

ADVANCED GCE
BUSINESS STUDIES
Strategic Management

F297

Candidates answer on the answer booklet.

OCR supplied materials:

- 16 page answer booklet (sent with general stationery)
- Insert (F297/I)

Other materials required:

- A calculator may be used

Monday 20 June 2011
Afternoon

Duration: 2 hours

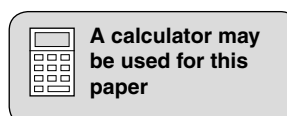


INSTRUCTIONS TO CANDIDATES

- The insert will be found in the centre of this document.
- Write your name, centre number and candidate number in the spaces provided on the answer booklet. Please write clearly and in capital letters.
- Use black ink. Pencil may be used for diagrams only.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- An insert is provided for question **1(a)**. Fasten the insert to the answer booklet.
- If you use extra sheets of paper, fasten these sheets to the answer booklet.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **90**.
- The quality of your written communication will be taken into account when marking your answer to the question labelled with an asterisk (*).
- This is a synoptic paper. When answering each question you must use the knowledge and skills gained throughout the whole A-level course.
- This document consists of **12** pages. Any blank pages are indicated.



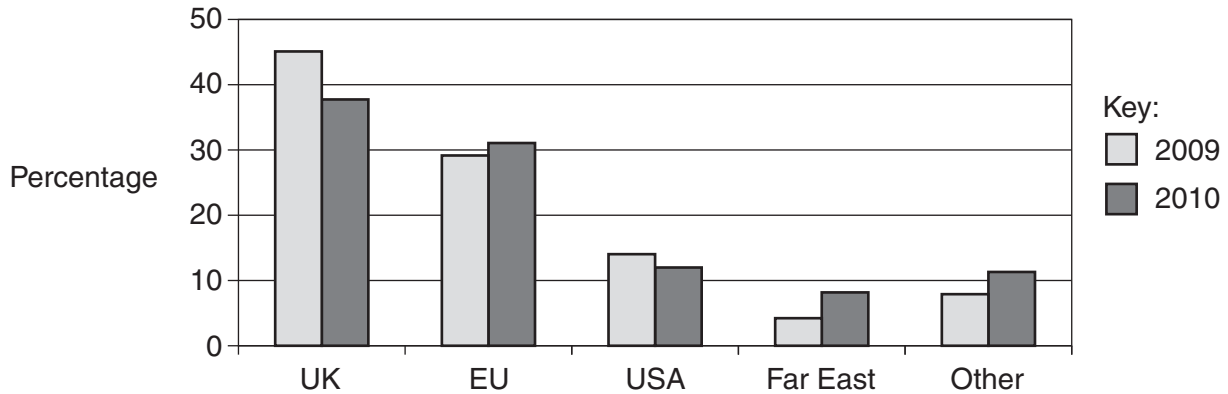
Answer **all** the questions.

- 1 (a) After additional research Wilhelm completed the decision tree, see page 2 of insert.
Calculate the expected monetary value (emv) of node 1. [13]
- There is space on the insert to show your workings.
Please ensure that your insert is securely attached to the rest of your answer booklet.*
- (b) Should BPL purchase the parcel of land? Justify your view. [18]
- 2 Discuss how a change in UK economic growth might affect the strategic direction of BPL. [18]
- 3 The change to BPL's remuneration strategy has not been managed successfully (line 101).
Recommend to Wilhelm how the required change might still be made. [18]
- 4* To what extent might different stakeholders view BPL as a successful business? Justify your view. [23]

Belvoir Park Ltd (BPL)

Set in over 200 hectares of some of England's finest countryside, Belvoir Park is a premier sporting country estate, owned and operated by Belvoir Park Limited (BPL). The business aims to be a top international luxury leisure destination with guests attracted from all over the world (see Fig. 1).

Fig. 1 – Nationality of guests



BPL's Managing Director, Wilhelm Deboos-Parker, is known for his fastidious attention to detail. Further, he has very high expectations of BPL's staff, insisting that their demeanour is an integral aspect of the guest's experience. Wilhelm's focus is first and foremost on the guest's perspective, yet he is willing to listen to ideas from members of staff about how the guest's stay might be enhanced. Charm personified with guests, many former staff learnt too late that he is not a man with whom to argue.

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At the heart of the operation, and first seen from the sweeping driveway, is the magnificent and tastefully renovated 17th century country mansion. The mansion is now primarily used as the reception and restaurant. Although there are a dozen suites and rooms in the mansion itself, the majority of the accommodation is in the former stable and carriage blocks. Room rates vary, from a published £780 (per room, per night) for the best suite in the mansion, down to about £300 for a double room in the stable block. However, the actual prices charged can vary because BPL adopts price discrimination. Further, prices also reflect a number of variables such as the time of year and any promotional offers. Hence, for example, if guests were members of a wedding party, they would receive a discount on their accommodation.

