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Should SA Tour, A Singapore Travel company, Use External financing to Expand the MICE business in the China and Singapore markets?

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12. December 2010

Online at <http://mpa.ub.uni-muenchen.de/27549/>

MPRA Paper No. 27549, posted 23. December 2010 07:36 UTC



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**Should SA Tour, a Singapore Travel company,
use external financing to expand the MICE
business in the China and Singapore markets?**



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2010

Table of Contents

ABSTRACT	3
INTRODUCTION	4
LITERATURE REVIEW	5
THEORY OF MARKET EXPANSION STRATEGY	5
MARKETING ANALYSIS AND CHINA LOCAL INSIGHTS	7
CHINA INVESTMENT CLIMATE	7
MICE INDUSTRY IN CHINA- MACRO PERSPECTIVE	7
ENTERING CHINA MICE MARKET AND COMPETITIVE ENVIRONMENT	7
DIFFERENTIATION STRATEGY	8
MARKETING STRATEGY SA TOURS AND BRAND POSITIONING	8
MARKETING PLAN	8
CHINA INSIGHT	11
MANAGEMENT ANALYSIS	15
FINANCIAL EFFECTIVENESS ANALYSIS OF SA’S MICE PROJECT	16
BUSINESS RISK ANALYSIS	25
CONCLUSION	26
SUGGESTION FOR USING EXTERNAL FINANCING	26
REFERENCES	28
APPENDIX & EXHIBIT	29
APPENDIX 0: FINANCIAL ANALYSIS	29
APPENDIX 1: FINANCIAL ANALYSIS	29
APPENDIX 2: FINANCIAL ANALYSIS	30
APPENDIX 3: FINANCIAL ANALYSIS	30
APPENDIX 4: FINANCIAL ANALYSIS	31
APPENDIX 5: FINANCIAL ANALYSIS	32
EXHIBIT 1: PEST ANALYSIS	33
EXHIBIT 2: CHINA 1992~2020(PROJECTED) OUTBOUND BUSINESS TRAVELERS	33
EXHIBIT 3: CHINA OUTBOUND BUSINESS TRAVEL SUPPLIER MARKET SHARE	34
EXHIBIT 4: NUMBER OF CHINA TRAVEL AGENCIES BY REGION (BY END OF YEAR 2003)	34
EXHIBIT 5: MAIN ECONOMIC INDICATORS OF INTERNATIONAL TRAVEL SERVICES	35
EXHIBIT 6: FOREIGN INVESTMENT CHINA COMPANY REGISTRATION FLOW	36

ABSTRACT

Based on our empirical analysis on China potential MICE (Meeting-Incentive-Conference-Exhibition) market, we have come to these results:

Firstly, China is an emerging market with the total population is reaching to a one-fifth ratio among total world's population. Secondly, the Chinese cultural community feature is highly valued. And last but not least, the number of Chinese business travel overseas is continuous increasing, as our customer analysis pointed out, these are certainly good signals for a potential MICE business opportunity.

Besides the market analysis, this paper aims to analyze the strength and weakness of a typical traveling company such as SA Tour, a real Singapore traveling company, we found out that SA's strength is brand awareness and package tours. This will contribute to the development of its business services and products which we also discuss in the marketing strategy in detail in later session.

Next, A real case analysis can not be done without considering the context or environment analysis. So, our methodology is performing a total company analysis combined with a focusing market analysis in China, then, we also used a hypothetical financial model with assumed variables from commercial banks to estimate this project results. In conclusion, the positive Net Present Value (NPV) from the project and good performance of SA Tour in current business, plus the good signals from an increasing and emerging China market in Asia are sound evidence for us to suggest that The Board of Management of The Company should consider a next implementation plan to make this project become feasible.

Finally, we also include in this paper performing a total marketing strategy to support for SA Tour to consider before it goes into the action. It is also considered as an analysis of a market expansion strategy for SA Tour before entering the new potential market, The People's Republic of China.

INTRODUCTION

China is Asia's biggest and the world's fastest growing outbound tourism market, with annual growth expected to continue at around 20%. The figures for China are truly staggering - the World Tourism Organization predicts 100 million trips a year by 2020, with a market worth £100 billion. China is now the fifth most popular tourist destination in the world and is to become number one in next 15 years⁴. The Chinese government is easing going-abroad policies. Also, since Mandarin is spoken both in Singapore and China there is no language barrier. Hence we can expect the growing demand for Chinese companies which seek to expand their relationship with foreign companies by participating in the exhibitions.

SA Tour is a traveling company in the Singapore tourism industry. Its core business before 2007 is providing tour package to travelers. Since 2007, SA Tour, or the company, has started to implement a business expanding strategy in the MICE industry. Its plan aims to develop the customer networks, including individual, business and group travelers between China and Singapore.

The following sessions are organized in this order. The session 1 is a market analysis which takes China emerging market as the main analytical factor. Session 2 includes a management analysis and recommendation for SA Tour's board taking it into consideration in the MICE implementation plan. Session 3 and 4 provides benefits both to SA Tour Board and external investors and lending organizations where they look at the projected financial plan results and the analyzed business risks. Then, the conclusion and suggestion to lenders are mentioned in the two last sessions. Finally, a reference source is also provided for current and further information and research on doing MICE business in China.

I- LITERATURE REVIEW ON CHINA TOURISM MARKET

Worfgang Arlt (2006) showed in the book “China’s Outbound tourism” that China is transforming from an inactive to one of the most active tourism market for international travelers where 35 million Chinese people travel cross border in 2005. MICE China Magazine (2009). Next, Alan A. Lew, Lawrence Yu, John Ap, Zhang Guangrui. (2004), give us with the below statistic data showing that China is ranked 5th position in The world’s top ten international tourism destinations in 2000:

Rank	Country	Int’l Tourist Arrivals (millions)	Growth (%)
1	France	74.5	2.0
2	United States	52.7	8.7
3	Spain	48.5	3.7
4	Italy	41.2	12.8
5	China	31.2	15.5
6	United Kingdom	24.9	-15.5
7	Russian Fed.	22.8	23.2
8	Canada	20.4	4.9
9	Mexico	20.0	5.0
10	Germany	18.9	10.5

Source: World Tourism Organization (WTO) (2001). *Tourism Highlights 2001*.

Because not many researches done in giving recommendation for the MICE business development in China from both the Company’s Board and financial institutions’ point of view, in the below session, we continue to analyze features of this potential emerging market, especially with a focus on the appraisal of the MICE business opportunity.

II- THEORY OF MARKET EXPANSION STRATEGY

Before we conduct a total marketing strategy, it is necessary to mention one of traditional marketing strategy which, in this case, is so-called market expansion strategy in Asian emerging markets by project financing. Venkatraman and Camillus(1984) and Porter (1985) said in general, strategy provides direction to a firm as to how to properly align its resources to exploit opportunities and minimize threats. Chorn (1991) mentioned the term “strategic fit” as a popular means of illustrating the alignment degree among resources of the firm, and also the competitive environment. However, the conceptual market expansion strategy in emerging markets has received a few research, among them is Vasant V.Bang and Sharad L.Joshi (2008). They

identified three (3) components of a market expansion strategy including: (1) a definition of market scope in terms of customers and competitors, (2) the creation of willingness and ability among target customers, and (3) the fulfillment of demand in a sustainable manner. This paper uses the same conceptual framework with a focusing on the fit between internal factors (management, organization structure, financial source) and external factors (such as customers, competitors and environment). In addition to, it aims to mention one more concepts which is normally used as an internal mechanism to conduct the above market expansion strategy in emerging markets, so-called project financing in developing countries. The reason for us to suggest the SA Tour Board to use the project financing for this China expansion strategy is that there are several benefits to the firm such as: reducing the overall risk when there are many banks and participants, increasing the availability of finance, and having the consulting and analysis from the financing organization, which is important and confirming the project feasibility one more time. Constructing a project is the same meaning with carefully preparing a detailed and written Project feasibility in which, both the company and the financing organization or lenders will look at the overall strengths and weaknesses of the firm including: financial strength, management experience, corporate culture, board of management evaluation, financial risks, project risks and business risks and more important, the business credit risk assessment. To do this, first of all, we have to perform a total marketing, financial and management plan. Benjamin C. Esty (2003) also confirmed that the rise of project finance, from less than \$10 billion per year in the late 1980s to almost \$220 billion in 2001, provides strong evidence that financing structures do affect the firm value. Mentioning the financial source alternatives in using a project financing is including several methods:

- a) *Using common equity* : the firm issues equity to sponsoring organization
- b) *Using preferred equity*: giving the sponsoring organization a priority in receiving dividends and funds in the event of liquidation.
- c) *Using convertible debt (subordinate)*: giving them a right to convert debt to equity as the holder's option
- d) *Using unsecured debt* : short, medium or long term
- e) *Using secured debt* : short, medium or long term and safer to the sponsors
- f) *Using lease financing* : provide some benefits to the leasing companies such as asset depreciation and tax shield

To keep the analysis simplicity , this paper suggest debt financing from banks to SA Tour and analyze it as it is the security and more common way to sponsoring organizations such as commercial banks.

III- MARKETING ANALYSIS AND CHINA LOCAL INSIGHTS

CHINA – INVESTMENT CLIMATE

In the last twenty five years China had average annual growth of 9%.¹ The Political climate in China is well suited for investment. According to Chinese government “During the past 24 years when China implemented reform and opening to outside world, China has developed at a supernormal speed in absorbing foreign investment and has made great achievements attracting the world attention.”² and China will become the world's third largest market for corporate travel in five years.³ A survey of 1,500 firms in five Chinese cities—Beijing, Chengdu, Guangzhou, Shanghai, and Tianjin—shows large variations in the investment climate across the five cities, with Guangzhou and Shanghai winning the best “report cards.” Shanghai hosted events such as Fortune 500, APEC and ADB, which put Shanghai on the map for the MICE market in the world. Shanghai hosts the regional headquarters of more than 300 Fortune 500 firms, in most cases including head administrative offices and financial management centers. We recommend SA Tours to concentrate efforts in these two cities in addition to Beijing. Also, new visa policies were implemented to facilitate the travel for foreign tourists coming to China.

MICE INDUSTRY IN CHINA- MACRO PERSPECTIVE

The business travel is experiencing a boom in China. China is likely to replace the United States as the world's largest business tour destination by 2020. Compared with the world average level of 4 per cent, China's business travel market is expected to grow at 10 % cent plus in the next 10 years. By 2020, China is expected to attract more than 137 million overseas business travellers, accounting for 8.6 per cent of the world's international travel market.³

ENTERING CHINA MICE MARKET AND COMPETITIVE ENVIRONMENT

The absence of a major brand in the market is SA Tours advantage. However there are thousands small players, with considerable revenues. We recommend that SA Tour makes alliance with some Chinese companies. The future MICE places should be in Guangzhou and Shanghai. Alliance is necessary, because of competition, and the lack of market savvy.

