

LEVEL 3 ASSESSMENT SPECIFICATION

Student name:	Lawrence Qin	Student ID number:	2031014
Programme:	MBA		
Module:	Global Business Challenges		
Module code:	BMMB7009	Contribution to Overall Module Assessment (%):	100%
Lecturer:	Dr. Che Cheong Poon	Internal Verifier:	Dr. Joe Leung
Assignment Title:	Analytical Report –Strategies for sustainable development of a business enterprises in the Hong Kong tourism industry during corona virus outbreak	Word count (or equivalent):	5,000 words or equivalent
Submission deadline:	21 February 2022	Return date of provisional marks & written feedback:	Within 20 days after submission
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

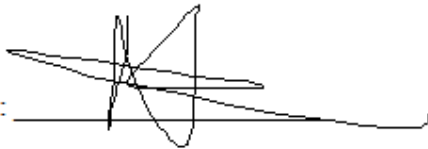
UWTSD MBA (May/Nov 2020 intakes)
BMMB7009 Global Business Challenges

Assignment Title:

An Analytical Report on Strategies for Sustainable Development of a Business Enterprises
in the Hong Kong Tourism Industry during Corona Virus Outbreak

“I, [Lawrence Qin \(2031014\)](#), certify this work is the result of my
own investigations, except where otherwise stated. All references
have been duly cited”

Signed: _____

A handwritten signature in black ink, appearing to be 'Lawrence Qin', written over a horizontal line.

Date: 21 February 2022

Synopsis

Hong Kong being at the heart of international service sector, city tourism especially travel agencies has suffered the most from the pandemic, reporting 99.5% job losses and 76.5% reduction in city GDP contributions. The report focuses on EGL Tours by examining a series of pressing operational challenges in costing, pricing, and market shares among its competitors. The comprehensive analysis and deliberation produce both short-term and long-term business contingency plans to aid EGL Tours management team in building emergent strategies and improving operational efficiencies, with a time-bound implementation process to succeed sustainably during and after the COVID-19.

Table of Contents

	<u>Page</u>
1 Introduction	1
1.1 Research Motivation	
1.2 Research Framework	
2 Company Background	4
2.1 Company Profile	
2.2 The cost Structure	
2.2.1 Fixed Cost	
2.2.2 Variable Cost	
2.3 The Revenue Structure	
3 EGL Tours' Current Business Performance	8
3.1 External business environment	
3.2 Internal business environment	
3.3 A Summary of COVID-19 Impact on EGL Tours' Profitability	
4 Analysis and Discussion	13
4.1 Identification of Major challenges	
4.1.1 Costing Challenges	
4.1.2 Pricing Challenges	
4.1.3 Market Share Challenges	
4.2 Strategies to Ensure Sustainable Development under COVID-19 Crisis	
4.2.1 The Business Plan	
4.2.2 Implementation Process	
5 Conclusion and Recommendations	21
5.1 Conclusion	
5.2 Recommendations	
References	23

1 Introduction

This analytical report is to explore sustainable development strategies for EGL Tours in the Hong Kong tourism industry during coronavirus outbreak. With emergence in mind, the study intends to assess, the exact business and financial foundations of EGL Tours through publicly available literatures and data, and to propose a viable business contingency plan along with strategy formulation and implementation planning.

1.1 Research Motivation

The severity and slow recovery of this epoch pandemic casted on Hong Kong tourism were confirmed by the Legislative Council, who stated a 95% plunge of business receipt index from the industry, with a less capability to rebound in comparison to 2003 SARS incident that similarly hit hard but observed an immediate U-turn in the subsequent years (Research Office, 2020).

Tsui et al. (2021) analyzed Hong Kong tourism industry well and also emphasized its strategic pillar position for the city. The authors concluded that the industry had contributed about 5% of HK's GDP in 2018 before COVID-19, enticing 65.15 million tourists. Provided such importance from the industry, the pandemic had generated a stern economic loss not just to the tourism segment today but also a grueling business environment to operate within. How the industry can be helped to sustain the challenges and further compete throughout the pandemic becomes a critical topic among travel agency owners.

EGL Tours is the third largest travel agency in Hong Kong with an impeccable reputation, especially for its specialty in packaged and individual Japan tour products. According to EGL Tours Interim Report (2021), most of its businesses had generated zero revenue since mid-March 2020. At the end 2020 as stated by Annual Report (2020), revenue had decreased by 85.5%. that represented a gross profit and a gross profit margin drop by 90.3% and 6% separately comparing to 2019, plus a loss to owner registered at HKD 108.8 million when

HKD 14 million profit was still attributable in 2019 – but still a significant slide compared to 2018.

Volatility is the nature in the current business world. No one was able to predict the pandemic and consequently the stormy economic distress globally. The 2019 social instability had also interposed additional negative economic impact on tourism. A sustainable business needs courage and willingness to face the economic chaos, revise its mission-critical strategies proactively during the turmoil; thus, to salvage its competitive advantage and further above average profits. This is exactly why the report would like to go into great lengths and identify where emerging strategies could encourage EGL Tours management team to sustain and achieve competitiveness again through a constructive business plan.

1.2 Research Framework

For the purpose of assisting EGL Tours in accomplishing survivability and above average profit through and after the pandemic, here a question of how EGL Tours could further improve its emergent supply and demand strategies among market contenders in the current looming economic environment, with a sound business contingent plan to sustain and further compete will stream through the whole article.

This study uses EGL Tours as a focus to review commercial and governmental data, as well as various literatures, accessible publicly, where a series of economic tools could be applied and utilized to evaluate and analyze its current business challenges. A list of objectives to be achieved at the end is presented here to guide the discussion vibe.

- (1) To evaluate existing cost and revenue structure and identify deficiencies.
- (2) To identify external and internal operational environments along with profit competence.
- (3) To assess supply and demand challenges that emerging strategies could help EGL Tours to construct a sustainable business contingent plan

Starting with an overview of the company, the study moves into an in-depth analysis of EGL Tours' structure effectiveness in fixed cost, variable cost and revenue evolved into its supply and demand strategies today. A deep-dive into both external and internal environment analyses will present the agency's economic intricacies in business operations and subsequent financial impacts. The report will then evolve into a comprehensive exploration in agency's cost and pricing challenges among industry competitions, with a feasible recommendation to look at areas for emergent strategy improvements and time-bound contingent plans, based on which EGL Tours could benefit from and further compete during and after the pandemic.

