Business management
Case study: ELE PLC

For use in November 2022

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

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ELE PLC

Emma and Lucas De Smet opened their first gasoline (petrol) station in Antwerp, Belgium, in 1969. The business was set up as a private limited company, *ELE Ltd*. Emma and Lucas opened additional gasoline stations by reinvesting profits. By 1979, *ELE Ltd*. had a chain of 100 gasoline stations across Belgium. That same year, *ELE* became a public limited company. Emma and Lucas each retained 26 % of the shares in *ELE PLC*. The additional capital that this raised partially funded external growth.

The business continued to expand in the 1980s and 1990s by acquiring smaller chains of gasoline stations. By 1999, *ELE* had 700 gasoline stations in Belgium, France, Spain, and the UK, employing 5500 staff.

ELE remained a family business and, in May 1999, the De Smets' son and daughter, Hugo and Giselle, joined *ELE* after graduating from university.

In 2000, the board of directors, consisting of Emma, Lucas, Hugo and Giselle, made the decision that, rather than opening more gasoline stations in the future, the business would grow revenues through diversification and expansion of the retail operations of the 700 gasoline stations.

Over the next decade, *ELE* made three strategic changes: a takeover of *Zeat PLC*, expansion of gasoline station retail operations, and diversification into car rentals.

Strategic changes

The takeover of *Zeat PLC*

In 2000, *ELE* raised EUR 49 million from internal sources to take over *Zeat PLC*.

Based in the UK, *Zeat PLC* had long-term contracts to supply and maintain air compressors to gasoline stations across all European Union (EU) countries, including *ELE*'s. These air compressors were used by customers to inflate their car tyres. Emma and Hugo felt that the revenue stream from the maintenance contracts alone was too good an opportunity to miss. They also believed that this business had the potential to become more profitable.

The *ELE* board of directors decided to retain the *Zeat* brand name but operate it as a separate division of *ELE*, with Lucas as the director.

Lucas identified that improvements within the *Zeat* division were possible in:
- productivity levels
- delivery dates
- air compressor servicing
- employee motivation
- employee absenteeism.

Lucas implemented a rapid modernization programme of *Zeat*'s batch production manufacturing method. New machinery was purchased, and cellular manufacturing was introduced. Within two years, the *Zeat* division became more profitable.

Until 2005, the *Zeat* division was only a business-to-business (B2B) supplier, but Lucas believed a business-to-consumer (B2C) marketing opportunity existed for a small, low-cost electric air compressor to inflate car and bicycle tyres at home. This new compressor would run off a car's electrical supply. *ELE*'s Marketing Department conducted market research into this opportunity using stratified sampling, and analysis of the collected data confirmed Lucas's idea that there was a gap in the market for this product.

To fill this gap in the market, the *Zeat* division launched the MiniC compressor in 2006, which it produced in its UK factory. Initially, the MiniC was sold only in *ELE*'s gasoline station stores (shops), but Lucas soon realized that another distribution channel was needed. He held discussions with buyers from retailers, and within a year, the MiniC was on sale in thousands of retail outlets across the EU.

Expansion of gasoline station retail operations

In 2005, the gasoline stations became a separate division within *ELE*. Hugo was appointed as the division's director. He initiated a refurbishment of gasoline station retail stores, in which the floor space in each store was increased. This enabled a wider range of products to be sold. Previously, the stores only sold newspapers and confectionary, but with this refurbishment they became convenience stores supplying food and drink items. This refurbishment, which also included the installation of point-of-sale stock management software, was financed from retained profits and completed by 2009.

Diversification into car rentals

In the first decade of the twentieth century, the demand for car rentals grew significantly worldwide. In 2010, *ELE*'s directors decided to set up a car rental business financed by a combination of retained profits and external finance. Giselle was appointed director of the car rental division.

Giselle was passionate about change and the need to modernize. On her office door hung a sign: "Embrace change with open arms". This slogan became Giselle's mantra. She wanted to grow the car rental division further. In 2015, she gained board approval to open car rental offices in all the major airports in Belgium, France, Spain and the UK, and implemented a car rental booking service at *ELE* gasoline stations. Now, *ELE* car rentals can be booked online, over the telephone, and face to face at one of their counters in gasoline stations or at any airport office. *ELE* is also considering launching a smartphone booking app that would allow customers to book a rental car in less than a minute.