DIFFERENTIATION STRATEGY

SA Tours` objective should be to delight those customers who are willing to pay for it, and neglect unprofitable customers. This process requires deep knowledge of corporate needs and wants, which on the other hands necessitates close relationships between SA Tours and corporate world. SA Tours should be consultant to most profitable customers, providing services with quality better than customer`s expectation. Also, the company should pay attention to order processing. The booking system should be available through e-mail, telephone, and internet access... The company should offer two packages to its customers: partial package or full package. After customers enter data such as purpose, financial fund, number of business travelers, desired destination, hotels... and point out which service they want (high quality and high price, low quality and low price, or high quality and competitive price), they can choose 2 kinds of services: Then, customers will select which action they want to do by themselves, and which they need Sa Tours to organize. Based on entered data, company will do the best in the same day to answer them and advise them at least 2 options: one is higher than their expectation, another is equal to their expectation (our consultants should have some good sense to analyze their expectation).

MARKETING STRATEGY SA TOURS AND BRAND POSITIONING

According to Research and Markets Agency "...in 2003, there were a total of 11,522 travel agencies in China, among which, 1,349 were international ones and 10,203 were domestic ones".⁴ Such hypercompetition make it imperative for SA Tours to find a tool to differentiate itself in the market. SA Tours should strategically use its limited resources, by relying heavily on word of mouth delighted customers. This source of advertisement is free and reliable. Another avenue for differentiation is Brand. SA Tours should leverage its brand to China and invest heavily in brand building. Once, well-known brand would allow SA Tours to charge premium price and also brand would be promise to deliver quality, which would minimize potential risk for business travelers and save SA Tours money in the long run.

SA Tours should concentrate its efforts in Beijing, shanghai and specializing in niche and later offering other services to corporate world. SA Tour should be pioneer in organizing business meetings in specific industry segment.

MARKETING PLAN

Pricing strategy

In initial stage of market growth, company should charge low price. Later on, when the brand becomes well-known it could charge premium. Further, a premium price will align with SA Tours positioning as a premium brand and have a connotation of high service associated with it. Also, in

business demand as market research studies show, demand is less elastic. So, the premium price charged would not have a big impact on sales and profit drop. In the first year of operation we expect to have 0.05% of market share, 0.21% in the second year and 0.23% in the consecutive years. This relatively small market share is the result of highly fragmented travel industry in China. In addition to, **for Individual Businessman:** In Chinese market, company should pursue *market penetration strategy*. Low price will allow company to get big market share. For pure MICE services, average Chinese business traveler can save around: S\$ 1,111. 2-way Air ticket + MICE cost + hotel room + services = 950\$ + 30\$ + 30\$ *(1+ 10%).⁵

















For group/business customers: Price discount policy should be used: SA Tour provides *cash discount* for those who pay their bills promptly (for example, 2% discount to those who pay within first 10 days). Also, *special-event pricing* and *psychological discounting* should be used. Company should give discounts to group of business customers. Cash discounts should be given to those customers who pay on time. Company should use innovative techniques to create brand awareness such as special-event pricing (reducing price on events) and psychological discounting.

Product strategy

To achieve its objective of a differentiation strategy which aims to provide services and quality to delight customers, SA Tours should provide *a convenient ordering process*, through e-mail, telephone, and Internet access. After customers enters data (purpose, credit card number...) and type of service (high quality and high price, low quality and low price...), they can choose 2 kinds of services: *partial* or *full package*. Then, they can choose which action they want to do by themselves, and which they need us to organize. Based on above information, our consultants will do the best in the same day to answer them and advise them at least on 2 options.

As our below chart shows, SA Tours offer 4 pure MICE products and 16 types of mix products (combination between MICE and 4 kinds of tour). Actually, when combined with “partial” or “full package”, total types of products will be 32 (double). In both markets, Singapore and China Company will offer event organization for both individual and corporate customers. Further, for each of these services, the additional services will be offered such as Sightseeing in day and night, Cruise vacation and Outbound Singapore. In Singapore the businesspeople could see many of attractions such as East Coast Park, Sentosa, Chinatown, Little India, Night Safari, Telok Blangah Hill, Singapore River, The Esplanade, Downtown East and Malay Village. In Beijing the visitors could see Layout of Beijing ■ Ming Tombs, Forbidden City Temple of Heaven Great Wall of China, Sacred Way Summer Palace, Tian'anmen, Beihai Park, Yonghe Lamasery, Grand View Garden, Hutong. In Shanghai the locations to visit would be: Huangpu River and the Bund, Jade Buddha Temple, Jin Mao Tower....

	Pure Mice products	Sightseeing day	Sightseeing night	Cruise vacation	Outbound Singapore
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1) MICE for China market (our main market)	+ for business traveler (individual)				
	+ for groups (company,...)				
2) MICE for non-China market	+ for business traveler (individual)				
	+ for groups (company,...)				

Promotional tools

Advertising: In order to increase awareness in China business market, SA Tour should advertise in Fortune, Business Week, Forbes... This magazines would link Sa Tours to the club of the market leaders. Also, specialized magazines such as Computer World China, would help company to target specific industry. In addition, SA Tours should build “MICE portal”, which is the gateway to the business travel in China. The web site should be accessible by different devices. Also, company can buy banner ads at www.sina.com.

Promotion: SA Tour should engage in building customer database and use sophisticated data mining techniques to identify most valuable corporate buyers and offer them value and proportionally charge. Also, by customer relationship Management Company can identify bronze customers-those which SA Tours would like to get rid of. Prospective group of corporate customers should be given a discount. Also, frequency program could be established. Agencies in distribution should be given Advertising allowance.

Besides, it is necessary to build awareness among Chinese companies. SA Tour should advertise in industry newspapers, magazines, Internet, Brochures, Yellow pages and mobile Internet. SA Tour will set a discount policy for representatives of regular groups or businesses, and on big events and to full package as well. Advertising allowance and display allowance should be set up for SA Tour’s distributors and agencies.

Next, the establishment of a so-called SA’s system of **channels of distribution is necessary in next 5 years**. SA Tour needs to negotiate and build relationship with 20 -30 China travel agencies in big cities of China : Shanghai, Beijing, Guangzhou,...those which act as its partners and representatives for MICE projects in China. Additionally, SA Tour’s branch in Tinjian should be an access to support opening of a MICE branch in Shanghai or Beijing. Last but not least, SA Tour should join in STB’s “Make it in Singapore” campaign.⁶

Last but not least, SA Tours should use combination of push and pull promotional strategies in building its brand. The major factors that affect the decision of corporate people in choosing place for MICE is So, it is necessary to use the appropriate level of each media to reach the potential

customers. It is necessary for Sa Tours to spend considerably in initial brand awareness campaign, after which the budget could be leveled off.

Pull Strategies

Advertising: SA Tours should emphasize the Singapore and China as a top business destination, the places where business people meet, and creating sense that missing some corporate MICE event would mean a loss for a company. By missing MICE event, the company is left over. Also, Singapore should be promoted as a clean, intelligent progressive island. This would strengthen the very of SA Tours, and create sense of prestige among corporate circles.

Sa Tours could use various media channels. It can sponsor specific TV shows, tailored to the corporate world. It can advertise on the web-sites of business magazines. These vehicles would be good choice in reaching lucrative Chinese market. Also, Billboards placed at good locations such as business centers would be a cheap and an effective way of reaching the target customers.

Public Relations: In order to optimize advertisement and promotional costs, SA Tours should use PR strategically, in order to differentiate itself in the market. SA Tours Dragon should try to build a good socially responsible company, which regards promotion of Chinese corporate world as a goal, besides, company-centric goals. SA Tours employees, should try to write an articles about China MICE industry, or maybe start "SA Tours MICE Magazine", so the company's brand will be synonymous to MICE, which helps SA to differentiate itself in the market. SA Tours should participate in other MICE events in order to keep abreast with the happenings in industry, make benchmarking and screen for best practices. SA Tours should also participate in annual events such as "China International Business & Incentive Travel Mart 2006 (www.cbitm.com)". Sa Tours should allocate around as PR Budget. Refer Exhibit 17 for details)

Blogging: SA Tours should utilize cutting-edge marketing tools and techniques to generate positive word of mouth. As part of this campaign, Sa Tours should encourage corporate customers to write testimonials on MICE blogs. SA Tours should put addresses of these blogs as hyperlinks from its website. SA Tours should make a Mice blog such as www.chinamiceblog.com. This site would be a good place for corporate people to share opinions on past experiences.

Push Strategies

Direct Mail: SA Tours should send brochure of its service offerings to customers most likely to purchase its services.

China Insight

China Outbound Travel current situation

By recent fast growing in economic and the open policy of china government, china now accounts for the further development of world tourism. According to recent American Express

Business Travel released the result of its second survey of corporate travel management service in China market on April 13 in Shanghai. The survey has found that China will become the world's third largest market for corporate travel in five years after the fastest growth in the world. The survey also shows that the spending on international business travel by China approximates 4.2 billion USD a year, which is 17 percent of the Asian market for business travel. The robust growth of China's GDP is very likely to secure a two-digit rise of China's business travel market in the years to come. It is estimated that the number of Chinese business travelers will be 5 times as many as that at present by 2020.

Normally China business outbound travel market has 2 major sectors, one is for the government or enterprise staff to go aboard for the purposes of meeting, incentives, conventions, exhibitions, the other one is business travelers who travel aboard for business issues. Recently because of the rapid internalization development at China, the trend of outbound business travelers' number had growth a lot in recently decade.

Customer Analysis

According to the past records it showed that among all the business travelers, the state owned (Public) business sector is still the majority of Market. As the increase of China diploma and foreign business development, we can expect the potential growth in the further.

China outbound business travel segments

Segment		Characteristics	Distinctive Attributes
State owned business	Passport holders who works at nationalize business		
Business Expedition & Incentives		<ul style="list-style-type: none"> ◆ Small group (6-8 people) ◆ Mostly are employed in senior positions ◆ Objective travel purpose 	<ul style="list-style-type: none"> ◆ The package should cover both business needed and sightseeing ◆ Need to be customized ◆ Flexibility in time and content
Meeting & Exhibitions		<ul style="list-style-type: none"> ◆ Big group (20 ~ hundreds) ◆ Usually administrate and union by government. ◆ The groups composite of several subgroups from different originations & firms ◆ The application process has more constrains and takes long time 	<ul style="list-style-type: none"> ◆ Required Authenticated travel agent. ◆ Need to follow the regulation
Training		<ul style="list-style-type: none"> ◆ Small to medium group ◆ Longer staying time ◆ The number is increasing now 	<ul style="list-style-type: none"> ◆ Total service including flight and accommodation

		because China government is more likely to approved	
Private business sector Passport type who go aboard within private reason			
MICE		<ul style="list-style-type: none"> ◆ Higher demand from finance, insurance, real estate and business service industries. ◆ Often cooperate has long term contract with travel agent. 	◆ Destination Business community management ability

The factors that influences the preference for China cooperation to chose their Travel service providers was influenced by the government policy and environmental issues.