2 Company Background

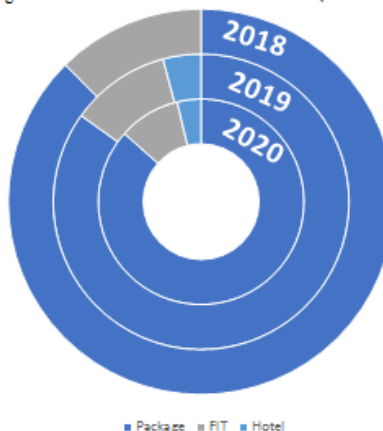
The report begins with a brief review of the company history, and follows with a thorough examination of EGL Tours' cost and revenue structures, based on which EGL Tours business and financial challenges could be deep-dived in.

2.1 Company Profile

According to EGL Tours (2021), EGL Holdings was established in 1986 and its subsidiary Yao Teng Travel Agency was instituted in 1987, subsequently changed to EGL Tours. In the early days, the agency was established to entertain Hong Kong tour groups in Japan, with a strong backing of guides who were extremely familiar with Japanese cultures. This had resulted a series of official tourism awards from various Japanese prefectures as well as Government of Japan (Cision, 2018).

EGL Tours was gradually accepted as a brand image in travel agency business, and eventually IPO listed at HKEX in 2014, when the business has expanded from Japan centric business to cover Southeast Asia, Oceania, Europe, Africa, China, and cruises (EGL Tours, 2021). EGL Tours package services had also encompassed independent travel packages, package tours, and hotels in those countries, being one of the top players in Hong Kong. Figure 1 illustrates core EGL Tours business categories shift from 2018 to 2020 in revenues, when hotel business was introduced in 2018, along with packaged tours and individual travel packages.

Figure 1 EGL Tours Business Overview (2018-2020)



Source: Constructed by Author; Data Extracted from Annual Report (2018, pp.15) and Annual Report (2020, pp.13)

EGL Tours has been very skillful in effective brand image building. “Themed Tourism Year” was a focus each year to bring public desires in traveling inside of HK and abroad, along with

its many of social awareness and charity programs contributed through its employee teams.

2.2 The Cost Structure

Paul (1999) stated that a cost structure affects cost-output relationship, where a company that endures economic downturn and functions in an unsteady state is suppressed by under-utilization. This must derive a short-run fixity to lower input, which a minimum cost point could be re-equilibrated achieving operational efficiency.

Facing the reality of economic slump and waiting for Hong Kong tourism yet to recover, EGL Tours has been coping aggressively on cost control initiatives that are able to improve short-run variable costs and cash flows to sustain business viability, through restructuring related to unpaid leaves, working hour adjustments, remuneration reductions for directors and employees, as well as arranging rent concessions for head office and branch locations (Annual Report, 2020). As part of social responsibility programs, EGL Tours has also applied green opportunity to further operating cost cutting in recycling and energy efficient office measurement into all operational premises, and salvaging office stationeries.

Table 1 details various fixed and variable costs associated with EGL Tours operations pre-COVID and in-COVID, where financial measures organized by the agency could be compared and analyzed. A sudden increase of total cost in a difficult time is peculiar and worth a discussion.

Table 1 Cost Structure of EGL Tours (2020 vs 2018)

	2020		2018		Changes in Cost
Fixed Cost (%)	% in Revenue	% in Total Cost	% in Revenue	% in Total Cost	%
Rents	10.8%	2.8%	1.6%	3.1%	-3.6%
Depreciation on Lease Assets, including Rentals	21.3%	5.5%	5.9%	11.5%	-49.6%
Property, Plant and Equipment	281.9%	72.3%	24.8%	48.2%	59.7%
Depreciation on Property, Plant and Equipment	21.8%	5.6%	2.3%	4.5%	31.8%
Finance Costs	2.8%	0.7%	0.2%	0.4%	78.7%
Variable Cost (%)					
Bus	2.8%	0.7%	3.4%	6.6%	-88.6%
Office Equipment	2.9%	0.7%	0.2%	0.4%	100.2%
Remunerations	28.3%	7.3%	7.7%	15.0%	-48.4%
Selling Expenses	15.5%	4.0%	4.9%	9.4%	-55.3%
Corporate Expenses	1.3%	0.3%	0.2%	0.5%	-23.8%
Foreign Exchange Costs	0.6%	0.2%	0.2%	0.3%	-46.2%
Total Cost (100%)		100%		100%	
Total in (HK\$ '000)	249,771	974,285	1,709,390	914,844	6.5%

Source: Constructed by Author: Data Extracted from Annual Report (2018) and Annual Report (2020)

2.2.1 Fixed Cost

Although rental costs from EGL Tours branches are not as significantly as other fixed cost

items, the management did endeavor its best in pursuing rent concessions with different landlords at possible locations. The agency has also taken drastic measures in shutting under-performed branches in Tuen Mun, Yuen Long as well as its subsidiary in Taiwan with no foreseeable profits. While revenue is challenging for every business operates with brick-and-mortar approaches, the rent does become significant as part of the cost to generate sales, while its portion of total cost didn't change much to endure short-run recovery.

As a way to improve financial reporting during COVID-19, EGL Tours had adopted a skewed approach in recognizing depreciation from a straight-line basis previously since 1 January 2019 (Annual Report, 2019). That contributed a handsome reduction of 49.6% in 2020.

Due to its recent hotel and facility expansions that included two hotels and one hot-spring spot in Japan, the fixed cost from properties had dramatically increased at 281.9% of total revenue, along with its depreciations and financial costs on interest payments as well.

2.2.2 Variable Cost

Majority of its operation dependent equipment such as buses and office equipment are on a lease basis, which provided EGL Tours the maneuverability to elastically adjust operational cost as fit with business demands. While cost on tour buses were handled well enough with an 88.6% reduction, its office equipment cost has theatrically increased by 100%, which was not comprehensible.

