

GENERAL CERTIFICATE OF SECONDARY EDUCATION 1051/03/CS
BUSINESS STUDIES A (SHORT COURSE) 1051/04/CS

Paper 3 (Foundation Tier) and Paper 4 (Higher Tier)

CASE STUDY

FRIDAY 23 MAY 2008

Morning
Time: 1 hour



INFORMATION FOR CANDIDATES

- This is a clean copy of the Case Study which you should already have seen.
- You should refer to it when answering the examination questions which are printed in a separate booklet.
- You may **not** take your previous copy of the case study into the examination.
- You may **not** take notes into the examination.

This document consists of **12** printed pages.

LINK SPAS PLC

Alan Rogers opened his first health spa 20 years ago in response to the growing demand for leisure and sport. He had worked as an accountant for a large company and was made redundant when the company relocated abroad. He used his entire redundancy package to buy and modernise a large house outside Sheffield, Yorkshire. He decided to set up the business as a sole trader.

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When Alan set up Link Spas his objectives were to:

- have a secure job
- survive financially
- use his interest in sport and leisure to earn a living.

Today, Link Spas operates as a public limited company and runs eight health spas. There are a number of stakeholder groups with an interest in Link Spas plc. Each spa is located on the outskirts of a large town or city in England, Scotland and Wales. All of the spas are based in old refurbished buildings with large grounds. The company has added 18 hole golf courses to four of the spas over the last ten years.

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Until now the target market for Link Spas plc has been mainly professional people between the ages of 30–45.

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At present the health spas offer the following services:

- swimming
- gym/fitness training
- aerobic/fitness classes
- saunas
- sports such as basketball, badminton, netball and five a side football.

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Link Spas plc also offers a variety of weekend breaks and day spas for individuals and groups. These services are available to people who have paid a subscription to become members of a spa. These subscriptions can be bought for individuals, families or groups and can last for a year, a weekend or a single day. Companies can also buy 'corporate days' or 'corporate weekends' for their staff. These days include a variety of activities such as team building, motivational techniques, conferencing and other training skills.

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Link Spas plc has set its subscription prices at a competitive level with similar spas around the country and has not increased its prices for three years (see Resource Sheet 1). However, during this time, there has been an increase in both wage and marketing costs due to new legislation and increased competition.

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Each spa employs on average 40 staff. The managers and supervisors have permanent, full time contracts and the remaining employees have part time contracts or are seasonal workers. These seasonal workers are often from Eastern Europe and are only employed for the summer. Although there have been problems with the employment of some of these workers, there have also been benefits to the company. When staff are recruited a detailed job and person specification are used to help select the best person for the job.

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Each spa is organised as shown in Resource Sheet 2. The Board of Directors are:

| | | |
|-----------------------|--------------------------------|----|
| ALAN ROGERS | Managing Director | 40 |
| MOSIN KHAN | Human Resource Director | |
| MAY WONG | Marketing Director | |
| LEONIE RUSSELL | Financial Director | |

Most of the staff employed by Link Spas plc have excellent communication and social skills and the company has built its reputation on quality service in excellent surroundings. 45

In the past year Mosin has implemented a system of performance appraisal for the permanent staff which has allowed employees input into their future development within the company. This has involved organising regular meetings to discuss staff progress. However, some of the staff, especially those involved with grounds maintenance who have been with the company for some years, resent these new methods and are refusing to take part in the process. In particular, Reg, who has worked for Link Spas plc for 20 years as a gardener, is against any 'new fangled ideas'. He has told Mosin that he is due to retire in two years and 'you can't teach old dogs new tricks'! 50

Alan has told Mosin that he has to solve this problem as soon as possible as these are highly valued employees who have skills which are becoming increasingly scarce in today's workforce. 55

Recently there have been several accidents in swimming pools at the spas. There have also been complaints from some of the local communities surrounding the spas about the level of noise and volume of traffic generated by large businesses holding corporate days at the spas. Local newspapers have picked up on these stories and there have been worrying reports in the local press, examples of which are shown in Fig. 1. Since Link Spas plc relies on the goodwill of the local communities and word of mouth advertising, these developments have been a concern to the Board of Directors. 60

SAFETY – AN ISSUE AT LINK SPAS

Two prominent local businessmen had to be treated for cuts to their feet after broken glass was found on the bottom of the swimming pool at Link Spas plc situated in the village of Skathely.