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Contributing to the grandeur of the setting, Ostlers' (the Michelin listed fine dining restaurant) is a wood panelled room running the length of the south side of the mansion, affording stunning views across the park and down to the ornamental lake. The Head Chef, Jan West, prides himself on producing excellent and imaginative food focusing on local seasonal ingredients, wherever possible. The walled kitchen garden, situated behind the mansion, provides many of the herbs and vegetables. Ostlers' service is efficient yet discreet, and a dress code applies. Guests with accompanying children under 18 are encouraged to eat in one of the other two restaurants, where the quality of the food is similar but the menus and ambience are a little less formal. Moving further down the formality scale, guests can eat at 'The Bunker', the dining area of the golf clubhouse. However, few guests choose to do so. The clubhouse also has a bar, lounge area, a terrace overlooking the 18th green, changing rooms, pro-shop and a fully equipped Members' Meeting Room which can comfortably seat 24 people.

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The par 72 golf course was specifically designed with two aims in mind. First, to blend in with the surrounding landscape; to contribute to it, not detract from it. Second, to offer players the opportunity to play on a championship standard course. Membership of the golf club is limited, so as to provide the right ethos. There are several tiers of membership, ranging from Full Members at £1,500pa down to £500pa for Junior Members, each subject to a one-off joining fee of £400. Similarly, the ratio of social and playing members is an important consideration. Aside from excellent golfing facilities, Full Members also enjoy a series of privileges, notably priority booking (at a discount) for gala evenings at BPL and discounted dining and room rates. In addition, all golf members get access to BPL's Health Club and Gym in its Leisure Centre. In contrast, Health Club and Gym members pay the non-members' daily green fees should they wish to play golf. For some time Madina Kuanyshev, Leisure Club Manager, has been arguing that this asymmetric arrangement is unethical. Other facilities offered by BPL include clay pigeon shooting and fly fishing lessons on one of the ornamental lakes in the park.

Never complacent, Wilhelm realises that the services BPL offers to its guests must reflect their needs. Consequently, he encourages his managers to actively listen when guests make suggestions or ask about other services. One such opportunity for additional services has arisen with the possibility of purchasing a 25 hectare parcel of land which adjoins the northern boundary of the Park. The land is currently a mixture of pasture and woodland and it has been offered to BPL for £300,000. A land agent has, however, told Wilhelm that this figure is at a premium of 20% over typical local agricultural land values.

Both Chris Hall, Estates Manager, and Barry Laws, Gardens and Grounds Supervisor, are keen that BPL should acquire the land in order to rear game birds and, subject to local authority planning permission, add shooting to the list of services available to guests. A further benefit of acquiring the land would be the ability to move the clay pigeon shooting facility so that it is no longer close to the local village. Recently, the number of complaints from neighbours has risen.

Wilhelm wondered, however, whether it would be better to acquire the land and use it as an off-road driving course. This, too, would require local authority planning permission.

Wilhelm was aware that, although the local council is actively seeking to encourage job creation in the local area, several members of the Planning Committee are strong supporters of the conservation and protection of the rural environment. He, therefore, thought that it might be a good idea if Adam Williams, Golf Pro, were to invite Councillor Arthur James, Chair of the local authority Planning Committee, for a round of golf.

Buying the land and then not obtaining local authority planning permission would mean much lower potential returns – as it could still only be used as pasture and woodland.

However, news of the proposal to acquire the land spread amongst the managers at BPL and this led to Wilhelm being approached separately by Madina Kuanysheva, Leisure Club Manager, and by the Head Chef and Maitre'd (Jan West and Beatrice Ducasse) about the possibility of £300,000 being used to refurbish and improve their respective existing facilities. Catherine Kent, Finance Manager, also suggested to Wilhelm that, in the current economic climate, it might be better to invest the £300,000 outside BPL in order to reduce the financial risks of BPL being totally dependent on a single venture. She suggested, for example, investing in the shares of another hotel group – or even simply leaving the funds on deposit in a high interest bearing account.

This left Wilhelm a little uncertain as to what BPL should do. Buy the land and seek planning permission? Not buy the land and either use the funds to improve the existing facilities within the hotel/leisure club, or even to invest it elsewhere? BPL's current company policy is to consider all capital investment decisions over a 10 year period. With this in mind, he began to put together a decision tree (see Appendix 1). However, he was aware that there were many other factors which would need to be considered before he decided whether or not BPL should acquire the land.