China Outbound Business Travel demands vary by the Market	
Public/State owned Sectors	Private Sectors
Visa Application process management <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">Highest</div>	Visa Application process management <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">High</div>
Destination Contact Management <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">High</div>	Destination Contact Management <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">Highest</div>
Sightseeing tour arrangement <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">Medium</div>	Sightseeing tour arrangement <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">Medium</div>
Bargain power of flight ticket <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">Low</div>	Bargain power of flight ticket <div style="background-color: #008080; color: white; text-align: center; padding: 5px;">High</div>

Public/State-owned Sectors general requirement

For the state-owned business segment, it usually required the complicated process to grant the approval of destination because of the restrict regulation by China government. Normally this market was dominated by the government owned travel service department because of their advantage to arrange the application process.

Secondly, from the ethical perspective, the ministration of china government generally gets the perception that travel agencies mainly handle the private business travels. In order to avoid the controversies of using public money for personal use, they usually allocate the service via the public service.

Private Sector general requirement

Although most of travel agencies have enough resources and operation management abilities about the airline tickets, hotels, sightseeing and local affair management .But in case of private business travel requirements, it was not enough because they are always within strong objective. The travel agencies need to provide more business oriented services. Especially their contact channels with the local business communities and the designated government contact window of destinations

Service Suppliers analysis

Currently outbound business traveling service suppliers in China can be categorized as below matrix:

Type	Share	Destination constrain	Visa acquisition Ability	Business arrangement	Price	Execution ability
Government owned travel service firms	35	Unlimited	Best	Best	Highest	Better
Business Consulting firms	25	Unlimited	Better	Good	Higher	Better
Outbound Service firms	10	Unlimited	Better	Good	Higher	Better
Travel Agency	10	limited	Good	Good	low	Good
Branch of foreign travel agency	5	Specified destination	Better	Better	low	Better
Others	15	-	-	-	-	-

The *Travel agency* gained relative low market share because currently for public/private sectors of cooperate travel, they need to obtain the destination approval grant by the China government .As the sequence, it because the major problem faced by Travel agency to operate or to open their new business at cooperation travel market.

Competitor Analysis

Before year 2001, most of business outbound travelers were public sectors employees. As the result the business travel service market was monopolized by the government service departments. After year 2002, more and more travel agencies were allowed to operate this business granted by the China government. Recently the global leading business travel services companies such as American Express, Carlson Wagonlit Travel (CWT), BTI, Cendant etc had launched their service at China. They are all looking forward the further potential of China outbound business travel market.

Environmental Analysis

Political/Regulatory

Now the Chinese government has simplified exit procedures for outbound travelers. And new rules and regulations have been implemented to protect consumers and regulate the tourism industry.

Economic

China's gross domestic product (GDP) is expected to grow by more than 8 percent in 2005 compared with an estimated 9 percent this year, according to a survey released by the National Bureau of Statistics of China. The growth of China economic and the stable political development are benefited to the business travel development.

Regional

From the statistic report from National Bureau China Statistic Press (See Exhibit 5), it shows that Beijing plays No 1 position among the yearly taking of International Travel Service 2003.

III- MANAGEMENT ANALYSIS

Corporate Identity and Quality Management Policy

Mission: The SA Tours subsidiary in China would be identical to the mission of parent company in Singapore.

SA Tours` Vision: "The vision should be to become leading MICE Company in China by year 2020."

SA Tours` Value System/Quality Management Policy:

- Delight customers, so they will be our best proselytizers
- Care for employees who further care for customers and external environment.
- Promote Chinese corporate world by creating linkages with foreign companies.
- Value creation to customers, profit to shareholders, salaries to employees.
- Innovativeness, Creativity and national modernization.
- Be innovative proactive learning organization.

SA Tours China Organisation Structure:

The Reporting Structure of the Chinese operation with the parent headquarters in Singapore. The Chinese subsidiary would report directly to Singaporean headquarter, but would have autonomy in marketing, supplier, public and governmental relationship. For example, autonomy in setting place and venues for MICE events.

Management Compensation and Hiring Plan:

The SA Tours should hire a few MBA degree holders, who have prior experience in MICE industry, and educational/company's background in Marketing/International Management. That person should be Mainland Chinese with international exposure.

The best candidates would be Chinese MBA students studying in Singapore, who worked in travel industry. Such candidates have insights into both Singapore's and Chinese market, industry savvy and cultural knowledge.

The performance evaluation of the Chinese company's team would be based on (needless to say) on Sales and Profit. Also, the evaluation should include also customer satisfaction, brand equity and customer base building. These goals mutually reinforce each other.

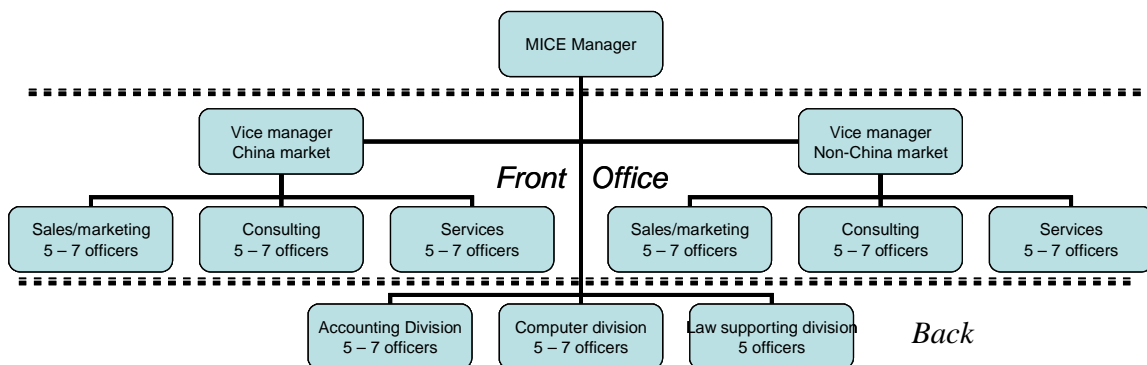
Strategic Alliances:

Due to the lack of experience in China MICE market SA Tours should make partnership with mainland Chinese companies. The partnership would be mutually beneficial. SA Tours could assist Chinese partners in bringing Chinese companies into Singapore. The Chinese partner company should be:

- a) Innovative, keen in market leadership and interested in investing in brands.
- b) The corporate culture similar to the SA Tours`.
- c) The company with long experience in travel/tourism industry.

Operation model (organizational chart): (*Front and back structure*):

The SA Tours should consider to develop its MICE business function in next 5 years as following, in order to utilizing the best capability of the current labor market in Singapore and local laborers in China.



IV – FINANCIAL EFFECTIVENESS ANALYSIS OF SA'S MICE PROJECT

We try to make our assumptions in the condition that best fit to the current condition of the company and the market in the year 2004 forward. In particular:

- Assumption and Explanation: a detail explanation table will be presented in the Appendix. Here, we only summary main assumptions :
- ✓ China businessman market : in 2004 is **880,000 visitors**, and the average growth rate in next 10 years predicted at 15%/year (source : STB)

- ✓ Average price estimated at **1200 SGD** per businessman (from STB website, we have total revenues of MICE customers was 2.4 b SGD, divided by total businessmen of 2 m businessman, we get 1200 SGD as revenue/visitor from a businessman in 2004. *Please refer to pricing strategy part for more information*)
- ✓ SA Mice's board of managers market reaching objective is : having at least 582 customers for the 1st year , i.e 0.05% total market share, 0.21% for the 2nd year, and approximately 0.23% for next years.
- ✓ SA also get other revenues from other activity : we use our website to create a network of partners and provide advertising service for them (online). The membership fee is low at 200 USD per year. And we expect to get 30 partners in first 3 years, 60 in next 4 years and 90 in last 4 years.
- ✓ To do this project, total investment is 1,189,349 SGD. Financing structure is : 475,740 SGD from owner's equity (60% total investment), and 713,609 from a 5-year loan (40% total investment). Interest rate about : 7.5%/year (from China bank website).
- ✓ Relating to operating costs, Please refer to previous parts and appendix for details. Main costs assumed are advertising cost (20% revenues) and promotion cost (25% revenues). Mice manager's salary about 3500 USD/month, Vice manager salary about 1800 USD/month and team leaders' salary about 180 USD/month.
- ✓ Assumption about working capital need is :

V. Working capital Need			
1. Cash	Days of salary	15	days
2. Reserve A/R	Days of revenues	10	days
3. Reserve A/P	Days of distributors	10	days

- ✓ Other factors are : discount rate 12%; income tax : 22% ; VAT 3% ; Exchange rate : SGD/USD = 1.69 ; RMB/USD = 8.3 ; SGD/RMB = 4.91.
- ✓ *For more details, please see in Appendix.*
- With these assumptions about quantity and price and market share as well, we can calculate Revenues/sales and quantity of this project through a-year period :

Revenues, sales and market share period 10 years (2006-2015)										Unit : SGD
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Expected Market share	0.05%	0.21%	0.22%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
Business visitors	582	2811	3386	4071	4682	5384	6191	7120	8188	9416
Main activity Revenues	698280	3372692	4063291	4885184	5617962	6460656	7429755	8544218	9825851	11299728
Other revenues	10140	10140	10140	20280	20280	20280	20280	30420	30420	30420
Total Revenues	708420	3382832	4073431	4905464	5638242	6480936	7450035	8574638	9856271	11330148
VAT	20948	101181	121899	146556	168539	193820	222893	256327	294776	338992
Revenues after VAT	687472	3281652	3951533	4758909	5469703	6287117	7227142	8318311	9561495	10991156
Revenues after VAT (mS\$)	0.7	3.3	4.0	4.8	5.5	6.3	7.2	8.3	9.6	11.0

- Then, we continue to analyze Operating costs of this project. From above parts of Marketing analysis, Operating analysis, we see where operating costs come from. Here we summarize in one table for convenient estimation of business performance :

Operation cost period 10 years (2006-2015)