TRAFFIC MAYHEM IN SKATHELY

Skathely residents are blaming Link Spas plc for the increased level of noise and traffic movements through their village. Local resident David Smith says, 'our children aren't safe walking through the village any more. There are too many cars and delivery lorries going to and from the spa!'

Fig. 1

The main sources of revenue for Link spas are:

- annual memberships
- corporate days
- weekend breaks
- gift vouchers

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Revenue figures for the past two years (as shown in Resource Sheet 1) reveal a falling trend in terms of membership subscriptions. Although there has been a significant increase in the number of corporate days sold despite a lack of advertising. The Financial Director, Leonie and the Marketing Director, May, have been asked by Alan to consider ways of increasing sales revenue.

70

At the same time, costs of marketing the spas are rising due to increased competition in the leisure industry. The competition has recognised that many people cannot afford to travel outside their local environment and pay high fees to stay fit. Hence, small fitness centres have been opened on college and school sites subsidised by local councils.

75

From questionnaires and evaluation forms completed within the spas, the Marketing Director, May Wong, has obtained the information shown in Fig. 2.

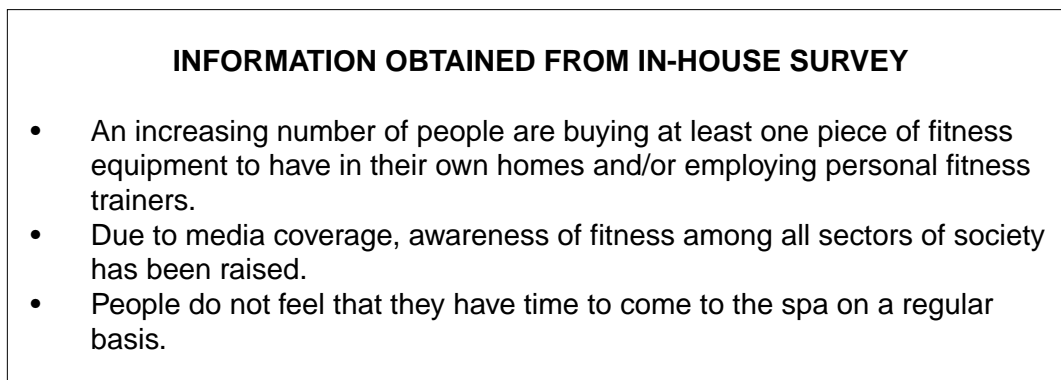


Fig. 2

The Board of Directors is in discussion about how to revitalise Link Spas plc in the 21st Century. All the Directors agree that the company has not responded to changes in the industry and has become complacent.

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Two options are under discussion:

1. employ personal trainers to visit people's homes;
2. open a new spa in Poland.

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Leonie has been asked to investigate the likely costs and revenues of both options.

May Wong decided to employ a market research agency to carry out research to help the Board of Directors come to a decision about which option to choose. The agency was given three months to complete the research. The results of some of the research are shown in Resource Sheet 3.

90

Alan is particularly keen on Option 2 as he sees a real future in the emerging economies in Eastern Europe. He and Leonie have visited Poland to research various sites for this development.

| Information about Poland: |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Population 38.5 million. • Age 15–64: over 70% of population. • Borders seven other countries. Tourists come mainly from Germany, Holland and Scandinavia. • Joined EU in May 2004. • 20% increase in tourism in 2003 from 2004. • Tradition of health spas and health resorts. • Incomes are rising. |

Fig. 3

Resource Sheet 4 shows some of the costs involved in setting up and running each of the options in the first year.

95

Both of the options will result in changes to the structure of Link spas plc and these changes will have to be financed. This will impact on the workforce and may result in redundancies or even the closure of one of the spas in the UK to finance the changes. Alan has spoken to some local estate agents and has found that he would raise between £1.5m and £2.5m from the sale of one of the smaller spas.

100

Rumours have started among the workforce and some of the staff have been asking questions about their futures and their motivation has been affected. Alan has told Mosin that he must put a stop to such speculation as soon as possible.