Wilhelm believes that central to BPL's competitive position is its staff. Finding, keeping and rewarding staff with the appropriate combination of technical ability and attitude to service is key (see Appendix 2). The change in the law with regard to tips in October 2009 acted as the catalyst for BPL when re-formulating its remuneration policy. During the discussions Sue Bell, Hotel Manager, and Beatrice Ducause, Maitre'd, argued that tips should be kept by whoever the guest gave the tip to, as that was their intention and their way of rewarding exceptional service. In contrast, Chris Hall, Estates Manager, held that everyone at BPL depended on each other to do their job and, as such, the staff are a team and should be rewarded as such. After some to-ing and fro-ing, Wilhelm decided that from October 2010 all tips were to be pooled and, at each month end, the pool would be shared amongst all staff, whether front of house or elsewhere. With some reluctance Sue and Beatrice told their staff of the change and simply smiled when some staff argued that the loss of 'their' tips represented a reduction in their earning potential. Within a few months, rumours began to circulate amongst some of the staff that two Chambermaids, mentioned by name, had kept tips left by guests in direct contravention of the new policy. When Wilhelm heard about this accusation during January's monthly management meeting, he told Sue to investigate. In February she reported back saying that Linda Smith, Housekeeper, had found no evidence to support the rumour. In her view, it was nothing more than sour grapes and 'tittle tattle'. Looking pointedly at Chris, she said many staff had been led to believe that tips are substantial; hence the pool would represent a real boost to pay. That they were not, and so had not, had only served to disappoint. Listening to this it became clear to Wilhelm that the change to BPL's remuneration strategy had not been managed successfully. Further, in his view, responsibility for the failure rested with his senior managers. He told the meeting that he would take some time to consider what to do. When he had arrived at his decision he would then tell the staff. In the interim, any staff found not complying with the tip pooling policy would be dismissed for gross misconduct.

In the same February meeting, Sue raised, under AOB, BPL's no smoking policy. She reminded everyone that the policy is that the entire estate is non-smoking for staff. Once she had everyone's agreement about this she produced a photograph of Jack James, one of the ground staff, smoking whilst taking a break from sweeping the 14th green. With what Wilhelm regarded as a little too much satisfaction, Sue also pointed out that Jack was not wearing BPL's corporate clothing. The integrity of BPL's image, carefully created and nurtured over several years, is vital to its success not just with guests but also within the corporate, wedding and conference markets. For these customers, a visit to BPL should be a cherished occasion. Wilhelm wondered if these irrefutable breaches of Jack James' conditions of employment warranted discipline or even dismissal. However, perhaps he should tell Sophie Latham, Personnel Manager, to exercise discretion – given the potential implications of a dismissal.

In the last financial year BPL had revenues in excess of £6m, and achieved a net profit margin of 4.2%. Although revenues were down on 2009, and profit margins had decreased, Wilhelm thought that in such a difficult trading year his shareholders should be pleased, especially as the level of dividend had been maintained. One of his objectives for BPL in 2011 is to reverse this decline in revenue and net profit margin. However, for most of the shareholders, who are also golf club members, BPL represents a lifestyle choice rather than a financial investment.

Reflecting on 2010, Wilhelm knew that most aspects of the business had performed well, with it having a healthy balance sheet (see Appendix 3). One concern, however, is the reliance of the peripheral income streams on the fortunes of the core: the hotel. Consequently, he had set Sue the objective of getting room occupancy up to 75% by the end of 2013 (see Fig. 2).

Fig. 2 – BPL quarterly data

| | | Percentage quarter on quarter change in UK GDP | Percentage occupancy * | Golf club membership | Golf club waiting list |
|------|----|--|---------------------------|-------------------------|---------------------------|
| 2006 | Q2 | 0.4 | 78 | 250 | 315 |
| | Q3 | 0.5 | 81 | 250 | 301 |
| | Q4 | 0.8 | 82 | 250 | 288 |
| 2007 | Q1 | 0.7 | 80 | 250 | 314 |
| | Q2 | 0.6 | 75 | 250 | 321 |
| | Q3 | 0.5 | 72 | 250 | 318 |
| | Q4 | 0.5 | 70 | 250 | 298 |
| 2008 | Q1 | 0.7 | 68 | 250 | 305 |
| | Q2 | -0.1 | 71 | 250 | 314 |
| | Q3 | -0.7 | 68 | 250 | 287 |
| | Q4 | -1.8 | 64 | 250 | 245 |
| 2009 | Q1 | -2.5 | 62 | 300 | 198 |
| | Q2 | -0.6 | 61 | 300 | 174 |
| | Q3 | -0.4 | 60 | 300 | 163 |
| | Q4 | 0.1 | 58 | 300 | 160 |
| 2010 | Q1 | 0.3 | 58 | 300 | 158 |
| | Q2 | 1.1 | 55 | 300 | 145 |
| | Q3 | 0.8 | 55 | 300 | 130 |
| | Q4 | 0.4 (estimated) | 56 | 300 | 131 |