With lessening travel demands and business volumes, the agency has taken decisive steps in restructuring workforces, downsizing manpower from 635 pre-COVID to 482 at the end of 2020, reducing salaries for both employees and directors by 48.4%, as well as exercising unpaid leaves, which in a position to reduce anticipated labor costs.

The selling related costs are mainly associated with frontline promotions and advertising on public medias, plus recently established hotel businesses in Japan. These were all taken into consideration with cost-savings from corporate expenses that interposed reasonable reductions in 2020.

In the global business dealing, especially in tourism, exposure to foreign exchange risk is always unavoidable. Although the agency has a list of means in hedging the risk, the nature of

customer receivables and supplier payments in local currency is always a challenge needed careful supervision, plus assets and liabilities in respective functional currencies on the book. Shrunk in 2020, but it still posed as an increased cost relatively to a smaller revenue.

2.3 The Revenue Structure

The agency's main revenues are derived from supplying package tours that Japanese packages are constantly doubling non-Japanese products, free-independent travelers (FIT) and associated ancillary products, and newly launched hotel businesses from late 2018 in Japan, illustrated in Table 2.

Table 2 Revenue Structure of EGL Tours (2020 vs 2018)

	2020		2018		Changes in Revenue
Revenue	Gross Profit Margin	% in Total Revenue	Gross Profit Margin	% in Total Revenue	%
Packaged Tours: Japan	2.6%	54.9%	13.3%	54.2%	-85.2%
Packaged Tours: Non-Japan	12.6%	31.7%	11.6%	33.3%	-86.1%
FIT & Ancillary Products	49.3%	9.7%	35.5%	12.4%	-88.7%
Hotel	51.8%	3.8%	0.0%	0.0%	-
Total Revenue (HK\$ '000)	249,771	100%	1,709,390	100.0%	-85.4%

Source: Constructed by Author; Data Extracted from Annual Report (2018, pp.15) and Annual Report (2020, pp.13)

Worth noticing, while revenue decreases consistently from all business segments, favorable demands in Japanese packages were persistently high. Profit margins from non-Japanese packages and FIT were actually increased, thanks to successful cost reductions in labor related variables.

An additional ecommerce business, 'EGL Market', has also been launched in the second quarter of 2020, which generated part of the revenue and margin attractively under FIT & Ancillary products through online shopping demands.

Swift and effective emerging strategies towards cost and revenue structures could definitely aid business in tackling volatility and maintaining sustainability. EGL Tours has demonstrated this well in managing variable costs and achieving improved financial returns, with the addition of new revenue structure. Nevertheless, the sudden soar in fixed cost, whether suitable to close branches for short-run, clouded cost flinch in office equipment, as well as risk exposure in foreign exchanges are a series of challenges still to be fought.

3 EGL Tours' Current Business Performance

Known for its blended western and oriental culture, Hong Kong was flourished with both inbound and outbound travels in the past. Since the pandemic, inbound air travelers had dropped by 93% in 2020 comparing to 2019 (Tsui et al., 2021), while outbound air travels also suffered a standstill in comparison to historically 4.5-5 million resident departures prior to 2010 when Hong Kong Tourism Board stopped to provide outbound statistics (Guillet et al., 2011). EGL Tours, being the third largest travel agency in Hong Kong, has inevitably borne a dramatic collision on its business and financial profits, suffering dramatically in March and June 2020 with zero sales revenues (Leung, 2020).

The following sections will examine the puzzling global and local business environment that EGL Tours operates within and the significant impact influences its business performance, in the hope to seek for strategic resolutions that are able to revive the business.

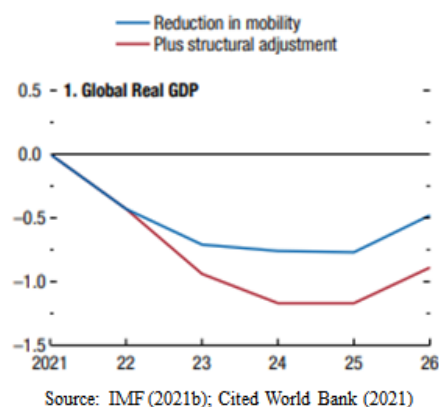
3.1 External Business Environment

COVID-19, the second largest epoch pandemic since 1918 influenza outbreak, has not just caused 5.5 million precious human lives to date but also a monstrous economic blow upon global businesses. While the global economy was hopeful on its recovery path, the thrust has continuously been weakened offtrack; stumbled by the highly transmissible variants, affecting a full return to normality. To make things even worse, the continuation of pandemic has caused a direct link to major world economic indices performing undesirably, snowballing threats to economic outlooks and complicating governmental policies for recovery.

Enhanced travel restrictions have led to longer-than-usual supply chain crises that disrupt global economic output movements, promoting high inflation in many countries (IMF, 2021b), along with possible interest hike in US that is a sign of higher inflation globally.

IMF (2021b) also revised its projected global growth down to 5.9% for 2021 and is unchanged at 4.9% for 2022, which is visibly expected lower than 2021. This revision and projection makes a fundamental downgrade of global GDP in the next 5 years, which USD 5.3 trillion could be lost in the due process. Figure 2 provides an alarming global GDP projection into 2026.

Figure 2 Global GDP Living with COVID-19 (2021-2026)



Concerning global unemployment trend around the world, especially for prime age at 12%, put a pressure on wages for individuals, along with testing consumer price index derived from inflation could curb consumer spending surge in many countries (IMF, 2021b).

COVID-related commotions to service sectors have caused the labor market recovery to considerably trail behind the output recovery in most countries (IMF, 2021a). Among those, with lockdown and restrictions of human movements, world and regional tourism had been hit hard with a 73% plunge in international arrivals in 2020 and an estimated 75% fall in 2021 (World Tourism Organization, 2021c).

World Travel & Tourism Council (WTTC) (2021b) also reported that revenue from Travel & Tourism in 2020, which had always been one of the largest service sectors factored into global GDP, down from 10.4% in 2019 to 5.5%. One in four jobs globally was created by the sector, taking up 10.6% of all jobs (334 million) in 2019 in comparison of a 62-million employment loss in 2020. Due to the pandemic, the 18.5% decrease trembled across the entire ecosystem, with SMEs making up 80% all global businesses in the sector, being chiefly affected.

