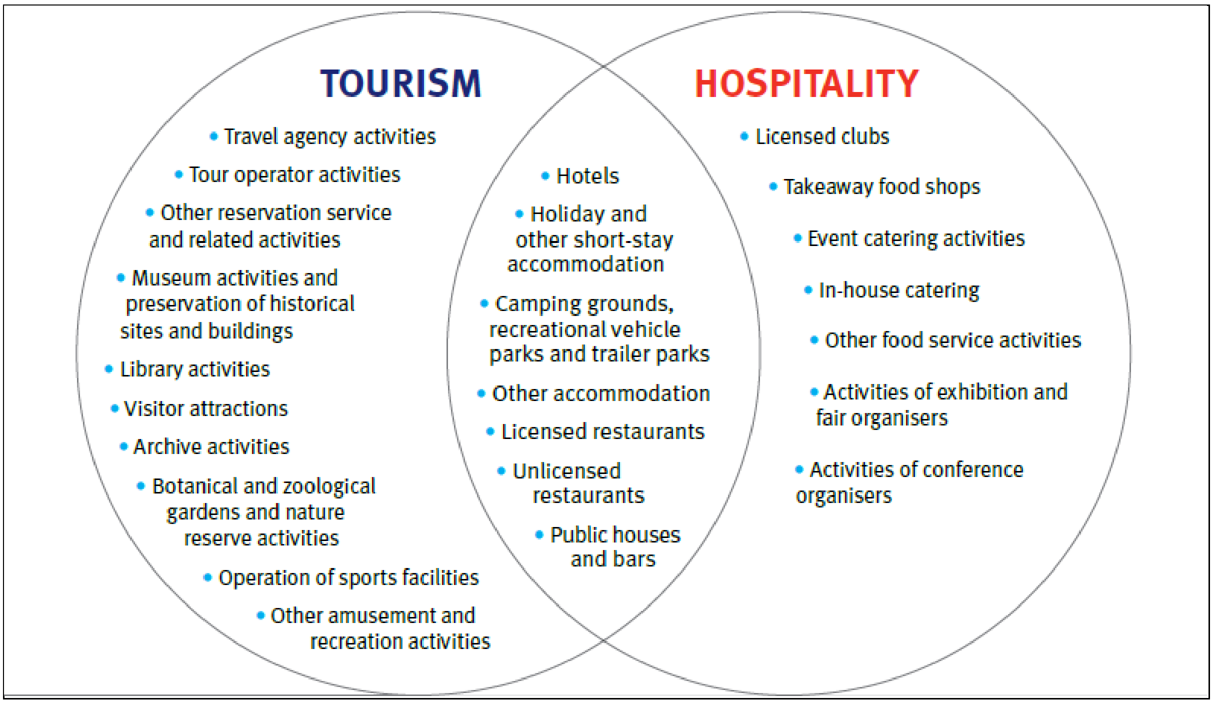
Hotels and related services

Restaurants and related services

Catering

Event management

Temporary agency employment across the above mentioned sub-sectors



Source – BHA report (2011)

Strategic Objectives

To create 236,000 additional jobs throughout the hospitality industry between 2010 and 2015.

To make Britain a world-class destination for hospitality, tourism and business.

To work in partnership with industry to propel hospitality's contribution to economic recovery, rebalancing growth and the regeneration of local communities.

To harness the knowledge and capabilities of members of the BHA to help transform the efficiency and commercialism of the public sector, without additional burden of cost on government or industry.

Current Issues

To make the rate of VAT on UK hospitality competitive with the rate of other EU member states.

To simplify and make more effective visa procedures to facilitate ease of access for bona fide visitors to the UK.

To control the high – and rising – rate of Air Passenger Duty.

To ensure that funding for 'VisitBritain' and the other visit agencies is ring-fenced.

To encourage the Regional Growth Fund to recognise the significance of the hospitality industry to local economies.

To minimise the regulatory burdens on the industry and to cut red tape.

To ensure that Local Enterprise Partnerships regard the hospitality industry as a key pillar of their local economy.

To stimulate even more investment in the hospitality industry.

Providing a level playing field and fair basis for comparison between private and public sector bids for the outsourcing of food service and general facilities management.