RESOURCE SHEET 1

Prices and revenues for Link Spas plc

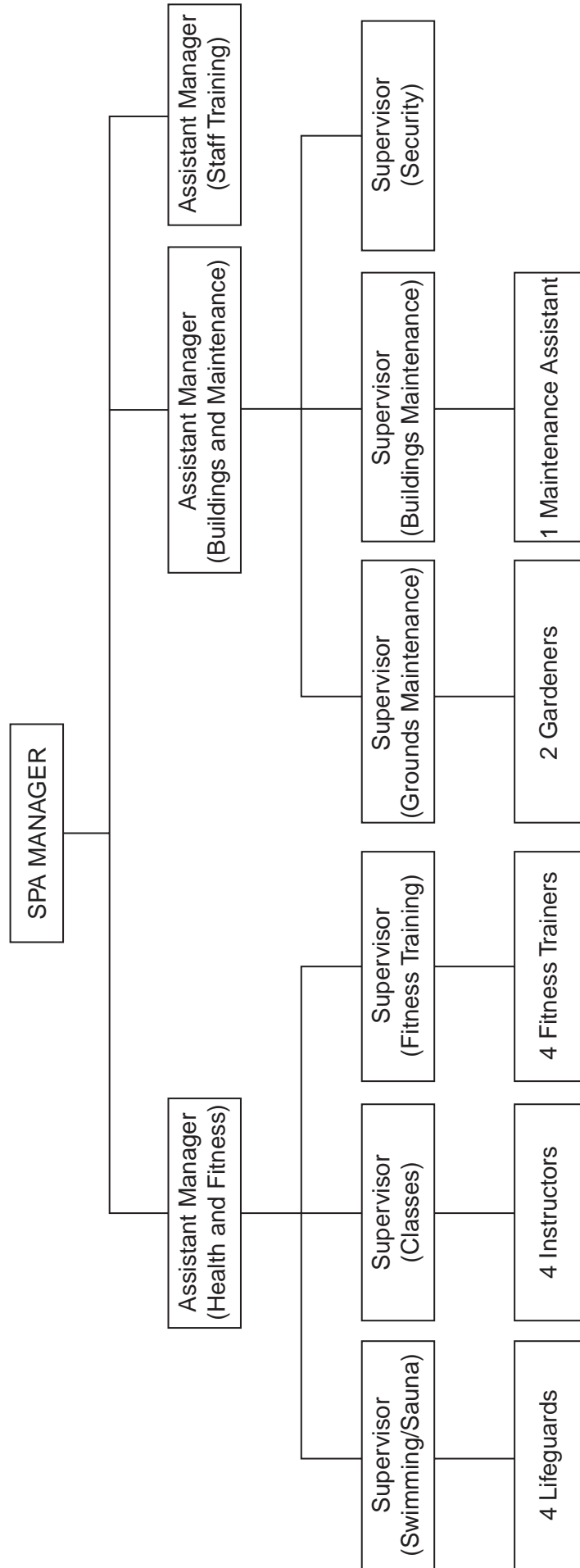
Prices

| | Individual (£) | Group (12 persons) (£) | Family (4 persons) (£) |
|--------------------------|---------------------------|---------------------------------------|---------------------------------------|
| Annual Subscriptions | 600 | N/A | 1200 |
| Corporate Days | N/A | 5000 | N/A |
| Weekend Breaks | 250 | 7500 | 500 |
| Gift Vouchers (Day Spas) | 75 | N/A | 150 |

REVENUE/COST FIGURES 2005–2007

| Revenue Type | Number Sold | Sales Revenue/Year Ended 31.8.06 (£000's) | Number Sold | Sales Revenue/Year Ended 31.8.07 (£000's) |
|----------------------------------|--------------------|------------------------------------------------------|--------------------|------------------------------------------------------|
| Annual Subscription (Individual) | 9000 | 5400 | 8500 | 5100 |
| Annual Subscription (Family) | 3000 | 3600 | 2530 | 3036 |
| Corporate Days | 2400 | 12000 | 2875 | 14375 |
| Weekend (Individual) | 1600 | 400 | 1600 | 400 |
| Weekend (Group) | 1000 | 7500 | 1200 | 9000 |
| Weekend (Family) | 500 | 250 | 440 | 220 |
| Vouchers (Individual) | 3200 | 240 | 3000 | 225 |
| Vouchers (Family) | 800 | 120 | 700 | 105 |
| Total | | 29510 | | 32461 |

RESOURCE SHEET 2 Link Spas plc: Extract from an organisation chart for a Spa



RESOURCE SHEET 3

Market Research Results for Link Spas plc

These are the responses to questionnaires sent to 150 people who were asked about Link Spas plc's future options.

Option 1 – Employ personal trainers to visit people's homes.