Unit : SGD

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Salary (SGD/year)	505621	554924	604289	873600	967502	1061473	1155515	1432428	1528998	1531656
2. MIS project cost	3380	3380	3380	3380	3380	3380	3380	3380	3380	3380
3. Administration cost	33800	33800	33800	67600	67600	67600	67600	101400	202800	202800
4. Utility cost (water, electricity,...)	8450	8450	8450	16900	33800	67600	135200	25350	25350	50700
5. Pay for Distributors 10%sales	69828	337269	406329	488518	561796	646066	742975	854422	982585	1129973
6. Marketing cost										
Advertising cost	104742	505904	609494	732778	842694	969098	1114463	1281633	1473878	1694959
Promotion cost	139656	674538	812658	977037	1123592	1292131	1485951	1708844	1965170	2259946
7. Other costs (Maintenance, Web...)	34914	168635	203165	244259	280898	323033	371488	427211	491293	564986
8. Total Operating cost	900391	2286900	2681565	3404072	3881263	4430382	5076573	5834667	6673453	7438401
VAT	27012	68607	80447	102122	116438	132911	152297	175040	200204	223152
9. Total O.Cost after VAT	873379	2218293	2601118	3301950	3764825	4297470	4924276	5659627	6473249	7215249
10. Total O.Cost after VAT (mS\$)	0.9	2.2	2.6	3.3	3.8	4.3	4.9	5.7	6.5	7.2

- To do Mice project, SA Mice need to have a guarantee of its mother company – SA Tour in Singapore to borrow money from the bank. Timetable for repaying principal can be estimated by assuming some conditions usually used in the bank :

Timetable of repaying principal of the medium term loan							Unit : RMB
	2006	2007	2008	2009	2010	2011	
March		175235	175235	175235	175235	175235	3504709
June	175235	175235	175235	175235	175235		
Sep	175235	175235	175235	175235	175235		
Dec	175235	175235	175235	175235	175235		
Total	525706	700942	700942	700942	700942	175235	
Assumptions : pay back every period of 3 months, at end of period, 1st withdraw on March/2006, 1st repayment from the 6th month. Loan term : 5 years (from March/2006 to March/2011)							

Besides, a general plan of repaying principal and interest for both medium and short term loans will be put in the Appendix (please see Appendix –Table 4)

- With above assumptions and our market strategies in each stage, We calculate the Business Performance of SA MICE through 10-year activity cycle :

SA TOUR's MICE Project's Business Performance during 2006-2015 (10 years)

Unit : million SGD

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Net revenues	1	3	4	5	5	6	7	8	10	11
2. Net Operating cost	0.9	2.2	2.6	3.3	3.8	4.3	4.9	5.7	6.5	7.2
3. Depreciation coat	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
4. Interest rate	0.05507	0.04860	0.03479	0.02408	0.01338	0.00268				
5. Profit before tax	-0.36	0.90	1.20	1.31	1.57	1.87	2.18	2.54	2.97	3.66
6. Income tax		0.20	0.26	0.29	0.35	0.41	0.48	0.56	0.65	0.80
7. Profit after tax	-0.36	0.70	0.93	1.02	1.23	1.46	1.70	1.98	2.32	2.85
8. Accelerted profit	-0.36	0.34	1.27	2.30	3.52	4.98	6.68	8.66	10.98	13.83
Financial indexes										
1. ROS		21.3%	23.6%	21.5%	22.4%	23.2%	23.6%	23.8%	24.2%	26.0%
2. ROA		58.7%								
3. ROE		146.8%								

- Break-Even analysis :

Break -Even Analysis										Unit : million SGD
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Total cost	1.05	2.39	2.76	3.45	3.90	4.42	5.04	5.78	6.59	7.33
Fixed cost	0.509	0.509	0.509	0.509	0.509	0.509	0.509	0.509	0.509	0.509
Variable cost	0.5	1.9	2.2	2.9	3.4	3.9	4.5	5.3	6.1	6.8
Unit Variable cost	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
2. Unit price	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012
3. B/E quantity (visitors)	1855	957	948	1063	1069	1075	1088	1107	1113	1071
4. B/E revenue (mSGD)	2.23	1.15	1.14	1.28	1.28	1.29	1.31	1.33	1.34	1.29
5. Average B/E quantity	1135									
6. Average B/E revenue	1									

In this table, we calculate the break-even number of customers being 1135 businessman /year and break-even revenue need to reach 1 m SGD/year.

- Analyzing financial effectiveness through Cash flow and NPV estimation :

Cash Flow and NPV analysis

Unit : million SGD

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Net Cash Flow from Operating										
1.Revenues	0.69	3.28	3.95	4.76	5.47	6.29	7.23	8.32	9.56	10.99
2.Operating cost	-0.87	-2.22	-2.60	-3.30	-3.76	-4.30	-4.92	-5.66	-6.47	-7.22
3.Tax	0.00	-0.20	-0.26	-0.29	-0.35	-0.41	-0.48	-0.56	-0.65	-0.80
Net cash flow	-0.19	0.87	1.09	1.17	1.36	1.58	1.82	2.10	2.43	2.97
II. Net Cash Flow from Investment										
1.Fixed assest (loan)	-0.71									
2.Fixed assest (Equity)	-0.48									
3.Beginning Working capital		-0.04	(Because almost transactions are paid right away, following years working capital is assumed = 0)							
4.End-term liquidation										0.00
Net cash flow	-1.19	-0.04								
III. Net Cash Flow Financial activities										
1. Loan	0.71									
Repaid capital	-0.107	-0.143	-0.143	-0.143	-0.143	-0.036				
repaid interest	-0.0535	-0.0455	-0.0348	-0.0241	-0.0134	-0.0027				
2. Short term loan										
Repaid capital		-0.0388								
repaid interest	-0.0016	-0.0031								
3. Equity	0.48									
Net cash flow	1.03	-0.23	-0.18	-0.17	-0.16	-0.04				
IV. Total Net cash Flow (I+II+III)	-0.35	0.60	0.91	1.00	1.20	1.54	1.82	2.10	2.43	2.97
NPV (@12%)	6.42									
IRR	207%									

We see that this project is quite effective. With NPV of the project is 6.42 m SGD and IRR 207%.

The first year cash follow is negative because SA is in the beginning investment. Now, we do pessimistic, realistic and optimistic analysis:

- Scenario analysis with pessimistic, realistic and optimistic scenerios :

Pessimistic	Price decrease	50%	Interest rate increase up to	10%	Market share decrease	50%				
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	0	2	2	2	3	3	4	4	5	6
Net profit	-0.63	0.05	0.16	0.09	0.16	0.23	0.3	0.37	0.46	0.72
NPV	0.66									
Optimistic	Price increase	50%	Interest rate decrease to	7%	Market share increase	50%				
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	2.04	4.92	5.92	7.13	8.19	9.42	10.83	12.46	14.33	16.47
Net profit	0.32	1.34	1.70	1.95	2.29	2.68	3.11	3.60	4.18	4.99
NPV	12.48									
Realistic	Average Price	1200 GSD	Interest rate	8%	Market share not decrease, not increase					
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	0.69	3.28	3.95	4.76	5.47	6.29	7.23	8.32	9.56	10.99
Net profit	-0.36	0.70	0.93	1.02	1.23	1.46	1.70	1.98	2.32	2.85
NPV	6.42									

In above results, NPV will be 12.48 m SGD in case of optimistic conditions and 0.66 m SGD in pessimistic situation. At least, We see that NPV still > 0 in pessimistic assumptions.

- Sensitivity analysis with only 1 variable :

Our assumption: Price are the only one factor which maybe affect SA's project strongest. Other factors remain constant.

The question is that: How can NPV be influenced by fluctuations in average selling price of Mice products? The answer may help SA Tour to realize relatively what is the minimum decrease in its pricing policy to make profit.

Analysis: We use Excel application of Data Table to do analysis. Excel gave us the following table:

Affecting to NPV If Price change

		-58%	-5%	-3%	0%	3%	5%	10%
NPV =	6.42	504	1140	1164	1200	1236	1260	1320
NPV =		-0.15	5.89	6.11	6.45	6.79	7.02	7.58

We see that : at least SA Tour should price its Mice products at an average price of more than 504 SGD /unit to push NPV > 0. SA's project will be fail if it try to lower price than 504 SGD/unit. Then, What happen if Market share change ? By using the same process with new variable , we come to the result table :

Affecting to NPV If Market share change

		-50%	-30%	-15%	0%	15%	30%	50%
NPV =	6.42	0.03%	0.04%	0.04%	0.05%	0.06%	0.07%	0.08%
NPV =		6.31	6.37	6.41	6.45	6.50	6.54	6.60

In this case, a big decrease in market share does not affect strong as a big decrease in selling price. Although market share decrease up to 50%, NPV of our project still > 0.

- Sensitivity analysis with 2 variables :

Our assumption: Price and WACC are fluctuations which maybe affect SA's project strongly. Other factors remain constant.

The question is that: How can NPV be influenced by fluctuations in average selling price of Mice products and the discount rate (WACC).

Analysis: We use Excel application of Data Table to do analysis. Excel gave us the following table:

Affecting to NPV If Price and Total investment change

		-60%	-15%	-3%	0%	3%	15%	30%
NPV =	6.42	480	1020	1164	1200	1236	1380	1560
-30%	832544	-0.15	4.94	6.30	6.64	6.98	8.33	10.03
-15%	1010947	-0.24	4.85	6.21	6.54	6.88	8.24	9.94
-3%	1153669	-0.32	4.77	6.13	6.47	6.81	8.17	9.86
0%	1189349	-0.33	4.76	6.11	6.45	6.79	8.15	9.85
3%	1225029	-0.35	4.74	6.09	6.43	6.77	8.13	9.83
15%	1367751	-0.43	4.66	6.02	6.36	6.70	8.06	9.75
60%	1902958	-0.70	4.39	5.74	6.08	6.42	7.78	9.48

We realize that our project is less sensitive to changes in total investment and selling price. Until Both selling price decrease up to 60% (480 SGD/unit) and total investment increases to 60% (1902958 SGD), NPV < 0. However, the determining factor is selling price : either total investment decrease 30% or increase 60%, if price decreases 60%, NPV is always < 0. Similarly, We check affecting to NPC of SA's MICE Project if both price and WACC fluctuation:

Affecting to NPV If Price and WACC change

		-60%	-50%	-20%	0%	20%	50%	60%
NPV=	6.42	480	600	960	1200	1440	1800	1920
WACC	3%	-0.06	1.88	7.67	11.53	15.39	21.18	23.12
	6%	-0.18	1.42	6.21	9.41	12.61	17.41	19.00
	9%	-0.27	1.07	5.08	7.76	10.43	14.45	15.79
	12%	-0.33	0.80	4.19	6.45	8.71	12.11	13.24
	15%	-0.38	0.59	3.48	5.41	7.34	10.24	11.20
	18%	-0.41	0.42	2.92	4.58	6.24	8.73	9.56
	34%	-0.45	-0.02	1.25	2.10	2.95	4.22	4.65

Here we could see WACC has a stronger influence on NPV than Total investment has. When WACC is expected to 34% and selling price decreases 50%, NPV < 0 (-0.02). However , through above analysis We recognize that our financial effectiveness is more sensitive to price than others.