REFERENCES

1. "http://www.go-ahead.com/" http://www.go-ahead.com/ accessed on 3rd September 2012
2. 2011. Annual Report & Accounts for the year ended 30 September 2011. Crawley: TUI Travel PLC.
3. 2011. Annual Report. Go Ahead Group.
4. 2012. Annual Report. Stobart Group.
5. 2012. Travel and Tourism Economic Impact. WTTC.
6. 2012. Travel Trends Report. ABTA.
7. Allio, R. J. & Fahey, L. (2012). Joan Magretta - What Executives Can Learn From Revisiting Michael Porter. *Strategy and Leadership*, 40 (2), 5-10.
8. Argyres, N. (1996). Evidence on the Role of Firm Capabilities in Vertical Integration Decisions. *Strategic Management Journal* 17: 129–150.
9. Arrow, K. J (1975). Vertical Integration and Communication. *The Bell Journal of Economics*, 6: 173-183.
10. ATOC (2012). Business Plan 2012/13 - 2014/15. Available: http://www.atoc.org/clientfiles/File/ATOC%20Business%20Plan%20-%20Final.pdf
11. ATOC (2012). Smart Ticketing. Available: http://www.atoc.org/clientfiles/File/ATOC%20v8a.pdf
12. ATOC (2012).The role of TOCs in delivering better value for money. Available: http://www.atoc.org/clientfiles/File/MR%20%20railway%20strategies%2021_6_2012.pdf
13. Autry, C. W., Griffis, S. E. & Goldsby, T. J. (2005). Warehouse Management Systems - Resource Commitment, Capabilities and Organisational Performance. Journal of Business Logistics, 26 (2), 165.
14. Barkema, H. G. & Schijven, M. (2008). Toward Unlocking the Full Potential of Acquisitions
15. Berg, J. V. & Zijm, W. (1999). Models for warehouse management: Classification and examples. International Journal of Production Economics, 59, 519-528.
16. Blois, K. J. (1972). Vertical Quasi-integration. *Journal of Industrial Economics,* 20: 253-272.

17. Bresman, H. et al (1999). Knowledge Transfer in International Acquisitions.
18. British Airways (2010) Report and Accounts to December. Downloaded form http://www.iairgroup.com/phoenix.zhtml?c=240949&p=irol-reportsannual as at 18th August 2012.
19. Business Insights (2011), The future of Online Payments, Available: Data Monitor
20. CAPA, (2011) Aviation Analysis, "British Airways and Iberia merger completed; plan to add more airlines to group". Downloaded form http://www.centreforaviation.com/analysis/british-airways-and-iberia-merger-completed-planning-to-add-more-airlines-to-the-group-44282 as at 18th August 2012.
21. Castro, C.E & Desender, K.A (2010). Analyzing Porter's Ideas: Horizontal Differentiation and Product Innovation. *The IUP Journal of Knowledge Management*, 8 (3), 24-38.
22. Caves, R.E & Williamson, P.J (1985). What is Product Differentiation, Really? *The Journal of Industrial Economics*, 34 (2), 113-132.
23. Chao C. & Lakshmikanthan J. (2006) Deloitte Consulting: For biologics production, contract manufacturing organizations can bring real economic benefits.
24. Chen, Y.G & Hsieh, P. (2008). A Service-based View of Porter's Model of Competitive Advantage. *International Journal of Management*, 25 (1), 38-53.
25. Chongvilaivan, A & Hurf, J. (2012). Trade Openness and Vertical Integration: *Southern Economic Journal*. 78 (4), 1242-1264
26. Ciliberto, F. & Panzarf, J.C. (2011). Outsourcing and Vertical Integration in a Competitive Industry. *Southern Economic Journal*. 64 (3), 885-900.
27. Clemons, E. K., Hann, I.H. & Hitt, L. M. (2002). Price Dispersion and Differentiation in Online Travel: An Empirical Investigation. *Management Science*, 48 (4), 534–549.
28. Coase, R.H. (1937). The Nature of the Firm. *Economica*. 4 (16), 386-405
29. Colangelo, G. (1995). Vertical vs. Horizontal Integration. *Journal of Industrial Economics.* 18 (3), 21-35.
30. Compass Group Plc. 2012 Half year results. Available: http://www.compass-group.com/documents/Interim_slides_PRINT_Final.pdf
31. Compass Group Plc. Annual report (2011). Available: http://www.compass-group.com/documents/Compass_Annual_Report_2011.pdf