Chart A

Number wanting personal trainer

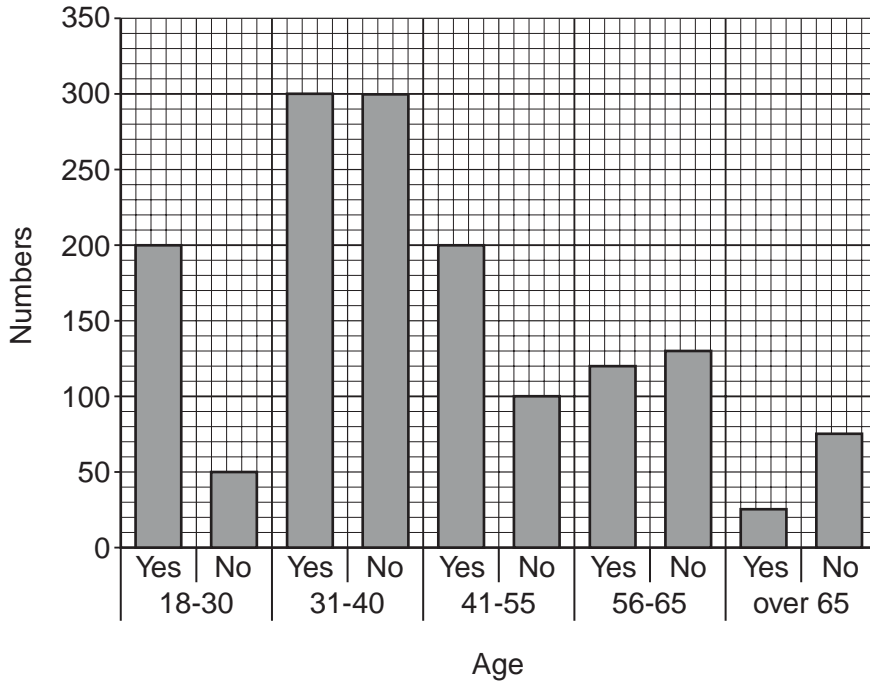


Chart B

Gender sampled

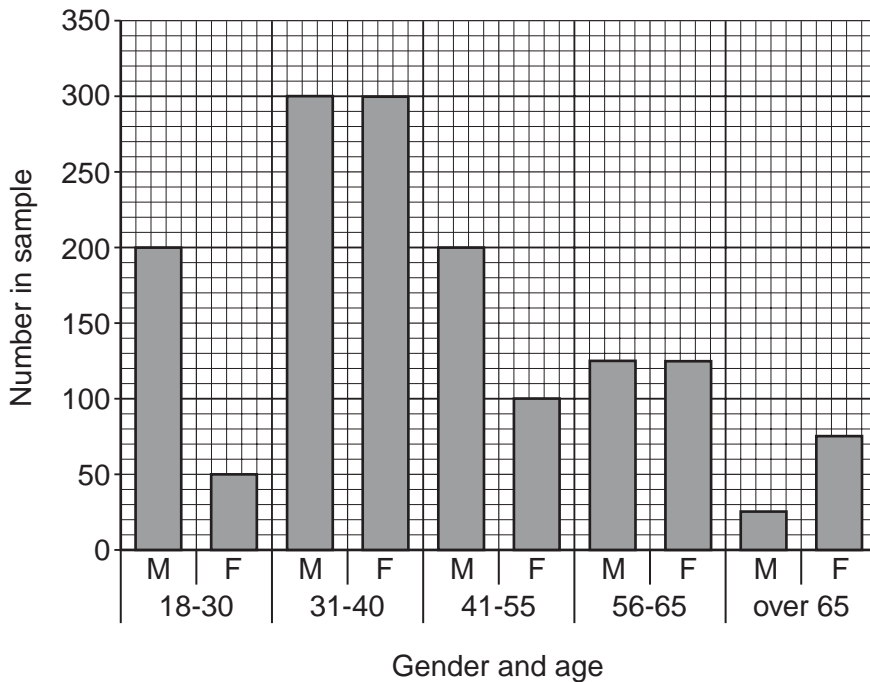


Chart C

How often would you use a personal trainer?

