

**ADVANCED GCE UNIT  
BUSINESS STUDIES**

Business Thematic Enquiry  
**TUESDAY 26 JUNE 2007**

**2879**

Afternoon

Time: 1 hour 30 minutes

Additional materials: Answer Booklet (8 pages)

**Candidates may use calculators in this examination.**



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**INSTRUCTIONS TO CANDIDATES**

- Write your name, Centre number and candidate number in the spaces provided on the answer booklet.
- Complete both tasks.
- Write your answers on the separate answer booklet provided.
- If you use extra sheets of paper, fasten these sheets securely to the answer booklet.
- Read the tasks carefully and make sure you know what you have to do before starting your report.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each task.
- The total number of marks for this paper is 90.
- You will be awarded marks for the quality of your written communication.

This document consists of **6** printed pages and **2** blank pages.

## Holiday Opportunities plc (HOP)

Holiday Opportunities plc (HOP) owns six small holiday camps on coastal sites around the UK. Seema Kotak manages the one on the east coast. The camp has only been open for three years and results have not been good. The camp made losses in the first two years and less than £1,000 profit last year.

The problem is seasonal variation. The camp is full, or nearly full, in late July and August but is rarely above 50% full at any other time. It is closed from 1 October until Easter. Seema has been told that a profit target of at least £10,000 is set for the coming season and that the camp will be sold if this target is not met. 5

There is little scope for cost reduction. In fact, the service level is poor and this is attributed to insufficient staff and low morale in an unsuccessful camp. Camps of this kind normally expect return visits to be the main source of revenue but repeat bookings accounted for less than 15% of total revenue in the third year of operation. 10

To meet the target, Seema will have to increase capacity utilisation considerably in the periods of mid and low season or open the camp for some of the period between 1 October and Easter. One problem is that the camp is aimed at family holidays towards the bottom end of the market and, therefore, the facilities and accommodation are not good enough to go up market. 15

Site managers have no borrowing powers. The Board reserves the right to approve finance for schemes for improvement. To succeed, a scheme must offer prospects of long term profit. Seema has discussed her ideas with her senior staff and they have developed a project which could be submitted to the Board. The project focuses on opening during the current closed season but could also have a positive spin off for mid and low season revenue. 20

### Conference Facilities

There is a wide market in the provision of conference facilities. Demand is mainly for one day events and weekend activities, although some require longer periods. However, there are few demands for such facilities in summer. Seema knows she cannot aim at the top of the market. Nevertheless, she can aim for student conferences and adventure and other activity weekends which she has researched. The normal requirements would be for a large hall, several smaller rooms, meal facilities and overnight accommodation. 25

All of these things can be provided now, but the standard would have to be raised. This would require substantial refurbishment of part of the camp, better facilities within each room, and significant training to ensure an adequate standard of customer service. It would also require a higher standard of marketing and of organisation. The costs of these changes are estimated in Table 1. The changes could provide accommodation for up to 150 people. This would be reduced to 75 if single occupancy was required throughout. 30

**Table 1: Estimated Conversion, Preparation and Running costs of the Conference Facilities project** 35

Items	Costs (£'000)	Costs (£'000)	Costs (£'000)
Set-Up Costs			
Refurbish Main Hall	24		
Furniture, Furnishings and Fittings	34		
Improved Accommodation	75		
Improved Side Rooms and Dining Facilities	32		
Staff Recruitment and Training	30		
Promotion	15		
Total		210	
Annual Running Costs			
Staff Wages*	130		
Accommodation Costs**	120		
Administration Costs	18		
Other	20		
Total Annual Running Costs		288	
Total Costs			498

\*Based on the estimate that 25 people would be employed for 100 days out of season.

\*\*Based on average daily variable costs (e.g. food, laundry, bar stocks) over the budgeted 88 days.

Seema has based her estimates on two-thirds occupancy for each event held. She considers that the most common event would be a weekend one, with delegates arriving on Friday evening for a meal and leaving after lunch on Sunday. Seema also estimates that, on average, a guest will spend £20 per day at the camp. 55

Estimated income from all the different activities in the period from October to Easter is shown in Table 2 below.

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**Table 2: Estimated Income from the New Venture**

Month	Days Open	Total Revenue (£'000)
October	22	121
November	22	121
December	8	96
January	5	60
February	25	125
March	6	30
<b>Total</b>	<b>88</b>	<b>553</b>

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Note: Figures are based on two-thirds capacity utilisation and do not include additional spending by guests.

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Seema also calculates that the refurbished rooms could be offered to guests at a higher rate during the summer season when not needed for conference facilities. She expects to earn about £10,000 per annum in increased revenue from this.

However, Seema has not yet considered the possibility that finding 25 experienced staff who want to work for 100 days in the 'closed season' may not be easy. This could lead to a wages bill higher than she has estimated or to greater recruitment and training costs.

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**Required:**

Write a report to the Board of HOP advising whether or not the conference facilities project should be supported. In writing your report you should use the evidence given in the case. You should also use any evidence you have gathered from your study of the problems and strategies associated with coping with seasonality. The title of your report must be:

**Should HOP give support to the conference facilities project?**

**Complete both tasks below:****Task 1**

Write a plan for your report in which you make clear:

- (i) the problem as you see it and the need to solve it;
- (ii) the context in which this problem must be solved;
- (iii) your objectives in your approach to the problem;
- (iv) any assumptions you make and the reasons for them.

You are advised to spend not more than **15 minutes on this task.**

[10]

**Task 2**

Write your report.

In it you must satisfy the criteria on which the assessment is based.

You should ensure that you:

- (i) provide terms of reference for the report;
- (ii) select appropriate evidence for this task. You should use evidence from the case, from business theory, and from work you have done in preparation;
- (iii) present and analyse the evidence logically, in line with the objectives you set and the assumptions you made in the plan;
- (iv) consider the situation and arrive at a supported recommendation.

[80]





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