Sensitivity analysis with 3 variables : We can use Excel with support from *Crystal ball* to do this job. When we set up changes in Price, WACC and total and investment as followed :

Step 1 : Define Assumptions :

+ Price : changes from to

+ WACC : changes from to

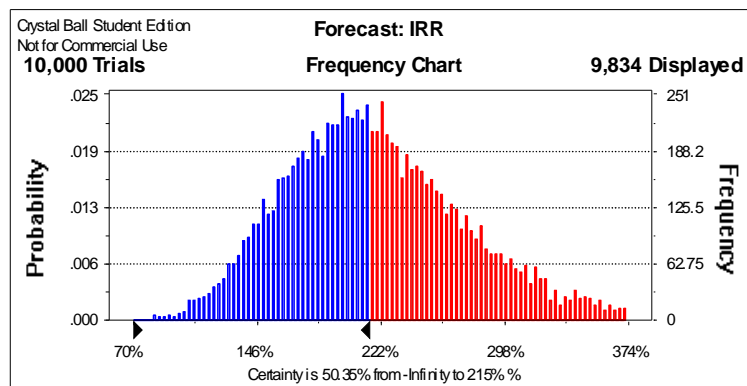
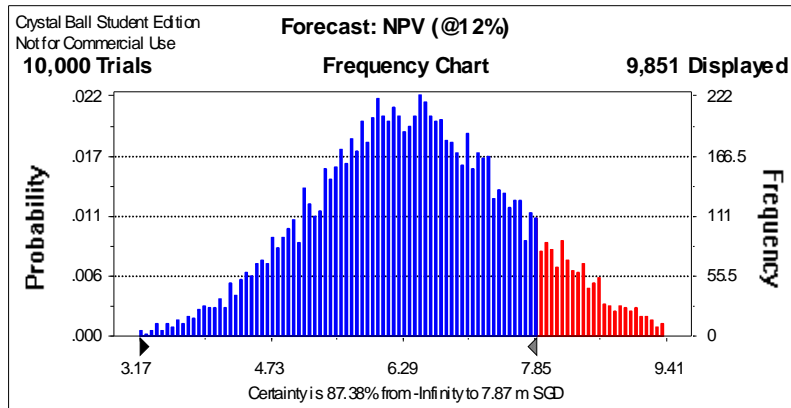
+ Total investment : changes from to

Step 2 : Define Forecast : NPV and IRR

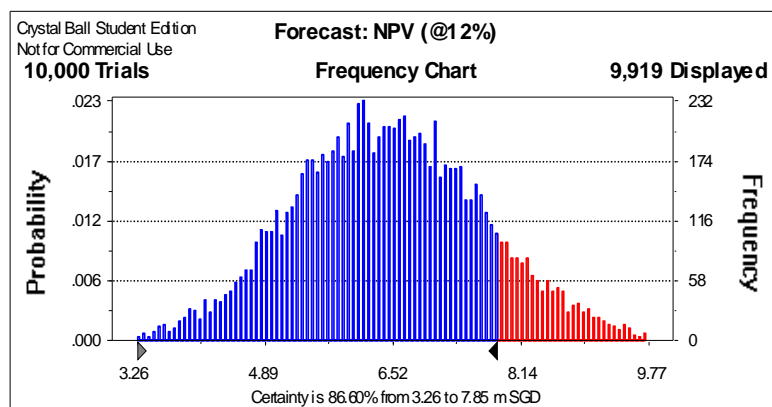
Step 3: Choose Run Preference : 10,000 trials

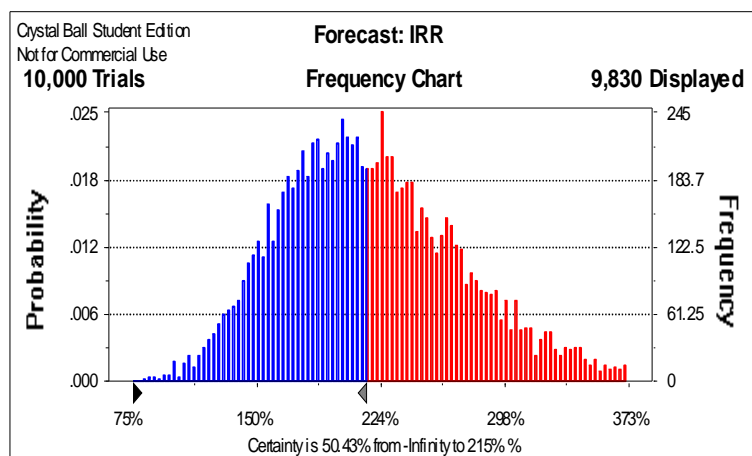
Step 4 : Choose Run

We will get the results as below. These charts show us that With 10,000 experiements of combination of changes in 3 above factors, The probabily for 3.17 mSGD < NPV <7.85 mSGD is 87.36%. This is a relative high probability of our MICE project financial effectiveness. In case of IRR, the probability is lower. To get an expected result of 70%< IRR <215%, through 10,000 trials, probability or certaniy is only more than 50%. However, Probability to get IRR > 70% is very high, more than 90% .



Sensitivity analysis with 4 variables: We try to do one more case with changes in 3 above factors and one new variable : “Market share”. Market share in our financial analysis is affected by 2 factors: SA MICE’s market strategy and the real number of Chinese businessman doing MICE in Singapore in 2004, last year. Therefore, we would like to know that what happen if SA Tour just reaches 50% or 80% its projected plan. Steps are done in order the same as the previous example and Crystal Ball analysis gave us the following result:





In this case, Certainty level of NPV higher than (>) 3.26 m SGD is more than (>) 86% and probability of IRR > 7.9% is more than 50%.

An example with 6 –variable sensitivity analysis will be included in Appendix. Now we will do analysis with the Projected Balance sheet:

SA MICE - Projected Balance Sheet during 10 years 2006 – 2015

Unit : SGD

Index	Years									
	2,006	2,007	2,008	2,009	2,010	2,011	2,012	2,013	2,014	2,015
ASSET	914,665	1,287,332	2,079,750	2,963,986	4,049,701	5,473,232	7,179,192	9,163,754	11,483,838	14,340,833
Current Assest	(155,496)	336,360	1,247,966	2,251,391	3,456,295	4,999,013	6,824,163	8,927,068	11,365,495	14,340,833
Cash	21,068	23,122	25,179	36,400	40,313	44,228	48,146	59,685	63,708	63,819
Cash surplus	(196,242)	219,271	1,109,637	2,078,728	3,259,364	4,774,759	6,569,071	8,629,199	11,028,001	13,962,287
Account receivable	19,678	93,968	113,151	136,263	156,618	180,026	206,945	238,184	273,785	314,726
II. Fixed Assest	1,070,161	950,972	831,784	712,595	593,407	474,218	355,030	236,686	118,343	0
Original price	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349	1,189,349
Depreciation	(119,189)	(238,377)	(357,566)	(476,754)	(595,943)	(715,131)	(834,320)	(952,663)	(1,071,006)	(1,189,349)
LIABILITIES + OWNER EQUITY	914,665	1,287,332	2,079,750	2,963,986	4,049,701	5,473,232	7,179,192	9,163,754	11,483,838	14,340,833
I. Liabilities	799,094	473,215	332,411	191,972	51,286	17,946	20,638	23,734	27,294	31,388
Account payable	1,940	9,369	11,287	13,570	15,605	17,946	20,638	23,734	27,294	31,388
Short term loan	190,587	0	0	0	0	0	0	0	0	0
Medium term loan due	142,722	142,722	142,722	142,722	35,680	0	0	0	0	0
Medium and long term loan	463,846	321,124	178,402	35,680	0	0	0	0	0	0
II. Owner equity	115,571	814,118	1,747,339	2,772,014	3,998,415	5,455,285	7,158,554	9,140,020	11,456,544	14,309,444
Paid in Capital	475,740	475,740	475,740	475,740	475,740	475,740	475,740	475,740	475,740	475,740
Retained Earning	-360169	338378	1271599	2296275	3522676	4979546	6682815	8664280	10980804	13833705

Total assets of our company will increase year by year with an average growth rate of about 30% per year. Because SA MICE 's business in tourism, main asset will be in current asset, which contain about from 60% to 90% of total assets.

- Business activity and financial ratio analysis on Projected Financial statements :

Ratio analysis on Projected Financial statements for the first stage : 2006 -2008

Year	2006	2007	2008	Calculation	Explanation
I - Short term solvency					

analysis				
1. Current ration		35.9	110.6	<i>Total current assest /total current liabilities</i>
2. Quick ratio		25.9	100.5	<i>Cash / total current liabilities</i>
II- Business activity analysis				
1. Total assest turnover	0.8	3.0	2.3	<i>Net operating revenues / total average assests</i>
2. Receivables turnover	34.9	57.8	38.2	<i>Net operating revenues / total average receivables</i>
III- Financial Leverage analysis				
1. Debt ratio	72%	25%	9%	<i>Debt / total assests</i>
2. Debt-to-equity ratio	566%	39%	10%	<i>Debt / equity</i>
3. Equity ratio	28%	75%	91%	<i>Equity / total assests</i>
4. Interest coverage		19.43	35.39	<i>EBIT / interest expense</i>
IV- Profitability analysis				
1. Net Profit margin (ROS)		54%	45%	<i>Net Profit / net operating revenues</i>
2. Gross profit margin		29%	31%	<i>EBIT / net operating revenues</i>
3. Return on assest (ROA)		63%	55%	<i>Net profit / average total assest</i>
4. Return on equity (ROE)		147%	196%	<i>Net profit / average equity</i>

We realize that SA MICE potential financial prospect in the first stage is good. It is expected to get a high liquidity capacity, a good equity capacity (from 28% to 91%). Gross profit margin will be 29% and 31% in 2007 and 2008. ROA will be 63% and 55% , and ROE will be 147% and 196%.

V – BUSINESS RISK ANALYSIS

Exchange rate risk: SA MICE receive RMB, SGD or USD from customers and pay back to its partners in China (distributors, agencies,...) in RMB. Because the timing between 2 kinds of payment does not match together, the exchange rate risk will appear. If RMB/SGD increase (RMB decrease and SGD increase) , a payment in SGD will be benefit to SA Tour and in reverse, if RMB/SGD decrease, SA will prefer to receive RMB.

Credit risk: In this project, SA has to borrow money from the bank under 2 types of loan: short term and medium loan. The source of repayment comes from potential customers. So, If SA cannot manage the project well, It will meet problem in preparing money to pay due liabilities. The above risk also implies capacity risk: To permit this project successfully, SA needs to prepare human resource strategy well. Especially, hiring a Mice Manager is the most important problem. The candidate needs to be very strong in visioning, inventing and relating.