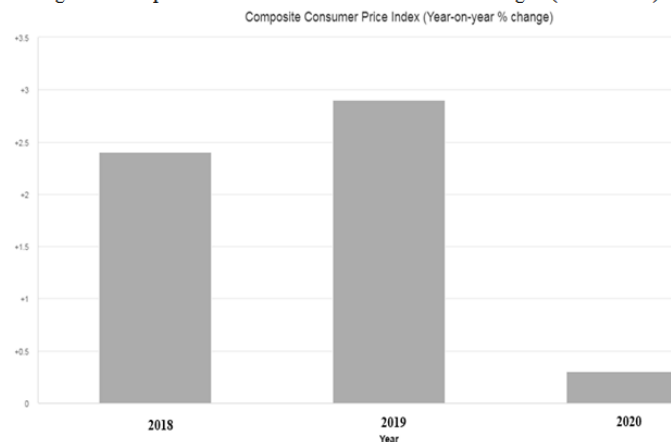
3.2 Internal Business Environment

Hong Kong being a unique mixture of both east and west cultures internationally, the immediate global business challenges are extremely aligned in the city.

Provided global supply disruption could introduce inflations in some countries, Hong Kong being heavily relied on imports, Figure 3 expresses no surprise of such effect. Correlated to CPI, Table 3 also demonstrates a steady decline in consumer expenditures, which

miscellaneous services cover the interest of discussion in tourism demands.

Figure 3 Composite Consumer Price Index YoY % Changes (2018-2020)



Source: Census and Statistics Department (2021b)

Table 3 Household Expenditure Weights (2019-2020)

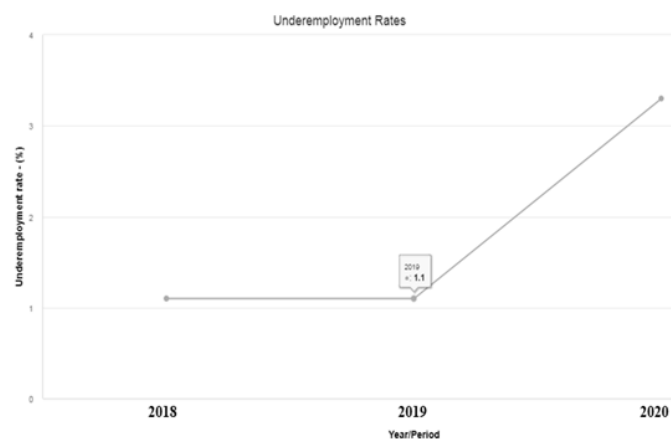
Expenditure Weights of the 2014/15-based and 2019/20-based CPIs								
Commodity/Service Section	Composite CPI		CPI(A)		CPI(B)		CPI©	
	2014/15	2019/20	2014/15	2019/20	2014/15	2019/20	2014/15	2019/20
	%	%	%	%	%	%	%	%
Miscellaneous Services	15.81	13.12	11.25	9.32	16.02	13.18	20.51	17.64

Source: Constructed by Author; Extracted from Census and Statistics Department (2021a)

Whilst GDP and economic growth are projected to be upwards, COVID variants have repetitively clouded the future direction, forcing an uncertain and wavy conduit for Hong Kong with GDP dropped again in Q3 last year.

Unemployment rate is predictably on the rise showing in Figure 4, whereas all the other economic indices are unfavorable today.

Figure 4 Unemployment Rate (2018-2020)



Source: Census and Statistics Department (2021c)

Alike global tourism as a major contributor to global GDP, Hong Kong tourism industry weights profoundly in the city economy, which is fourth largest economic pillar (Research Office, 2020) and generates 4.5% revenues for HK GDP captivating 6.6% of HK employment in 2018 (Tourism Commission, 2020).

Conferring WTTC (2021a) and endangered tourist trust (Poon & Koay, 2021), both COVID-19 and 2019 social instability had driven down 2020 HK tourism contribution to total GDP by 76.5%, inbound visitor spend by 92.5% and domestic travel spend by 43%, causing sector employment loss by 16.1%.

Specifically pertained to travel agencies, the devastation deepens within tourism industry, both significant declines on inbound (Figure 5) and outbound (Figure 6) travelers have produced outrageous financial and business blows in the middle of all depressing economic statistics.

Figure 5 Hong Kong Inbound Tourism (2019 vs 2021)



Figure 6 Hong Kong Outbound Tourism (2010-2020)



Oriental Daily (2021a) reported that 99.5% travel agency related jobs were lost, with 75% of them were in an impoverished state, while same newspaper (2021b) conveyed a stunning 100 over travel agencies had closed since 2020, with huge financial downturns to the city economy forcing Hong Kong tourism business to a cessation.

3.3 A Summary of COVID-19 Impact on EGL Tours' Profitability

EGL Tours annual report (2020) has shown an HKD 1,479 million loss last year, with a decrease of 6% on profit margin since 2019. With its property and hotel businesses under way in Japan, a less ideal profit could further introduce adversative consequences on cash flows and asset values in this perplexing economic environment where global GDP is further adjusted downtrend and inflation is on the rise.

While total debt rose to 64.2% and revenue reduced by 85.5%, Japanese package tour is still its main source of income. Unfortunately, with reduced outbound travelers by 86.7%, the sales also decreased by 84.8%. Non-Japanese tours was also down by 86%, due to sharp declines in both inbound and outbound travels. FIT product and service contributed 9.7% to its overall revenue thanks to newly created ecommerce shopping platform, but with little help to revive the bigger losses. Hotel service was suspended during COVID lockdown in Japan, where occupancy has dropped to only 8% from the average 69.3% initially.

Employees were also hugely impacted with furlough 143 staff and 125 tour guides, spending about HKD 20 million to dissolve, among an unstable employment development.

Undeniably, this is a very gloomy economic environment challenge putting in front of EGL Tours. Any means of sustainability must be utilized to battle for survival, instead of following many of its peers' closure suite.