32. Contractpharma.com, (2007) Annual Outsourcing Survey
33. Data Monitor. euroinfo@datamonitor.com. British Airways Plc. 10th September 2012
34. Day, G. S., & Wensley, R. (1988). Assessing Advantage: A Framework for Diagnosing Competitive Superiority. *Journal of Marketing*, 52 (2), 1-20.
35. Department for Transport (2011). The Logistics Growth Review - Connecting People with Goods. Available:http://assets.dft.gov.uk/publications/logistics-growth-review/logistics-growth-review.pdf
36. Dess, G.G & Davis, P.S. An Empirical Examination of Porter's Generic Strategies. *Academy of Management*.
37. Diabat, A et al (2012): Supply Chain Risk Management and its Mitigation Strategies
38. Diaz-Vial, I. & Alvarez-Suescun, E. (2011). The Impact of Geographical Proximity on Vertical Integration through Specific Assets: The Case of the Spanish Meat Industry. *Growth and Change*. 42 (1), 1–22.
39. Dow Jones Factiva – Global – Food Products – Competitive Landscape
40. Dow Jones Factiva, IBEF presentation
41. Dow Jones Factiva, M&A Trends in the Food and Drinks Market: In-Depth Deal Analysis and its Impact on the FMCG Landscape
42. Economist Intelligence Unit (2012) Finding Alignment. Opportunities and Obstacles in the Pharma/CRO relationship. January 2012. (Accessed January, 5 2012).
43. Eng, L. G. (1993). Using Generic Strategies: Some Caveats. *Singapore Management Review*, 15 (2), 43-48.
44. Etihad Airways (2012). Corporate Profile. Available: http://www.etihadairways.com/sites/etihad/uk/en/aboutetihad/corporateprofile/Pages/CorporateProfile.aspx.
45. Euromonitor. (2009). Developing World to Overtake Advanced Economies in 2013. London: Euromonitor International.
46. Euromonitor. (2010). Future Watch: Consumers and Getting from A to B. London: Euromonitor International.
47. Euromonitor. (2010). Survival of the Fittest in UK Travel Retail. London: Euromonitor International.

48. Euromonitor. (2010). The Way We Travel: How Global Travel Behaviour has changed in the Wake of the Recession. London: Euromonitor International.
49. Euromonitor. (2011). UK Travel and Tourism Outlook. London: Euromonitor International.
50. Factiva: Food and Beverage – Asia Pacific
51. Fame. (2011). Company Report - Go Ahead Group PLC. Fame - Detailed information on UK and Irish companies.
52. Fame. (2011). Company Report - Stobart Group Ltd. Fame - Detailed information on UK and Irish companies.
53. Fame. (2011). Company Report TUI Travel PLC. Fame - Detailed Information on UK and Irish companies.
54. Fenn, Dominic [Ed] (2007) Market Review 2007: Distribution Industry, 11th Edition,
55. Frost & Sullivan, 2011, Indian Facilities Management Market. Available: http://www.frost.com/prod/servlet/cpo/243036816
56. Gan, L.L & Fredrick, J.R (2011). Medical Tourism Facilitators: Patterns of Service Differentiation. *Journal of Vacation Marketing*, 17 (3), 165-183.
57. Gebauer, H. et al (2011). Competitive Advantage through Service Differentiation by manufacturing companies. *Journal of Business Research*, 64, 1270-1280.
58. Harrigan, K.R. (1985). Exit Barriers and Vertical Integration. *Academy of Management Journal.* 28 (3), 686-897.
59. Harrigan, K.R. (1985). Vertical Integration and Corporate Strategy. *Academy of Management Journal*. 28 (2), 397-425
60. Hennessy, D.A. (1996). Information Asymmetry as a Reason for Food Industry Integration. *American Journal of Agriculture Economics*. 78 (1), 1034-1043.
61. Hill, C.W.L (1988). Differentiation versus Low Cost or Differentiation and Low Cost: A Contingency Framework. *The Academy of Management Review*, 13 (3), 401-412.
62. Hofer, C. W., (1980). Turn around Strategies. *Journal of Business Strategy*, 1(1): 19-31.
63. Hoffman, N.P (2000). An Examination of the "Sustainable Competitive Advantage" Concept: Past, Present, and Future. *Academy of Marketing Science Review*. 1 (4), 1-16.

64. Hoffmann, R. (2011). *Vertical Integration*. Available: http://www.nottingham.ac.uk/~lizrh2/busecon/materials/lecture8.pdf. Last accessed 29th Sept 2012.

65. http://www.food.gov.uk/foodindustry/ accessed on 9th September 2012

66. http://www.tuitravelplc.com/ accessed on 3rd September 2012

67. Hughes, K. (1982). Corporate Response to Declining Rates of Growth in a Food Industry. *International Journal of Production Research*. 50 (11), 3039-3050.