Giselle believed much of the car rental division's success was attributable to its approach to human resources. A graduate recruitment policy had been adopted, and training was provided annually. Giselle encouraged internal recruitment and wanted:

- employees with ambition and initiative
- employees who shared her belief in embracing change
- internal promotion when management-level vacancies arose.

The car rental division uses self-appraisal and both formative and summative appraisal. Each office manager meets with the employees they directly line manage for a monthly meeting scheduled during normal working hours. Once a year, employees receive a written appraisal from their manager. Feedback from employee appraisal interviews demonstrates that the career prospects provided by *ELE* are an important factor in staff recruitment and retention. Employees also value the opportunities that self-appraisal and formative appraisal provide for ongoing clarification of their job roles and performance. Appraisal interviews are also used to identify the training needs of employees in order to personalize training, rather than providing identical training to all employees.

Giselle regularly visits *ELE* car rental counters at gasoline stations and airports. These visits are unannounced. She wants to experience, first-hand, the customer service provided by her employees. As part of each visit, she meets the manager and then works on the rental counter serving customers.

Changes in the boardroom

In 2019, Emma and Lucas stepped down from the board of directors but remained as the majority shareholders in the business. They were replaced as directors by Giselle's twins, Monica and Oliver, who had both joined the business in 2011. Monica was appointed as Giselle's deputy.

ELE's future

Between 2010 and 2020, all three of *ELE*'s divisions remained profitable. The *ELE* board scheduled meetings in 2021 to discuss a 10-year plan for the business. Oliver was asked to produce a report on the challenges and opportunities the business would face. Having read the report, both Hugo and Giselle felt that the title of the report should just be "challenges", but Monica disagreed: she saw opportunities, not challenges. Extracts from Oliver's report are shown below.

Oliver's report

Zeat division

- The gasoline station compressor market is saturated but consistently profitable.
- *Zeat*'s market share of supplying air compressors to gasoline stations had increased to 75 %.
- *Zeat*'s factory will not require any additional investment for another five years.
- Sales of the MiniC were consistent despite increased competition from cheap imports.

Car rental division

- Sales revenue growth is predicted to slow down significantly from 2022 onwards.
- Competition in the countries in which *ELE* car rentals operates is fierce.
- *ELE* may need to enter new markets.
- India is a market with growth potential.

Gasoline station division

- Many governments have announced that sales of new gasoline and diesel cars will be banned from 2030.
- Car companies are making decisions to end the production of gasoline and diesel cars.
- Worldwide sales of electric cars rose by 43 % in 2020.
- Falls in battery prices will reduce the price of electric cars.
- Electric cars are predicted to be cheaper to purchase than gasoline- or diesel-powered models by 2025.
- Gasoline sales are expected to gradually decline—a decline that will gain pace as the decade progresses.

Having read Oliver's report, Hugo, Giselle and Monica proposed changes to the business. Hugo suggested that changes would be needed in the gasoline station division in the near future and proposed a strategy to close the least profitable stations and redevelop the sites as convenience stores. He argued that these sites have prime locations, good access, and on-site parking. The gasoline pumps would be removed, and the existing stores would need to be enlarged. These sites would still operate as sites for *ELE* car rentals.

Giselle made a presentation to the board. She wanted to expand the car rental division to India. Her presentation highlighted that most car rental businesses in India:

- are small and local
- owned 20–50 cars
- only operated in one or two cities.

Giselle's presentation also highlighted that:

- only 4 % of cars on roads were rental cars
- foreign and domestic tourism is growing
- urbanization is rapid
- public transportation is basic but cheap.

Giselle wanted Monica to become the director of a new car rental division in India. However, Monica disagreed completely with her mother. During a gap year in the USA, she saw how, in one city, a new innovative business model using disruptive technology had changed the car rental market. She compared this new business model to the impact that companies like *Uber* had on the taxi industry.

Rather than enter the Indian market, Monica recommended a fundamental change to the *ELE* car rental division in Europe: to gain first-mover advantage, she wanted to launch a new brand, In3T, enhanced by technology. For this new brand:

- all cars would be electrically powered;
- customers would sign up as members;
- membership would be free;
- members would book a car using the In3T smartphone app;
- car availability would be identified using the In3T app;
- cars would be hired by the hour and unlocked and started using the app;
- cars could be left, at the end of the rental period, at any of the many designated locations in the city.

This service would have few overheads. Booking offices would not be needed. A call centre that is available 24 hours a day would handle any member queries.

In the meantime, Monica suggested that Giselle might want to remove the sign on her door…