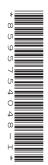


Cambridge International Examinations Cambridge International Advanced Level

BUSINESS

Paper 3 Case Study INSERT 9609/32 October/November 2018

3 hours



READ THESE INSTRUCTIONS FIRST

This Insert contains the case study for use with the Question Paper. The business described in this Insert is entirely fictitious.

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Dart Leisure Resorts (DLR)

DLR operates holiday parks in country Z which offer accommodation, leisure facilities and entertainment to customers. DLR was founded in 1970 to offer low-price holidays to families in country Z. Business growth has been internal, based on building holiday apartments which are inexpensively decorated and furnished. By 2014 DLR faced financial difficulties. Increased competition from other holiday parks, rising operational costs and changing customer holiday preferences resulted in DLR recording losses for the first time.

Strategic review

In response to continued problems in 2016, Iona Farfrae was appointed as the new Chief Executive Officer (CEO). She had previously been the Marketing Director of an international hotel group. Iona carried out a comprehensive strategic review of DLR and identified a number 10 of key internal weaknesses including:

- ineffective management of human resources
- inadequate controls on investment

Decision

- absence of clear corporate goals
- confused marketing strategy
- IT system that was no longer fit for purpose.

lona realised that major changes were needed, especially as customer satisfaction ratings had reached an all time low.

Strategic choices

Sale of two holiday parks

20 Following the review, DLR externally recruited new directors for key functional areas. In addition, in September 2017, the following strategic decisions were taken with the aim of achieving a 10% share of the holiday parks market in country Z by 2020.

Justification

Generate funds for investment and reduce the

sale of two holiday parks.	need for external finance.	25
Papagitian the DLR brand to torget	Supported by Force Field Analysis.	20
Reposition the DLR brand to target	Supported by Force Field Analysis.	
higher income customers. Achieved by upgrading facilities at the remaining	Decision tree analysis supported investment in	
	Decision tree analysis supported investment in	
five holiday parks in 2018 at a cost of	upgrading facilities – expected monetary value of	30
\$25m.	\$10m.	30
Introduction of a new integrated IT	Forecast accounting rate of return (ARR) of 20%.	
system to reduce operating costs.		
Estimated capital cost of \$5m in 2018.		

the facilities will transform our holiday parks. When I first joined DLR and visited the parks there 35 was a clear need for modernisation. I believe that DLR will offer the modern, high quality leisure facilities and accommodation at reasonable prices that customers now expect.'

Developing the new marketing plan

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With the strategic choices made, the new Marketing Director, Alec Vye, spent two months developing a new marketing plan to achieve the objective of a 10% market share. The marketing 40 plan included:

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- increased prices for the improved accommodation but bigger discounts for the off-peak • season
- discounts offered to loyal customers for advance bookings and payments
- increase in promotional spending
- increased willingness to respond to discounts offered by competitors
- greater use of social media.

Operational efficiency

During the newspaper interview in 2017, Iona commented that: 'capacity utilisation, which 50 means apartment occupancy, is a key performance indicator for a holiday park. DLR has failed to match the industry average and this has reduced our profitability. Our new investment strategy aims to improve occupancy and profitability.'

At the most recent Board meeting in 2018 the Operations Director presented the latest figures showing trends in occupancy and revenue per apartment. Selected data from his report are shown in Table 1.

	DLR		Industry Average	
	2017	2018	2017	2018
Number of apartments	2300	1800		
Average number of apartments occupied daily	1200	1300	73%	75%
Average price paid per apartment per day (\$)	80.20	84.50	91.00	92.40
Average revenue per apartment per day (\$) (Revenue/Number of apartments)	41.84	61.03	66.43	69.30
Apartments: Total fixed cost per day (\$)	84000	81 000		
Variable costs per occupied apartment per day (\$)	10.20	11.50		

Table 1: Summary of performance

A return to profitability

In the year ending 30 September 2017, DLR made a small operating loss. At the 2018 AGM Iona reported much improved performance. In her CEO statement she wrote: 'During 2018 we have modernised 75% of our apartments. Revenue per apartment has risen despite the disruption caused by modernisation. Disposal of two holiday parks has strengthened our financial position. An exciting new advertising campaign launches in January 2019. DLR has made substantial gains in shareholder value and remains on course to achieve its corporate objectives.'

The Finance Director forecasts that, compared to the income statement for the year ending 30 September 2018, shown in Appendix A, the following changes would occur:

- revenue increases by 10%
- cost of sales increases by 5%
- promotional expenses increase by \$2m
- dividends increase to 40% of profit for the year.

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DLR has used a 'hard' approach to human resource management. With a highly centralised organisational structure, senior management maintained close control of employees. The new Human Resource Director, Mercy Chant, has been reviewing the current human resource strategy. She has identified the following:

- 30% of employees have full-time permanent contracts
- extensive use of zero hour contracts

Hard human resource management

- many employees are on part-time temporary contracts
- labour turnover is high
- an employee survey carried out in 2017 indicated a dissatisfied workforce with little involvement in business decision-making and no commitment to the DLR brand.

Mercy has recently told other directors: 'DLR has almost completed an ambitious investment programme to return the business to profit. However, we cannot achieve all of our objectives without a fundamental change in the way we manage employees. They are our most valuable asset and we must develop their potential and involve them in the business.' Mercy plans to have detailed proposals for a new human resource strategy for the next Board meeting. Further *95* information on employment and training is shown in Table 2.

Table 2: 2018 Human Resource data

	DLR	Industry Average (for holiday parks of a similar size)	
Employees per holiday park	210	230	100
Average number of employees leaving each park	65	45	
Average full-time equivalent salary	\$7600	\$9200	
Average training expenditure per employee	\$150	\$400	

External influences

The holiday park industry operates within a dynamic external environment. Iona commissioned 105 a PEST analysis of the changing business environment in 2018. The major influences on this industry in country Z are summarised in Table 3.

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Table 3: External Influences

Factor	Comments	
Economic	 Planned improvements in economic infrastructure as a result of changes in government fiscal policy Forecast average annual GDP growth of 3.5% over the next three years Interest rates expected to rise by 1% in 2019 Exchange rate depreciation of country Z's currency 	110 115
Demographic	An ageing population	
Social	Increasing interest in sustainability	
Legal	Increase in minimum full-time annual salary to \$8500 by 2019	
Technology	 'Millennials' (people born from 1990 onwards) adopt new technologies Social networking continues to grow By 2020 over 75 billion devices worldwide will be internet enabled 	120
Competition	 Increasingly competitive market conditions Market leader in country Z has plans to open three new holiday parks in 2019 	

Appendix A: Income statement for DLR

Year ending 30 September 2018 (\$m)		
Revenue	80	
Cost of sales	10	
Gross profit	70	
Expenses	53	
Operating profit	17	
Financial Expenses	5	
Profit before tax	12	
Corporation tax @15%	1.8	
Profit for the year	10.2	
Dividends	4	
Retained earnings	6.2	

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