4 Analysis and Discussion

The premeditation on variable cost, fixed cost, and revenue composition in Section 2, along with the understanding of harsh economic realities face tourism today specifically EGL Tours in Section 3, provided this report basis to further investigate in this section the causes and the actual challenges facing its underperforming operations, and to present viable business solutions and plans for the agency to thrive.

4.1 Identification of Major Challenges

At the time global economy has gone into the third year in combating coronavirus and its vicious attacks on businesses, EGL Tours has generated zero profit for most of its business units from mid last year. In its challenging Interim Report (2021), the group has recorded a revenue loss of 92.5% with -219.6% on the gross profit margin, compared to the same period of 2020.

4.1.1 Costing Challenges

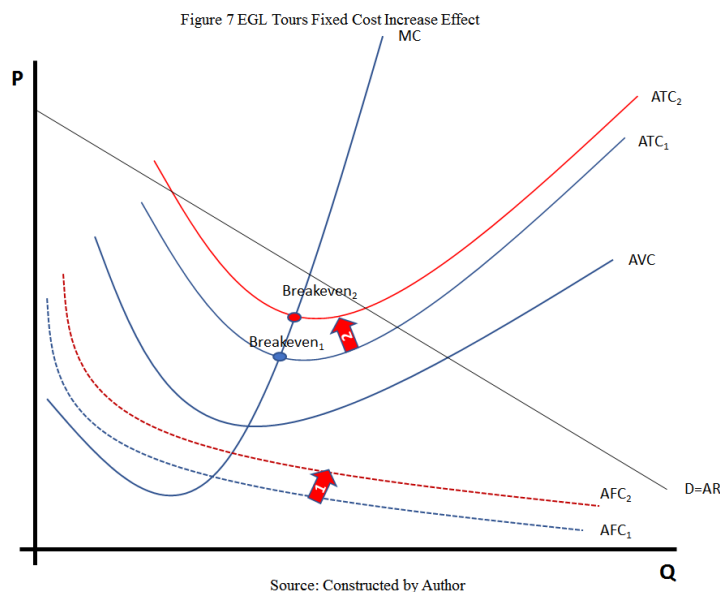
To manage further losses, rigid cost controls have been an essential means for the group to stabilize the business, through many of its business restructuring approaches in supplies and workforce, cost savings on operations and rent allowances with respective landlords. It's a daunting task with many challenges to overcome.

The priority is absolutely to cope with the unpredictability, which makes agility and adaptivity more important for business to manage the unexpected and emerge. While a lot of the costing challenges are not so difficult to accomplish such as selling expenses, corporate expenses, and tour buses, which could be quickly reacted to and reduced when demands are dropping. Also, accounting techniques could be applied on different amortization and depreciation approaches to adjust financial operations, rendering a more favorable result. Nevertheless, there are many factors within costing structure that are extremely difficult to predict and respond to.

When everyone would imagine EGL Tours should have wisely decreased overall cost spending in 2020 compared to the same spending in a normal year like 2018, the reality would surprise the market with a shocking 6.5% jump in Table 1. Unpredictability has played unfavorably upon the agency, where its ambitious global business expansion and forward integration into Japanese hotel and hot-spring businesses before the pandemic had caused an abrupt rise in fixed costs, resulting an overall climb in its costs that included cost on

depreciations and interest payments. With a possible global inflation ascent, consequently interest surges, this could further intensify EGL Tours' finance cost, letting alone depreciation on property values. Annual Report (2020) had also acknowledged the concern on interest hikes and reflected a notation of 5% interest change could also significantly influence its business profits, presuming all other variables are constant.

As for EGL Tours' property business in Japan, under the current economic atmosphere, the upsurge of fixed costs absolutely introduced further difficulties to operate. Assuming the demand curve (or average revenue curve) is not changed, while fixed cost increases, the average total cost curve would move upward, bringing in a more expensive and challenging pricing for the business with a reduced but strenuous output requirement to fulfill at much higher price, when hotel substitutes are also widely available to the consumers and elastic under the existing harsh economic environment. As cost elevates, this also presents additional pressure to the firm being profitable in Figure 7.



The only possible solution is to think along with the current pandemic environment and instigate demands for the business, which the study will explore in pricing challenges.

EGL Tours' second difficulty in dealing with fixed costs is branch space. Although the agency had made good progresses in negotiating rent concessions with a list of landlords, it also took dramatic decisions to close some of its unprofitable locations. For a short run approach throughout the pandemic, a tactic move like this could be ill played for brand equity and a

mismatch with its newly formed hybrid ecommerce and brick-and-mortar shopping business that needs space for stores. The remote residential areas for lossmaking branches could be a good demand for both online and offline shopping in the longer term, along with its future travel needs at the same spot.

On the variable cost side, as part of the unpredictability, careless management of office related expenses that caused a 100% increase, an irrational supply surplus that only demanded half of it in a profitable year as 2018. A decisive cut in selling related cost on media advertisement and promotions had resulted well, but this could be arranged in a more efficient way. At a difficult time like COVID, more advertising should have been done to boost consumer demands, where social media could be exploited in a more cost-effective way.

While remuneration cost on employees is being actively managed, this could be further enhanced by technologies along with ecommerce, where services and products are engaged by consumers online. Exposure to volatile foreign exchange movements is also a major cost issue for EGL Tours, which the agency recognized as a risk combined with its borrowings and interest in Japan. Any depreciation of Yen and inflation of interest could bring further unforeseen impairments to not just cash flows but also asset values.

The study has also observed, assuming exogenous environmental impacts to the business are unavoidable under COVID, a company's handle on fixed cost and variable cost is known to have direct impact to its operating profit margin, but a much tighter correlation is identified with fixed cost demonstrating in Table 4 and 5. Berry (1992, cited in Berry & Reiss, 2007) echoed the importance of a firm's fixed cost in relation to profits. Berry and Reiss also demonstrated this in an empirical model $\pi(N_i) = V(N_i, x_i, \theta) - F_i$, where $\pi(N_i)$ represents the profit, V is firm N's variable profit including x as the demand and cost while θ is the competition, and importantly F the fixed cost.