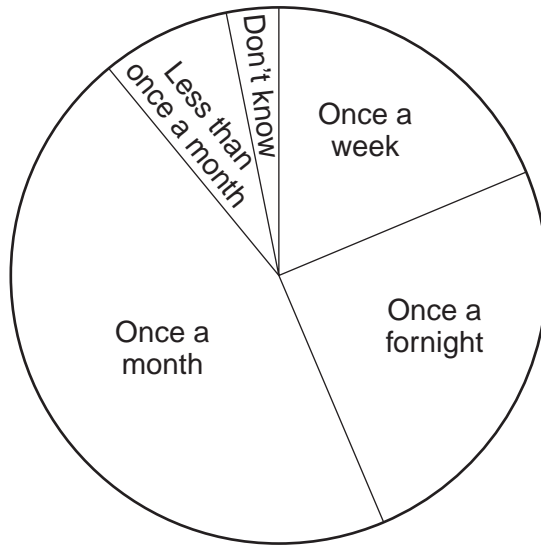


Chart D

Would you like the trainer to visit your home?

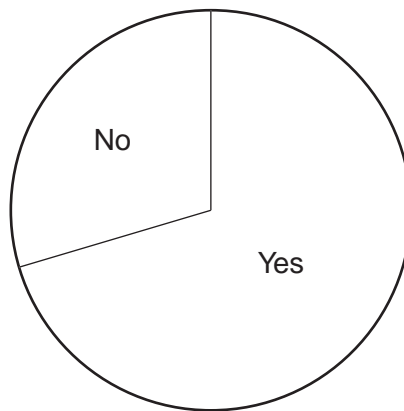
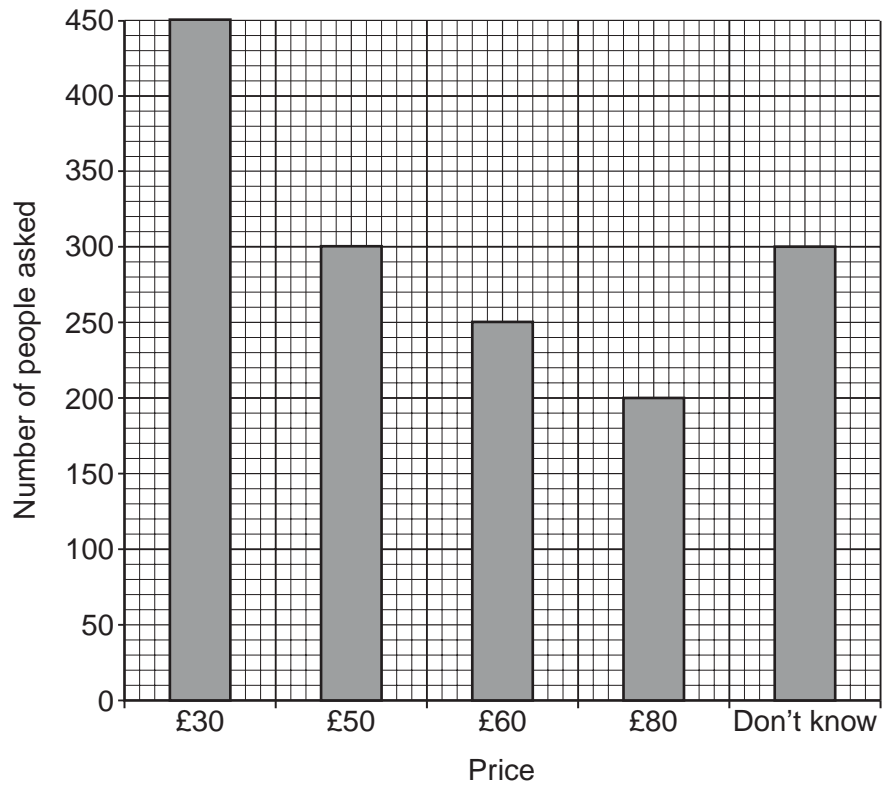


Chart E

How much would you pay per hour?



RESOURCE SHEET 4

Costs involved with each plan:**1. Personal Trainers**

Advertising
 Wages of personal trainers
 Transport
 Training
 Insurance

Approximate Total Cost £500,000

2. Open a new spa in Poland

| | |
|---------------|------------|
| | £(m) |
| Cost of site | 1.2 |
| Refurbishment | <u>0.3</u> |
| | 1.5 |

| | |
|----------------|------------|
| Wages/salaries | |
| Insurance | |
| Transport | |
| Advertising | |
| Power | |
| Total | <u>0.5</u> |

Approximate Total Cost £2.0m

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