OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced Subsidiary GCE

BUSINESS STUDIES

2871/CS

Businesses, Their Objectives and Environment

CASE STUDY

SPECIMEN FOR JUNE 2003

May be opened and given to candidates upon receipt.

INSTRUCTIONS TO CANDIDATES

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

7811/3811/SP/EN/02

This question paper consists of 3 printed pages and 1 blank page.

CRUISING FOR TROUBLE

War has broken out in the cruise industry – and to the victor will go leadership of one of the fastest growing parts of the holiday market.

Battle commenced in late 2001, when Carousel, undisputed market leader, launched a bid to fight the merger provisionally agreed between its smaller rivals R & R and Caribbean Cruises.

Carousel would certainly prefer the merger not to go ahead. RCC, as the merged company would be known, would leapfrog Carousel to become the biggest operator, measured by number of berths. That is not a slot Carousel will give up lightly. R & R's shareholders are shortly due to vote on the merger. The onus is on Carousel to come up with a tempting offer to R & R's shareholders if it wants to prevent the merger. If enough money is offered, R & R's shareholders could vote against the proposed merger and then vote to allow Carousel to take them over.

Carousel can take credit for creating the market in its current form. Its strategy of targeting ordinary Americans has fuelled the spectacular industry growth in the US and Europeans are now taking to the seas with similar enthusiasm. Over the past decade, Carousel has increased its passenger capacity by an average of 11% a year and now carries more than 2.6 million passengers a year.

R & R and Caribbean Cruises have both been significant beneficiaries of the growth in the market (see Fig. 1). At least until 11 September 2001 that is. Like the rest of the travel industry, cruising suffered a big drop in demand in the wake of the New York attack. R & R alone immediately lost around 20,000 bookings. There are now signs of recovery, although only because of big price cuts. All three companies are confident that the drop in demand is just a temporary blip in the otherwise smooth progress of the cruising market. They had better be right: R & R and Caribbean Cruises between them have 14 ships with a total of 30,000 berths on order. Carousel is also expected to take delivery of a further 14 offering more than 34,000 berths.

Only 12 per cent of Americans and less than 2 per cent of Europeans have been on a cruise, however, in a recent survey more than half said they would like to. It was these growth prospects, rather than thoughts of cutting costs or shedding jobs, that prompted R & R and Caribbean Cruises to get together.

When the deal was announced, the two companies pointed to the great geographic fit. As its name suggests, Caribbean Cruises' strength is cruises to the tropical islands while R & R operates in the Mediterranean cruising market. Caribbean Cruises is relatively stronger in the US and R & R in Europe. The newly merged company would certainly be a force to reckon with.

A shipping industry insider said yesterday:

'A merger is not the same as a take-over, and there are different implications for R & R and its stakeholders with each option. If Carousel want to make a take-over bid, the board of R & R will want a clear unconditional offer on the table very soon in order to consider the merger and the take-over simultaneously. R & R's board can then make a recommendation to their shareholders. Whether Carousel makes a serious offer or not, the industry is in for a long spell of stormy weather.'

Cruising Market Passenger Numbers

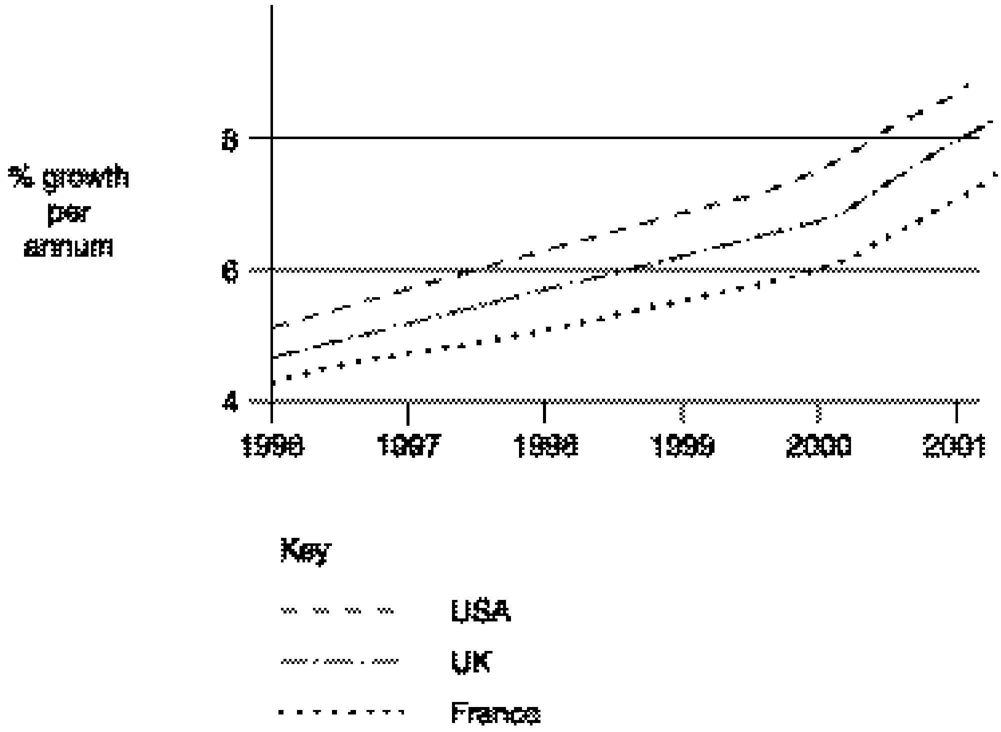

Fig. 1

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