Table 4 EGL Tours Operating Profit Margin and Costs

Operating Profit Margin	Fixed Cost (HK\$ '000)	Variable Cost (HK\$ '000)
2.1%	619,734	295,110
0.9%	622,736	299,303
-57.1%	845,865	128,420

Source: Constructed by Author; Data Extracted from Annual Report (2018), Annual Report (2019), and Annual Report (2020)

Table 5 Correlation Among Operating Profit Margin, Fixed, and Variable Costs

	Operating Profit Margin
Fixed Cost	-0.999981032
Variable Cost	0.999230094

Source: Constructed by Author

This also supports the previous discussion in emphasizing the devious effect in rising of fixed cost, which could tremendously affect EGL Tours operational profits.

4.1.2 Pricing Challenges

Maloney and Rojas (2005) and Tsui et al. (2021) all found that income, exchange rate and inflation are elastically associated with tourism, which is being viewed as a luxury good. This sets a clear tone for the discussion of pricing challenges EGL Tours confronting today.

Under the current intimidating economic mood on possible inflation, with high employment rate and low consumer expenditure willingness, a luxurious product like travel is not in demand for everyone. Thus, the elasticity would not enact positively for travel agencies if the tour packages are trending upwards as the market has seen, where pressures from supply chain shortage and inflation are on the rise.

If the travel agencies believe the timing of pandemic and subsequent lockdown could benefit the business for local tourism on inelasticity, this assumption is also miscalculated when a market is open enough, full of substitutions, for consumer to go online and book various packages by themselves or even directly with the establishments. Besides, most of the local tour packages were designed for foreign or mainland visitors, it would be hard to suit local residents' tastes if they're not appropriately manifested.

In an unexpected fixed-cost rise scenario in 4.1.1, when everything else is unavoidable, the best tactic is to seek opportunities that can move the demand or average revenue to further rightwards, which an increased demand quantity could satisfy and compensate the rising price. In the sense of its entrapped property business in Japan, one possible tactic is to explore with Japanese government and local hospital authorities, for which the demanding quarantine space and medical beds are in shortage and sought. In a way, EGL Tours could help itself to generate new demands and shift the average revenue line favorably right, minimizing waste

on supply surpluses. Secondly, EGL Tours could also adventure to lower room prices at a level at least above break-even point to supply, with maybe less profits, but a further output volume to push for business continuity with demand generation mentioned above.

Government trade policies in or related to Japan are also worth noticing, any potential political development on that subject could greatly impact future pricing for the agency and its pricing strategy in Japan.

4.1.2 Market Share Challenges

Before 2018, EGL Tours had already achieved its market status as one of the top three travel agencies in Hong Kong, and taken 9.3% of the city tourism market, competing among 1,600 agencies including 207 of them from Macau (Xueqiu, 2014). Among the market shares, its major Japanese tour packages had lodged 31.6% while Japanese FIT packages grasped 14.3% of the market shares, standing tall as No. 1 in the market. Nevertheless, tourism market in Hong Kong is a greatly saturated bazaar and EGL Tours has shown declining on some of the sectors.

When harsh business and economic environment were striking the city throughout COVID-19 and many travel agencies could hardly survive, EGL Tours was still succeeding to keep most of its employees and combatting for existence. Its own hotel business in Japan, while tough to manage the financials for now, was still a remarkable unique market share for EGL Tours.

To reduce revenue impact and create new supplies for consumer demands, EGL Tours ecommerce online shopping platform was born last year. Whilst this was promising for revenue, competition was also aggressive when its two large competitors, WWPKG and Hong Thai, also brought up virtual shopping platforms during COVID-19.

Market competitions are also coming around regionally amongst countries like Taiwan, Singapore, South Korea, and Mainland, where local governments are also gearing up to revive economy and tourism.

Through challenges, opportunities could also be hidden, with a dilemma whether scales of economy should be strategically thought through now to take advantage of weak market and competitions. Between short run for survival and long run for expansion, effective emergent

strategies could ultimately achieve above normal profits.

4.2 Strategies to Ensure Business Continuity under COVID-19 Crisis

The report has gone through great lengths to discuss diverse challenges that EGL Tours face today, which provides a list of resourceful solutions that can benefit the management in constructing emergent strategies for survival and long-term prosperity.

4.2.1 The Business Plan

The necessary contingent plan is prepared in a two-stage approach, which Table 4 outlines sustainable strategies during the pandemic and Table 5 draws strategies for further competition post-pandemic.

Table 6 Strategies During The Pandemic

1. Creating new demands for hotel business in Japan	
Objectives	Negotiate with Japanese government in designating hotel as quarantine facility
	Negotiate with local Japanese prefecture authorities in designating hotel as medical facilities
2. Utilizing online shopping platform and relocating normal local tour packages to ecommerce	
Objectives	Knowing local tour packages are not usually profitable and consumers have substituted ways to book their own, this is to remove unnecessary transactional cost including labor away from it
	Taking advantage of existing online shopping to reduce infrastructure investment
3. Establishing high-end travel packages for luxury tourism	
Objectives	Inelasticity for luxury travel or exclusive destinations will still exist
	Focused target customer group for improved travel product
4. Cost control and financial diversification	
Objectives	Carefully manage and understand where cost is used and for what purpose
	Foreign exchange and interest rate exposures, especially for businesses in Japan, should have hedge facilities available to reduce risks
5. Social media utilization	
Objectives	While promotion and advertisement costs are managed, social media could be further developed for the same purpose with minimum costs
6. Ecommerce and virtual business	
Objectives	Further develop online shopping and use existing branches for pickup, rather than new stores, to increase hybrid sales and reduce transaction cost on deliveries
	Cross selling for agency's core tour business should associate with social medial campaigns
	Surrogate shopping, even tours, could be adopted in AR or VR mode
7. Travel Industry Council Agreements	
Objectives	Instead of fighting for prices, as the leader of industry, EGL Tours could lead the council discussion to agree on market alignment and benefit industry for survivability
	Benefit brand image in the industry for future expansions
8. CSR	
Objectives	Continue with socially responsible business practice, which energy saving and green office could also contribute to cost reductions