68. Investopedia. The Industry Handbook: The Airline Industry. Available: http://www.investopedia.com/features/industryhandbook/airline.asp#axzz1jf1stMHJ.

69. Keynote. (2011). Airlines Update Market Report 2011. Available: http://www.keynote.co.uk/market-intelligence/view/product/10470/chapter/4#nohref. Last accessed 12th August 2012.

70. Keynote. (2012). Company Overview. London: Keynote.

71. Keynote. (2012). Travel Agents & Overseas Tour Operators. London: Keynote International.

72. Kim, E. et al. (2004). The Applicability of Porter's Generic Strategies in the Digital Age: Assumptions, Conjectures, and Suggestions. *Journal of Management*. 30 (5), 569–589.

73. Laffer, A. B. (1969). Vertical Integration by Corporations. 1929-1965. *Journal of Economics and Statistics,* 51: 91-93.

74. MacMillan, C. (1980). How Business Strategists Can Use Guerrilla Warfare Tactics. *Journal of Business Strategy.* 1(2): 63-65

75. MacMillan, I. C. & McGrath, R. G. (1997). Discovering New Points of Differentiation. *Harvard Business Review* (July-August), 133-145.

76. MacMillan. (2011). *Firms and Markets*. Available: http://www.nottingham.ac.uk/~lizrh2/exec/readings/ferguson.pdf. Last accessed 29th Sept 2012.

77. Marketline (2012), Contract Manufacturing Strategies, Global outsourcing expenditure and segmentation of contracted services, 2005 and 201

78. Marketline (2012), Contract Manufacturing Strategies, Outsourcing models in order of increasing integration
79. Marketline (2012), Contract Manufacturing Strategies, Size of India's contract manufacturing market 2005-2010
80. Marketline (2012), Contract Manufacturing Strategies, Size of the global contract manufacturing market, 2002-2011.
81. Marketline (2012), The future of R&D and Outsourcing, Features and characteristics of outsourcing models
82. Marketline (2012), The Future of R&D Outsourcing, Characteristics of a strategic partnership
83. Miles, R.E & Snow, C.C (1978). Organizational Strategy, Structure and Processes. *The academy of Management Review*. 3 (3), 546-562.
84. Morison, A. & Roth, K. (1993). Relating Porter's Configuration/Coordination Framework to Competitive Strategy and structural Mechanisms: Analysis and Implications. *Journal of Management*. 19 (4), 797-818.
85. Ostroff, F. & Smith, D. *McKinsey Quarterly*. 1992, Issue 1, 148-168. 21
86. Ovidiu N. B. et al. (2010). The Use of Michael Porter's Generic Strategies in the Romanian Hotel Industry. *International Journal of Trade, Economics and Finance*. 1 (2), 2010-2023.
87. Passenger Focus. (2012). Bus Passenger Survey. London: Passenger Focus.
88. Passenger Focus. (2012). National Passenger Survey. London: Passenger Focus.
89. Passport. (2012). Online Travel: Shift of Power to Consumers. London: Euromonitor International.
90. Passport. (2012). TUI AG in Travel and Tourism (World). London: Euromonitor International.
91. Passport. (2012). TUI AG in Travel and Tourism (World). London: Euromonitor International.
92. Pfeffer, & Salancik, G. R (1978). The External Control of Organizations: A Resource Dependence Perspective. New York: Harper & Row Publishers
93. Porter, M. & Siggelkow, N. (2008). Contextuality within Activity Systems and Sustainability of Competitive Advantage. *Academy of Management Perspectives*. 1 (1), 1-1.

94. Porter, M. (1980) ‘Competitive Strategy: Techniques for Analysing Industries and Competitors’.

95. Porter, M. E. (1985). Competitive Advantage - Creating and Sustaining Superior Performance. New York: The Free Press.

96. PWC (2011), The Logistics Report. Available:http://www.fta.co.uk/export/sites/fta/_galleries/downloads/logistics_report/LR12_web.pdf

97. Role of Organizational Restructuring. *Academy of Management Journal*, 51: 696-722.

98. Rugman, A. M et al (2011). The Regional and Global Competitiveness of Multinational Firms. *Academy of Marketing Science*, 40, 218-235.

99. Schendel, D. et al (1976). Corporate turnaround strategies: A study of profit decline and recovery, *Journal of General Management*, 3(3): 3-11

100. Scrip Insights (2011) The CRO market outlook to 2016. Emerging markets, leading players, and future trends. November 2011.