Macroeconomic risk: This kind of risk comes from fluctuations in China's political and economic situation. However, recently, China economic indexes are quite good and its political situation is stable. So, SA can exempt from this kind of risk.

Environmental risk: This is also not a big problem. Past research surveys show that while number of tourists decrease by SARS, the MICE needs remain the same.

VI – CONCLUSION

We recommend that S.A. Tours offer MICE to both Chinese visitors to Singapore and Singaporeans visiting China. TIME readers choose Singapore as top business city for last five years and Singapore's MICE facilities were also voted the best in Asia for the second year in a row¹. According to Singapore Tourism Board's estimation, the MICE industry will grow at an average rate of 15% annually over the next 10 years, and that, by 2015, business and MICE events will be contributing to 35% of Singapore's total tourism receipts. Singaporean government identified MICE as a key area of growth for tourism, and promotes it by (among others) 'Make It Singapore' Campaign². In 2003, while the number of holidaymakers dropped by 2 percent in 2003 because of SARS, the number of business visitors remained constant. Singapore has advantages to satisfy the diverse needs of MICE visitors like efficiency, high level of security and world-class service. Since SA Tours plays a significant role in both Singapore and China Tourism Industries SA Tours should expend its MICE operations to tap this opportunity, by providing renowned services and promote Singapore as the compelling business MICE destination for Chinese companies - the major source of company growth in the further (one more MICE branch should be opened in China). SA Tour can act like proxy to help corporate client to do the convention arrangements with the local government and other suppliers; conduct multi-purposes (Joint Convention) or industrial orientation tours; or conduct trade shows events in both China & Singapore.

VII – SUGGESTION FOR USING EXTERNAL FINANCING

SA Tour can also consider lenders such as commercial banks in China and in Singapore as one of the most important financial institutions in case it lacks of investment capital. In order to make a true financing decision, the lending organization should consider the key business risks which we mentioned in the above session and other several factors such as the credit rating of this company. Finally, as our hypothetical financial model framework estimated, the decision of using external financing plays a key role in contributing to the company's business performance and has more benefits to its growing strategy to meet the high demand of the big potential emerging market in Asia and in the world, from a third party's objective assessment.

The ICCA DATA Statistics Report, "The International Meetings Market 2004" for the association market shows that the Singapore is the rank 3 largest place of International Meetings⁷. It also has one of the lowest income tax rate in Asia Pacific (22%). However, Singapore has about 36,500 hotel rooms but Shanghai and Bangkok already have about twice that number.

Additionally, Thailand has significant cost advantages over Singapore because of the comparative cost of labor.

These numbers, again, support to our conclusion that the MICE expansion project of SA Tour is among feasible ones that external investors and lending organizations should make a financing decision with the consideration of above risk analysis.

CITATION AND REFERENCES

¹ *Time Magazine*

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⁶ Singapore Tourism Board

⁷ International Enterprise (IE) Singapore

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Appendix

Financial Analysis Table 0

FINANCIAL EFFECTIVENESS ANALYSIS

Assumption and Explanation :

SA Tour will permit a 2006-2015 MICE project aiming at reaching more than 1300 business visitors for the first year and more than 6300 business visitors at the end term.. Expected Value (or revenue) each visitor bring to us : 1200 SGD (assumed equal to 2004-revenue per visitor from STB's website)⁷. Main operating cost comes from services fee paid to hotels, airlines,...and promotion & advertising campaign (more than 40% revenues). To get advantage from loan-equity structure, SA Tour borrow from bank 713609 SGD in 5 years (60% total investment) to rent branch in China. SA Tour joined in this project with 40% total investment : 475740 SGD. Other factors : Income tax 22%⁸, VAT 3%⁹, Expected rate of return 12% and inflation 0.9% (assumption)¹⁰

Expected financial effectiveness :

SA Tour will hope to receive revenue after VAT of 2 mSGD and ROS of about 0.9% , ROA of 1.6% and ROE of 4% one year later. Average Break-even (B/E) number of business visitors are 810 and Average B/E revenue is 1 m SGD. Despite the first year , SA Tour accepts a loss of 0.14 m SGD, but for the total 10 years, It can reach total accelerated profits of about 6.46 m SGD. NPV of its MICE project is positive (+3.25 m SGD) showing that It is effective and possibility. After we do sensitivity analysis, Certainty is high (98.78%) to reach NPV of more than 1 m SGD.

Table 1 : SA TOUR's MICE Project's Business Effectiveness during 2006-2015 (10 years)

(intend)										
Unit : million SGD										
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Net revenues	2	2	3	4	5	6	7	7	8	8
2. Net Operating cost	1.5	1.9	2.5	3.1	3.9	4.9	5.5	5.8	6.0	6.1
3. Depreciation cost	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
4. Interest rate	0.05	0.04	0.03	0.02	0.01	0.01	0	0	0	0
5. Profit before tax	-0.14	0.02	0.23	0.49	0.82	1.22	1.46	1.46	1.42	1.33
6. Income tax		0.01	0.05	0.11	0.18	0.27	0.32	0.32	0.31	0.29
7. Profit after tax	-0.14	0.02	0.18	0.38	0.64	0.95	1.14	1.14	1.11	1.03
8. Accelerated profit	-0.14	-0.12	0.06	0.45	1.09	2.03	3.18	4.32	5.42	6.46
Financial indexes										
1. ROS		0.9%	6.3%	10.3%	13.2%	15.3%	16.0%	15.5%	14.7%	13.6%
2. ROA		1.6%								
3. ROE		4.0%								

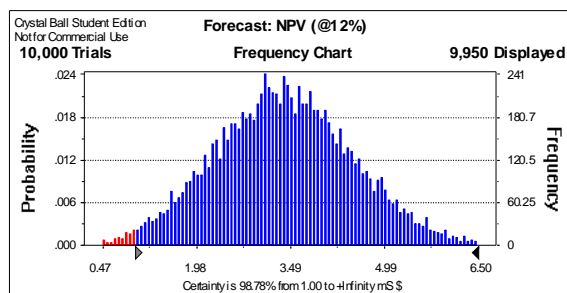
Table 2 : Break-Even Analysis

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Total cost	1.68	2.10	2.62	3.25	4.03	4.98	5.66	5.91	6.12	6.26
Fixed cost	0.17	0.15	0.14	0.13	0.12	0.12	0.12	0.12	0.12	0.12
Variable cost	1.5	1.9	2.5	3.1	3.9	4.9	5.5	5.8	6.0	6.1
Unit Variable cost	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
2. Unit price	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012
3. B/E quantity (visitors)	2981	1155	762	582	473	432	404	415	433	459
4. B/E revenue (mSGD)	3.58	1.39	0.91	0.70	0.57	0.52	0.49	0.50	0.52	0.55
5. Average B/E quantity	810									
6. Average B/E revenue	1									

Table 3 : Cash Flow and NPV analysis

Unit : million SGD										
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Net Operating Cash Flow	-0.094	0.055	0.206	0.400	0.645	0.954	1.142	1.140	1.107	1.034
Profit after tax	-0.14	0.02	0.18	0.38	0.64	0.95	1.14	1.14	1.11	1.03
Interest	0.05	0.04	0.03	0.02	0.01	0.01	0.00	0.00	0.00	0.00
II. Net Investment Cash Flow	-1.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fixed asset (loan)	-0.71									
Fixed asset (Equity)	-0.48									
End-term liquidation										0.00
III. Net Financial Cash Flow	1.04	0.17	0.16	0.15	0.14	0.07				
Loan	0.71									
Repaid capital	-0.10	0.14	0.14	0.14	0.14	0.07				
repaid interest	-0.05	0.04	0.03	0.02	0.01	0.01				
Equity	0.48									
IV. Total Net cash Flow	-0.24	0.23	0.37	0.55	0.79	1.03	1.14	1.14	1.11	1.03
NPV (@12%)	3.25									

Table 4 : Sensitivity analysis



Financial Analysis (cont.)

Table 1

Input data

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I. Quantity and Revenues														
1. Industry data	(Source : STB)													
Revenues (SGD)			2400000000											
Business visitors	1538461.538	1250000	2000000	2300000	2645000	3041750	3498013	4022714	4626122	5320040	6118046	7035753	8091115	9304783
		-19%	60%											
China b visitors included :			880000	1012000	1163800	1338370	1539126	1769994	2035493	2340817	2691940	3095731	3560091	4094104
Rate			44%											
Average growth rate next 10 years :			15%	annually	(STB's anticipate)									
Revenues/visitor (SGD)			1200											
Tourism revenues (SGD)			8000000000											
4 big cities total number of executives			340000											
Shanghai nos of executives			41.7%											
Others			58.3%											
2. S.A Tour data														
Minimum MICE Price per visitor per day (SGD)			1111											
Maximum MICE Price per visitor per day (SGD)			1724											
Chosen MICE Price (SGD)			1200											
Market share target at					0.05%	0.21%	0.22%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
Expected growth rate			0.01%											
3. Other sales sources														
Advertising for partners only (hotels, golf club, resort...)	338	SGD/year	200	USD/year										
Projected Number of suppliers/partners					30	30	30	60	60	60	60	90	90	90
II. Operation cost														
Salary (SGD/year)	see Table 2	(Salary for Manager : 3500 USD/month, vice manager : 1800 USD/month, head of division : 400 Usd/month, officer : 180 USD/month)												
Utility cost	see Table 3	(estimated at 500o USD for first 3 years, double for next 4 years and three times for last 3 years)												
MIS Project cost	see Table 3	(total fund is 16900 SGD or 10000 USD allocated in 10 years)												
Distributors expense	see Table 3	(10% sales)												
Overhead cost	see Table 3	(20000 USD or 33800 SGD for first 3 years, double for next 4 years and three times for last 3 years)												
Marketing cost	see Table 4													
Promotion cost	see Table 4	(20% revenues)												
Advertising cost	see Table 4	(25% revenues)												
Other costs (Maintenance)	see Table 3	(5% revenues)												
4. Interest rate		7.50%	med-term Ld	8%	short term loan (RMB)									
III. Loan (SGD)		713609	3504709	RMB										
(60% total investment)	2006	2007	2008	2009	2010	2011								
Repaid capital (RMB) med-term loan	525706	700942	700942	700942	700942	175235								
Repaid principal (RMB) short term loan														
Equity	475740	(40% Total Investment)												
IV. Investment (SGD)	1189349	SGD/USD	RMB/USD	SGD/RMB										
Branch (House) renting (SGD)	1183432	1.69	8.30	4.91										
Total time	10	years												
Equipment (network system) SGD	5917													
Depreciation time	7	years												
V. Working capital Need														
1. Cash	Days of salary	15	days											
2. Reserve A/R	Days of revenue	10	days											
3. Reserve A/P	Days of distrib	10	days											
VI. Other factors														
Inflation		0.9%	(average 1995-2004, Source: Statistics Singapore)											
Income tax		22%	2003											
Expected rate of return		12%												
VAT		3%												
Exchange rate used	SGD/USD	1.69												
	RMB/USD	8.30												
	SGD/RMB	4.91												