Source: Constructed by Author

Table 7 Strategies After The Pandemic

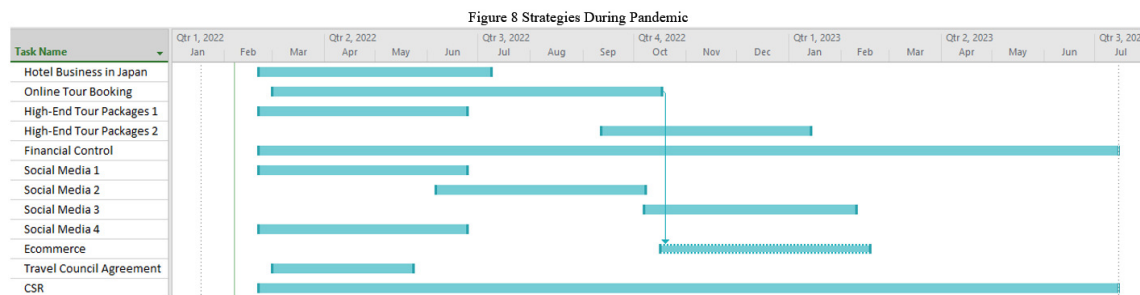
1. Merge or takeover	
Objectives	Seeking opportunities to expand scales of economy when opportunity cost is low
2. Opportunities to expand hybrid online and offline business	
Objectives	Chance to hire back furloughed employees Both online and offline business at brick-and-mortar store could mutually benefit the agency businesses
3. Diversify tour destinations and focus additional alternatives globally rather than Japan alone	
Objectives	Taking advantage of various countries tourism incentive programs and diversify opportunities for profits Reduce policy risk within and towards Japan market Consider GBA or Mainland as a good alternative
4. Enhanced financial control	
Objectives	Treasury and cash flow management Assets and liabilities management Future investment management
5. CSR	
Objectives	Resource-based HR view to ensure human assets are well protected as the core for agency's business Better utilize online and offline mixes to ensure socially aware business operations, e.g., social media for marketing and QR code linked brochures

Source: Constructed by Author

4.2.2 Implementation Process

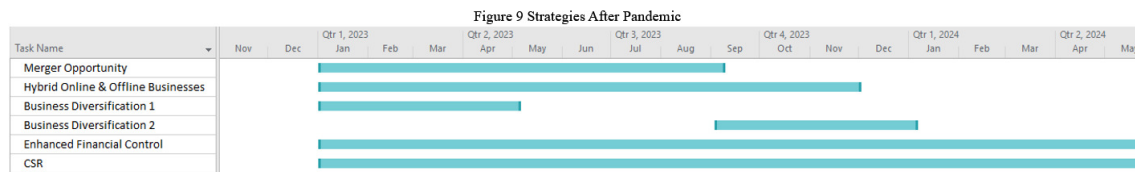
This study proposes a separate approach, before and after pandemic, that is confident to be able to assist ELT Tours sustainability.

Figure 8 below visualizes proposed EGL Tours short run strategic plans during coronavirus.



Source: Constructed by Author

Figure 9 illustrates proposed EGL Tours emerging strategies after the pandemic.



Source: Constructed by Author

As abstract as it can be, economic theories being used well in business analytics could bring practical and real values for firms to restage its emerging strategies as the study demonstrates in EGL Tours case.

5 Conclusion and Recommendations

5.1 Conclusion

The comprehensive analyses throughout the sections have effectively responded objectives defined at the beginning of the report in (1) identifying evidently a startling jump on EGL Tours costs compared to even before the pandemic especially related to fixed cost that posed definitive adversarial outcomes on its business in a challenging environment; (2) contemplating on potential menaces in a turbulent economic environment globally and city wise including market competitions, where tourism industry had been hit the most on revenues and employment; (3) weighing various business initiatives including technology adoptions, despite the difficulties, a better utilization of economic tools can help firms to stimulate the confidence and incubate sustainable business plans to further compete.

5.2 Recommendations

The coronavirus is seen to be obstinate and more contagious every time a variant evolves, adding more complications and instability to global business environment. For EGL Tours to endure and even succeed after the pandemic, the study would highly recommend the agency both short-term and long-term approaches formulated in the business contingent plan to well prepare and combat the uncertainties.

During the pandemic, EGL Tours should address financial exposures on rising costs particularly affecting fixed cost in Japan, where new business demands could be economically generated to offset the remarkable expenditures, along with controls on risk exposures caused by inflation and foreign exchange. Business revenue structures should have been also remodeled that unique high-end tour products could be developed. Also, online ecommerce should have been enriched, in order to help reduce costs on necessary but low-profit-generating local tours under lockdown, to enable cross selling both tour and shopping businesses online, as well to best utilize transactional costs with brick-and-mortar spaces. Whilst working towards cost reductions, social media could be a useful means to promote business and brand image, along with negotiating mutually beneficial tourism council agreements for the industry.

In the post-pandemic era EGL Tours along with tourism industry should be further transformed to be competitive, including a continuous CSR strategy. Taking advantage of

impaired economic environment, where weak competitor's economy of presence shrunk, an advantageous merge could be sought. Upon markets reopen, the landscape of business diversification could serve as resilience strategies to differentiate risks. In contrast with short-term strategies, enhanced financial and ecommerce strategies could serve future business returns.

The unpredictable nature of coronavirus sets a limitation, making it difficult to always stay ahead of the unpredictable; thus, the long-term strategies should be constantly reviewed and revised.