101. Shankar, V. L, Berry, L. & Dotzel, T. (2009). A Practical Guide to Combining Products and Services. *Harvard Business Review*, 95-99.

102. Sharp, B., & Dawes, J. (2001). What is Differentiation and How Does it Work? *Journal of Marketing Management*, 17, 739-759.

103. Siferd, S. P., Benton, W., & Ritzman, L. P. (1992). Strategies for Service Systems. *European Journal of Operational Research*, 56, 291-303.

104. Sloman, J. & Sutcliffe, M. (1998). *Economics for Business*. 2nd ed. London: Prentics Hall. 272-275.

105. Snedecor, G. W., & Cochran, W. G. (1980). Statistical Methods (7th Ed.). Ames, Iowa: Iowa State University Press.

106. St. John, C. H., & Harrison, J. S. (1999). Manufacturing-based Relatedness, Synergy, and Coordination. *Strategic Management Journal*, 20: 129-145.

107. Stonehouse, G., & Snowdon, B. (2007). Competitive Advantage Revisited - Michael Porter on Strategy and Competitiveness. Journal of Management Inquiry, 16 (3), 256-273.

108. Suryanarayana A. (2010). Innovate or Evaporate: A Clarion Call for CEOs during Economic Recession. *Advances in Management*. 3 (3), 1-4.

109. Teece, D. J. (1986).Transactions Cost and the Multinational Enterprise. *Journal of Economic Behavior and Organization*. 7 (1), 21-45.

110. The Economic Institution of Capitalism, (Oliver E Williamson, 1985)

111. The Economist. (2009). *Idea: Vertical Integration*. Available: http://www.economist.com/node/13396061. Last accessed 29th Aug

112. Thornton, G. (2011), Changing priorities ahead. Available: The evolving face of the UK logistics sectorhttp://www.grant-thornton.co.uk/pdf/Changing_Priorities_Ahead.pdf

113. Transport for London (2012) Rating Agency Report. Available: http://www.tfl.gov.uk/corporate/about-tfl/investorrelations/1468.aspx#page-link-standard---poor-s

114. Transport for London (2012), London Underground Operational Vision – Technology enables change. Available: http://www.tfl.gov.uk/assets/downloads/Item05-London-Underground-Operational-Vision.pdf

115. Transport for London (2012), London Underground Performance report. Available: http://www.tfl.gov.uk/assets/downloads/lu-performance-report-period-2-2012-13.pdf

116. Transport for London (2012), Mayor announces new board members. Available:http://www.tfl.gov.uk/static/corporate/media/newscentre/archive/3501.html

117. Transport for London (2012), Mayor's Transport Strategy Accessibility Implementation Plan. Available: http://www.tfl.gov.uk/assets/downloads/corporate/taking-forward-the-mts-accessibility-implementation-plan-march-2012-final.pdf

118. Transport for London (2012), Mayoral Priorities for Transport 2012-16. Available: http://www.tfl.gov.uk/assets/downloads/Part-1-Item08-Mayoral-Transport-Priorities.pdf

119. Transport for London (2012), Organization Structure. Available:http://www.tfl.gov.uk/assets/downloads/corporate/organisation_structure.pdf

120. Transport for London (2012), Strategic Assessment Framework. Available: http://www.tfl.gov.uk/assets/downloads/Item06-ECPP-Oct-10--SAF.pdf#

121. Transport for London (2012), Transport for London Delivering e-Government. Available: http://www.tfl.gov.uk/assets/downloads/e-gov.pdf

122. Tucker. I. B. & Wilder, R. P. (1977). Trends in Vertical Integration in the U.S. manufacturing sector. *Journal of Industrial Economics*, 26: 81-94.

123. Valikangas, L. & Lehtinen, U. (1994),"Strategic Types of Services and International Marketing", *International Journal of Service Industry Management*, Vol. 5 (2) 72 – 84

124. Webster, F. A. *California Management Review*. Winter 67, Vol. 10 Issue 2, 49-58.

125. Williamson, O. E. (1971). The Vertical Integration of Production: Market failure considerations. *American Economic Review*, 61: 112-123.

126. Wolter, C. (2008). The Effects of Innovation on Vertical Structure: Perspectives on Transactions Costs and Competences. *Academy of Management Review*. 33 (3), 586-605.

127. Yelkur, R., & DaCosta, M. M. (2001). Differential Pricing and Segmentation on the Internet: the Case of Hotels. *Management Decision*, 39 (4), 252 - 262.

X---------------X---------------X---------------X