DETAIL OF OPERATING COST ANALYSIS											
Table 2 - Salary and administration cost analysis :											
SGD/USD 1.69 Unit : SGD											
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
General Market strategy	Shanghai -China invading			Beijing and Shanghai and Guangzau			expanding in big and secondary cit				
1. Mice Manager salary (1)	5070	5222	5379	5540	5706	5878	6054	6235	6423	6615	
2. Vice manager salary	8619	8619	8619	11492	14365	17238	20111	22984	25857	25857	
Increase per year (nos of ps	3	3	3	4	5	6	7	8	9	9	
Average salary / V-manager	2873	SGD/vice manager/month									
3. Head of division + Mice t	7436	8788	10140	13520	14872	16224	17576	20280	21632	21632	
Increase per year	11	13	15	20	22	24	26	30	32	32	
Average salary / 1 div. head	676	SGD/person/month									
4. Officers											
4.1. Mice team members' s	5171.4	7239.96	9308.52	12066.6	14479.92	16893.24	19306.6	23271.3	25857	25857	
Increase per year	15	21	27	30	36	42	48	54	60	60	
Ratio *	1.2	1.2	1.2	1.4	1.4	1.4	1.4	1.5	1.5	1.5	
4.2. Other officers' salary	10342.8	10342.8	10342.8	20685.6	20685.6	20685.6	20685.6	31028.4	31028.4	31028.4	
Increase per year	36	36	36	72	72	72	72	108	108	108	
Average salary / 1 officer	287.3	SGD/person									
5. Total salary fund	36639	40212	43789	63304	70109	76918	83733	103799	110797	110990	
6. Bonus estimated (15% *s	5496	6032	6568	9496	10516	11538	12560	15570	16620	16648	
7. Average salary growth rat	3%										
8. Total salary fund + bonus	42135	46244	50357	72800	80625	88456	96293	119369	127416	127638	
9. Total (fund + bonus)/year	505621	554924	604289	873600	967502	1061473	1155515	1432428	1528998	1531656	
Ratio officer / manager	3.4	3.4	3.3	4.1	3.9	3.7	3.5	4.2	4.0	4.0	
Table 3 - Other Operating cost analysis											
Unit : SGD											
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. MIS project cost	3380	3380	3380	3380	3380	3380	3380	3380	3380	3380	
(allocated through years)	(total cost of MIS project assumed : 10000 USD * 1.69 = 16900 SGD)										
2. Administration cost	33800	33800	33800	67600	67600	67600	67600	101400	202800	202800	
3. Utility cost (water, electri	8450	8450	8450	16900	33800	67600	135200	25350	25350	50700	
4. Pay for Distributors 10%	69828	337269	406329	488518	561796	646066	742975	854422	982586	1129973	
5. Other costs (maintenanc	34914	168635	203165	244259	280898	323033	371488	427211	491293	564986	
6. Total other Operating cos	150372	551534	655124	820658	947474	1107678	1320643	1411763	1705408	1951839	
Projected Increase per year	3%										
7. Total	150372	154883	159530	164316	169245	174322	179552	184939	190487	196201	
Table 4 - Marketing cost Allocation											
Unit : SGD											
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. Web page designing cos	1690										
2. Web page launching cos	1690										
3. Web page maintenance c	1352	1352	1352	1352	1352	1352	1352	1352	1352	1352	
4. Advertising campaign	104742	505903.86	609493.698	732777.65	842694.3	969098.4	1114463	1281633	1473678	1694959	
5. Promotion cost	139656	674538.48	812658.264	977036.87	1123592	1292131	1485951	1708844	1965170	2259946	
6. Market research cost allc	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	
8. Total marketing costs	252130	1184794.34	1426503.96	1714166.5	1970639	2265582	2604766	2994828	3443400	3959257	

Table 3 : Depreciation cost										Unit : SGD	
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. Branch renting											
Beginning value	1183432	1065089	946746	828402	710059	591716	473373	355030	236686	118343	
Add investment	0	0	0	0	0	0	0	0	0	0	
Depreciation	118343	118343	118343	118343	118343	118343	118343	118343	118343	118343	
Accelerated Depr	118343	236686	355030	473373	591716	710059	828402	946746	1065089	1183432	
End Value	1065089	946746	828402	710059	591716	473373	355030	236686	118343	0	
2. Equipment											
Beginning value	5917	5072	4227	3381	2536	1691	845				
Add investment	0	0	0	0	0	0	0				
Depreciation	845	845	845	845	845	845	845				
Accelerated Depr	845	1691	2536	3381	4227	5072	5917				
End Value	5072	4227	3381	2536	1691	845	0				
3. Total (mS\$)											
Beginning value	1.19	1.07	0.95	0.83	0.71	0.59	0.47	0.36	0.24	0.12	
Add investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Depreciation	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	
Accelerated Depr	0.12	0.24	0.36	0.48	0.60	0.72	0.83	0.95	1.07	1.19	
End Value	1.07	0.95	0.83	0.71	0.59	0.47	0.36	0.24	0.12	0.00	
End-term liquidation										0.00	

Table 4 : Interest rate							Unit : RMB	
Year	2006	2007	2008	2009	2010	2011		
I. For the medium loan								
Beginning balance (loan)	3504709	2979003	2278061	1577119	876177	175235		
Additional loan								
Pay back principal	525706	700942	700942	700942	700942	175235		
End -term balance	2979003	2278061	1577119	876177	175235	0		
Pay back interest	262853	223425	170855	118284	65713	13143		
Medium loan due	700942	700942	700942	700942	175235	0		
II. For the short-term loan								
Beginning balance (loan)	190587	190587						
Additional loan								
Pay back principal		190587						
End -term balance	190587	0						
Pay back interest	7623	15247						
III. Total two loans in SGD								
Beginning balance (loan)	752416	645374	463846	321124	178402	35680		
Additional loan	0	0	0	0	0	0		
Pay back principal	107041	181528	142722	142722	142722	35680		
End -term balance	645374	463846	321124	178402	35680	0		
Pay back interest	55073	48697	34788	24084	13380	2676		

Table 5 : Working capital Analysis										Unit: SGD	
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. Cash	21068	23122	25179	36400	40313	44228	48146	59685	63708	63819	
2. Account receivable	19678	93968	113151	136263	156618	180026	206945	238184	273785	314726	
3. Account payable	1940	9369	11287	13570	15605	17946	20638	23734	27294	31388	
4. Change in cash reserve	21068	2054	2057	11221	3913	3915	3918	11538	4024	111	
5. Change in A/R	19678	74289	19183	23112	20355	23408	26919	31239	35601	40941	
6. Change in A/P	1940	7429	1918	2283	2035	2341	2692	3096	3560	4094	
7. Working capital require	38806	107721	127043	159093	181325	206308	234454	274135	310199	347157	
DWK (mS\$)	38806	68915	19322	32050	22232	24983	28146	39681	36065	36958	