References

- Berry, S. and Reiss, P. (2007) 'Chapter 29 Empirical Models of Entry and Market Structure', *Handbook of Industrial Organization*, vol. 3, pp. 1845-1886, December. DOI: 10.1016/S1573-448X(06)03029-9.
- Census and Statistics Department, The Government of the Hong Kong Special Administrative Region (2021a) *2019/20 Household Expenditure Survey and the Rebasing of the Consumer Price Indices*. Available at: https://www.censtatd.gov.hk/en/web_table.html?id=52 [Accessed 15 January 2022].
- Census and Statistics Department, The Government of the Hong Kong Special Administrative Region (2021b) *Consumer Price Indices*. Available at: https://www.censtatd.gov.hk/en/web_table.html?id=52 [Accessed 15 January 2022].
- Census and Statistics Department, The Government of the Hong Kong Special Administrative Region (2021c) *Labour Force, Unemployment and Underemployment*. Available at: https://www.censtatd.gov.hk/en/web_table.html?id=6# [Accessed 15 January 2022].
- Cision (2018) 'EGL Tours Chairman Receives Award from Japanese Government', *PR Newswire*, 17 December. Available at: <https://hk.prnasia.com/story/232864-2.shtml> [Accessed 11 January 2022].
- EGL Tours (2018) *Annual Report*. Available at: https://www.egltours.com/pdf_src/investor/annual_report_2019-04-26_442_eng.pdf [Accessed 11 January 2022].
- EGL Tours (2019) *Annual Report*. Available at: https://www.egltours.com/pdf_src/investor/annual_report_2020-04-24_59_eng.pdf [Accessed 11 January 2022].
- EGL Tours (2020) *Annual Report*. Available at: https://www.egltours.com/pdf_src/investor/annual_report_2021-04-26_826_eng.pdf [Accessed 11 January 2022].
- EGL Tours (2021) *Interim Report*. Available at: https://www.egltours.com/pdf_src/investor/interim_report_2021-09-27_840_eng.pdf [Accessed 11 January 2022].

- EGL Tours (2021) *Company Information*. Available at:
<https://www.egltours.com/travel/showCompany?id=5> [Accessed 11 January 2022].
- Guillet, B.D. et al. (2011) 'FACTORS AFFECTING OUTBOUND TOURISTS' DESTINATION CHOICE: THE CASE OF HONG KONG', *Journal of Travel & Tourism Marketing*. DOI: 10.1080/10548408.2011.588120.
- IMF (2021a) 'Divergent Recoveries and Global Imbalances', *EXTERNAL SECTOR REPORT*. Available at:
<https://www.imf.org/en/Publications/ESR/Issues/2021/08/02/2021-external-sector-report> [Accessed 15 January 2022].
- IMF (2021b) 'Recovery During a Pandemic', *WORLD ECONOMIC OUTLOOK*, October. Available at: <https://www.imf.org/en/publications/weo> [Accessed 15 January 2022].
- Leung, K. (2020) 'Coronavirus: with tourism on hold, Hong Kong travel firms eye a new moneymaking sideline – online shopping', *South China Morning Post*, 9 May. Available at:
https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3083651/coronavirus-tourism-hold-hong-kong-travel-firms?utm_source=Yahoo&utm_medium=partner&utm_campaign=contentexchange&utm_content=3083651 [Accessed 11 January 2022].
- Maloney, W.F. and Rojas, G.V.M. (2005) 'How elastic are sea, sand and sun? Dynamic panel estimates of the demand for tourism', *Applied Economics Letters*, 12(5), pp. 277-280, 16 August. DOI: 10.1080/1350485042000338626.
- Oriental Daily (2021a) *Limited Mainland Port Clearance Won't Help While 75% Tourism Employees Devastated for Jobs*, 7 December. Available at:
https://hk.on.cc/hk/bkn/cnt/news/20211207/bkn-20211207190835539-1207_00822_001.html [Accessed 17 January 2022].
- Oriental Daily (2021b) *Tourism in Devastation, Practitioners Are Tearful for Help* 17 April. Available at:
https://hk.on.cc/hk/bkn/cnt/news/20210417/bkn-20210417050030528-0417_00822_001.html [Accessed 17 January 2022].
- Paul, Catherine J.M. (1999) *Cost Structure and The Measurement of Economic Performance*. Massachusetts: Kluwer Academic Publishers.

Poon, W.C. and Koay, K.Y. (2021) 'Hong Kong protests and tourism: Modelling tourist trust on revisit intention', *Journal of Vocation Marketing*, 27(2) pp. 217-234, January. DOI: 10.1177/1356766720987881.

Research Office, Legislative Council Secretariat (2020) 'Challenges and economic impacts arising from Coronavirus Disease 2019', *Research Brief*, December. Available at: <https://www.legco.gov.hk/research-publications/english/2021rb01-challenges-and-economic-impacts-arising-from-coronavirus-disease-2019-20201214-e.pdf> [Accessed 14 January 2022].

Tourism Commission, The Government of the Hong Kong Special Administrative Region (2020) 'Tourism', *Hong Kong; The Facts*. Available at: <https://www.gov.hk/en/about/abouthk/factsheets/docs/tourism.pdf> [Accessed 16 January 2022].

Tsui, Kan W.H. et al. (2021) 'Analyzing Hong Kong's inbound tourism: The impact of the COVID-19 pandemic', *IATSS Research*, 45(4), pp. 440-450, December. DOI: 10.1016/j.iatssr.2021.11.003.

World Tourism Organization (2021a) *Hong Kong Inbound Tourism*. Available at: <https://www.unwto.org/international-tourism-and-covid-19> [Accessed 15 January 2022].

World Tourism Organization (2021b) *Hong Kong outbound Tourism*. Available at: <https://www.unwto.org/country-profile-outbound-tourism> [Accessed 15 January 2022].

World Tourism Organization (2021c) 'UNWTO AND ADB PARTNER FOR REPORT ON BIG DATA AND TOURISM RECOVERY', *ASIA AND THE PACIFIC*, 21 December. Available at: <https://www.unwto.org/news/unwto-and-adb-partner-for-report-on-big-data-and-tourism-recovery> [Accessed 15 January 2022].

World Travel & Tourism Council (2021a) 'HONG KONG SAR, CHINA', *2021 Annual Research: Key Highlights*. Available at: <https://wttc.org/Research/Economic-Impact> [Accessed 15 January 2022].

World Travel & Tourism Council (2021b) 'GLOBAL ECONOMIC IMPACT & TRENDS 2021', *TRAVEL & TOURISM ECONOMIC IMPACT 2021*, June. Available at: <https://wttc.org/Portals/0/Documents/Reports/2021/Global%20Economic%20Impact%20and%20Trends%202021.pdf?ver=2021-07-01-114957-177> [Accessed 15 January 2022].

Xueqiu (2014) *EGL Tours: The 3rd Largest Outbound Travel Provider with No. 1 Market Share in Japan, Launched IPO*. Available at: <http://xueqiu.com/8301293543/33000067>
[Accessed 17 January 2022].