Market analysis, Management and Operation analysis

Exhibit1. PEST Analysis

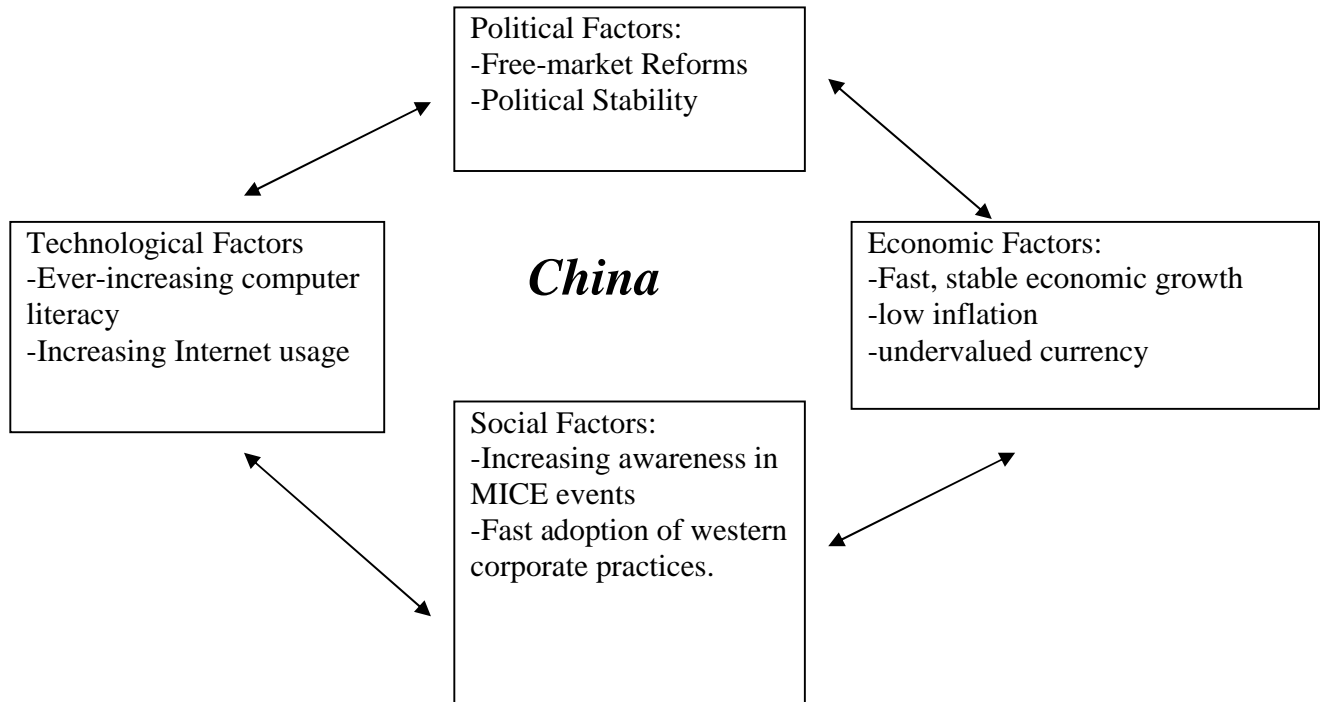
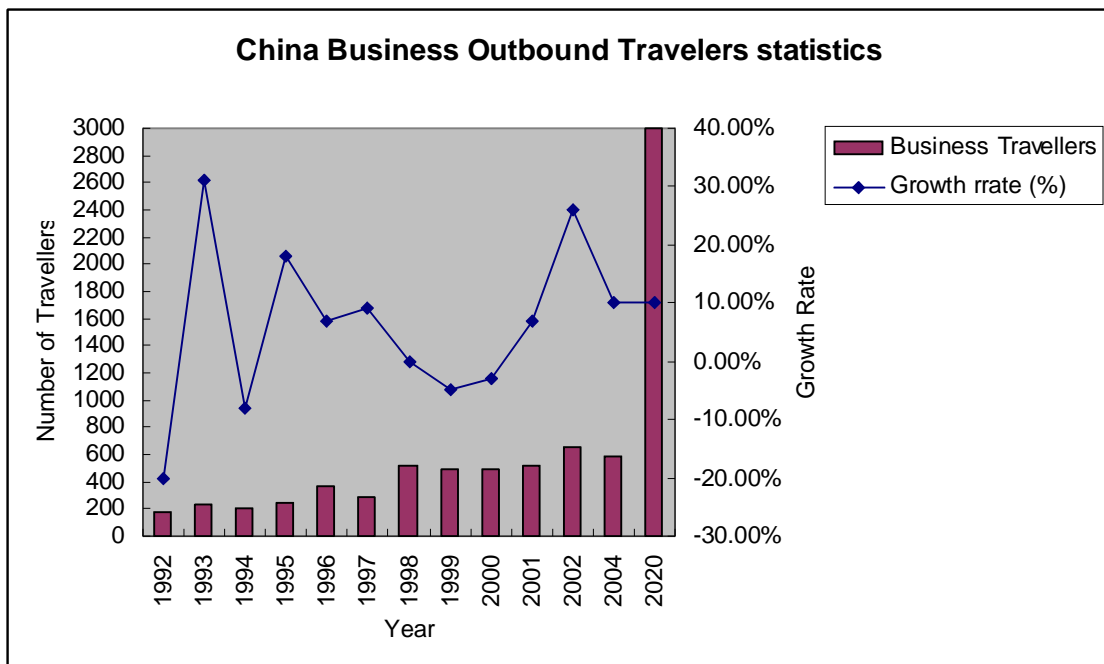
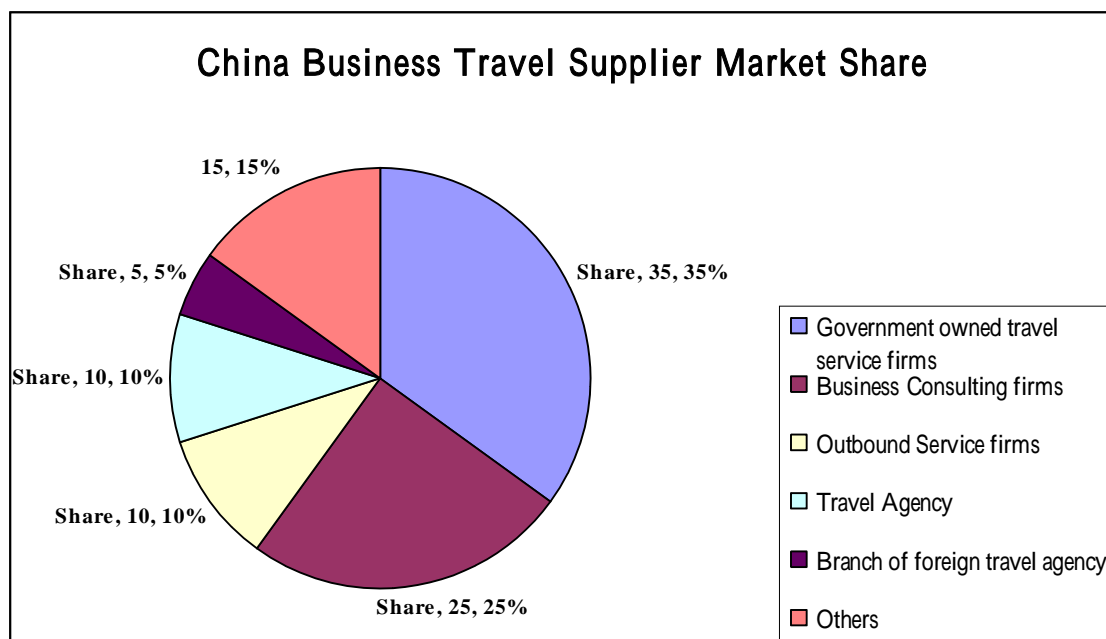


Exhibit2. China 1992~2020(Projected) Outbound Business Travelers statistics



Source: International Forum on Chinese Outbound Tourism <http://www.outbound-tourism.cn>

Exhibit3. China Outbound business travel supplier market share



Source: International Forum on Chinese Outbound Tourism <http://www.outbound-tourism.cn>

Exhibit4. Number of China Travel Agencies by Region (By End of Year 2003)

Region	International Travel Agencies	Domestic Travel Agencies	Total Number of Travel Agencies (unit)
National Total	1364	11997	13361
Guangdong	176	504	1172
Beijing	166	388	996
Jiangsu	72	924	855
Heilongjiang	62	304	803
Liaoning	57	746	680
Shandong	55	1117	630
Sichuan	50	448	626
Guangxi	50	290	588
Zhejiang	46	809	554
Jilin	42	197	498
Shanghai	41	547	480
Xinjiang	41	225	470

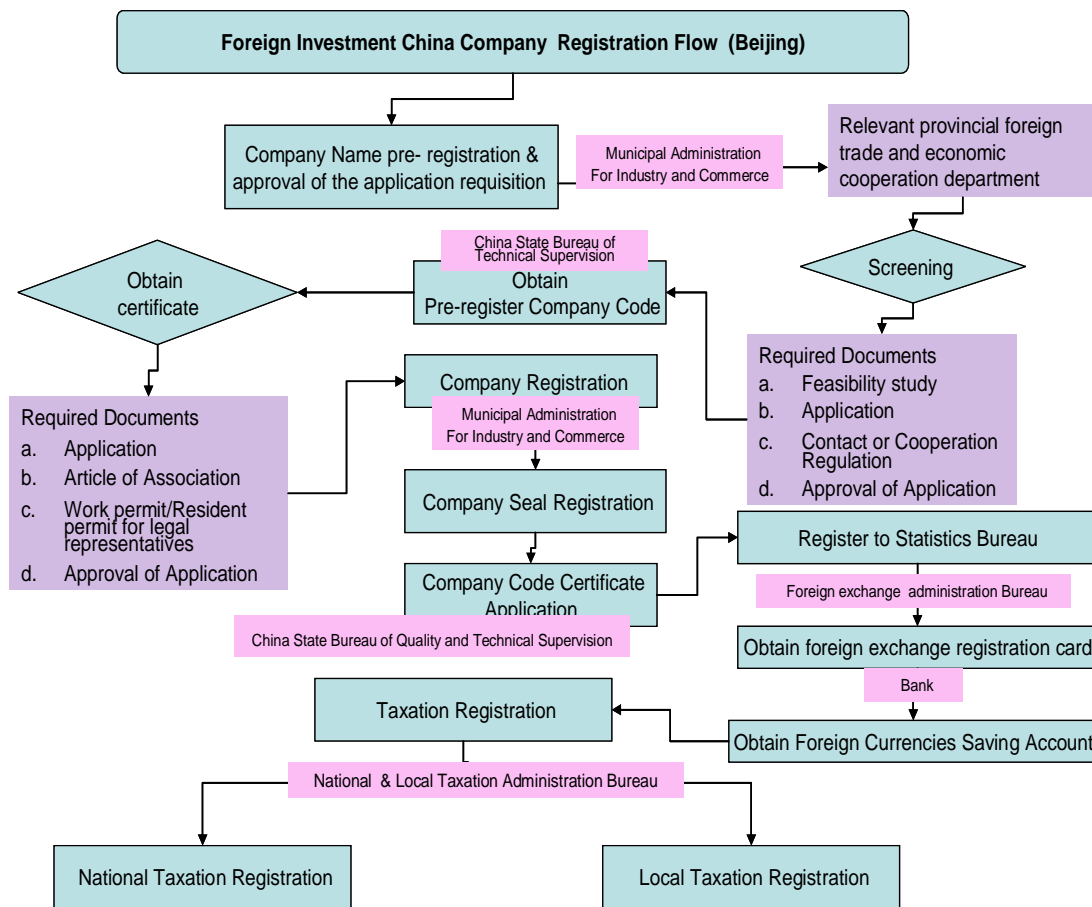
Source: National China Bureau of Statistic <http://www.stats.gov.cn/english/index.htm>

Exhibit5. Main Economic Indicators of International Travel Services
Main Economic Indicators of International Travel Services by Region (2003)

Region	Valued of Original Fixed Assets (10 000 yuan)	Takings (10 000 yuan)	Taxes (10 000 yuan)	Labor Overall Productivity (10 000 yuan/person)	Pre-tax Profits Realize Per Labor (10 000 yuan/person)	Fixed Assets Original Valued Per Labor (10 000 yuan/person)
National Total	2564448	4006932	54020	40	1	25
Beijing	809658	1007022	30815	91	3	73
Guangdong	488113	870486	7955	49	1	27
Shanghai	168043	291093	2179	50	0	29
Fujian	159397	143126	1269	36	0	40
Hubei	93899	52781	522	10	-1	18
Jiangsu	82692	281243	769	52	1	15
Chongqing	81732	68210	788	42	2	50
Sichuan	75415	105570	452	28	0	20
Zhejiang	69886	175077	706	42	0	17
Hainan	61986	196520	721	105	2	33
Shandong	61034	70268	1308	26	0	23
Yunnan	48744	125751	812	31	...	12
Guangxi	48739	90912	1126	23	0	13
Shaanxi	39369	52455	643	18	-1	13
Henan	39290	38923	262	16	0	17
Liaoning	29452	70690	1014	24	0	10
Heilongjiang	24401	55101	877	23	1	10
Xinjiang	21653	35992	485	20	1	12
Gansu	21308	14004	73	9	0	14
Anhui	19342	25370	109	16	0	13
Tianjin	18578	37853	108	30	...	15
Tibet	17438	20999	191	33	-4	28
Jilin	14379	19222	107	13	1	10
Shanxi	13723	23123	142	13	0	8
Hunan	13424	56138	172	17	0	4
Inner Mongolia	13282	11345	207	10	0	11
Hebei	8809	20164	79	11	0	5
Jiangxi	7800	19024	45	19	-1	8
Guizhou	6928	19188	54	22	0	8
Qinghai	4285	3923	17	10	1	10
Ningxia	1650	5360	15	18	0	6

Source: National China Bureau of Statistic <http://www.stats.gov.cn/english/index.htm>

Exhibit6. Foreign Investment China Company Registration Flow



Original Source:http://www.1601315.com/Article_Show.asp?ArticleID=154