*Room/nights

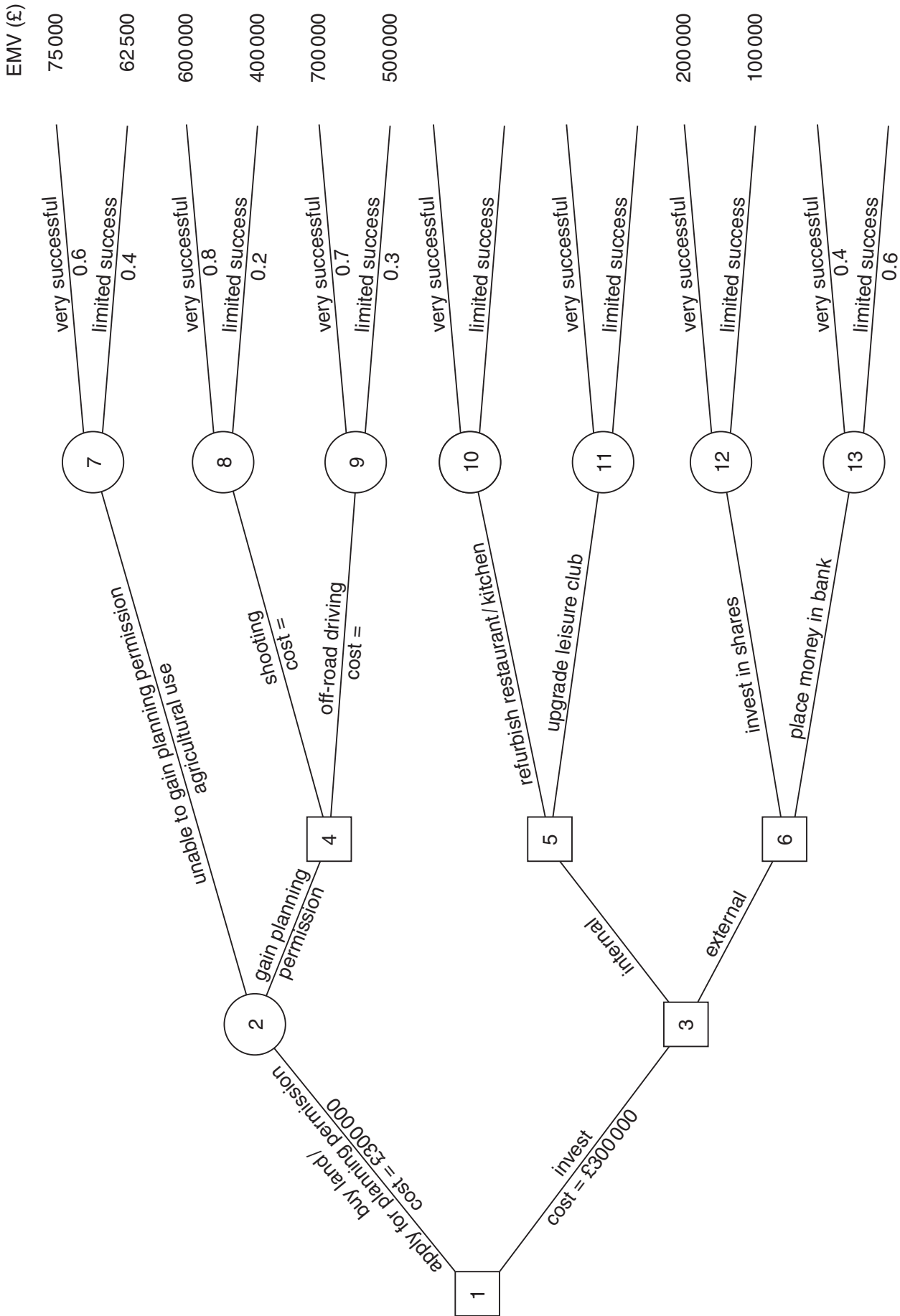
When Sue heard of her 75% target she wondered whether such an objective was possible given BPL's cost structure. Currently, overheads are allocated across BPL's various profit centres on the basis of employee numbers in each profit centre. Whilst this suits the conference side of the business, enabling Justin Wreatham, Marketing Assistant, to set very competitive day delegate rates based on marginal cost, Sue feels a disproportionate cost burden falls on the hotel. Similarly, because most of the staff involved in a wedding booking are actually employed in the restaurant and so appear in Beatrice's budget, it means weddings, and other functions, are able to record very healthy margins. The whole issue of allocating overheads is something which often causes arguments amongst the more competitive members of the management team, particularly when Catherine Kent, Finance Manager, produces her quarterly departmental financial analysis. In Sue's opinion Wilhelm enjoys this tension at monthly meetings. In fact he has been heard to remark that it keeps '...his departmental managers on their toes.' Sue thought that a different costing method might give her a little more flexibility when setting the 2012 tariffs. However, she could try non-price approaches to boost the success of her department. The problem that this leaves her with is 'what?'

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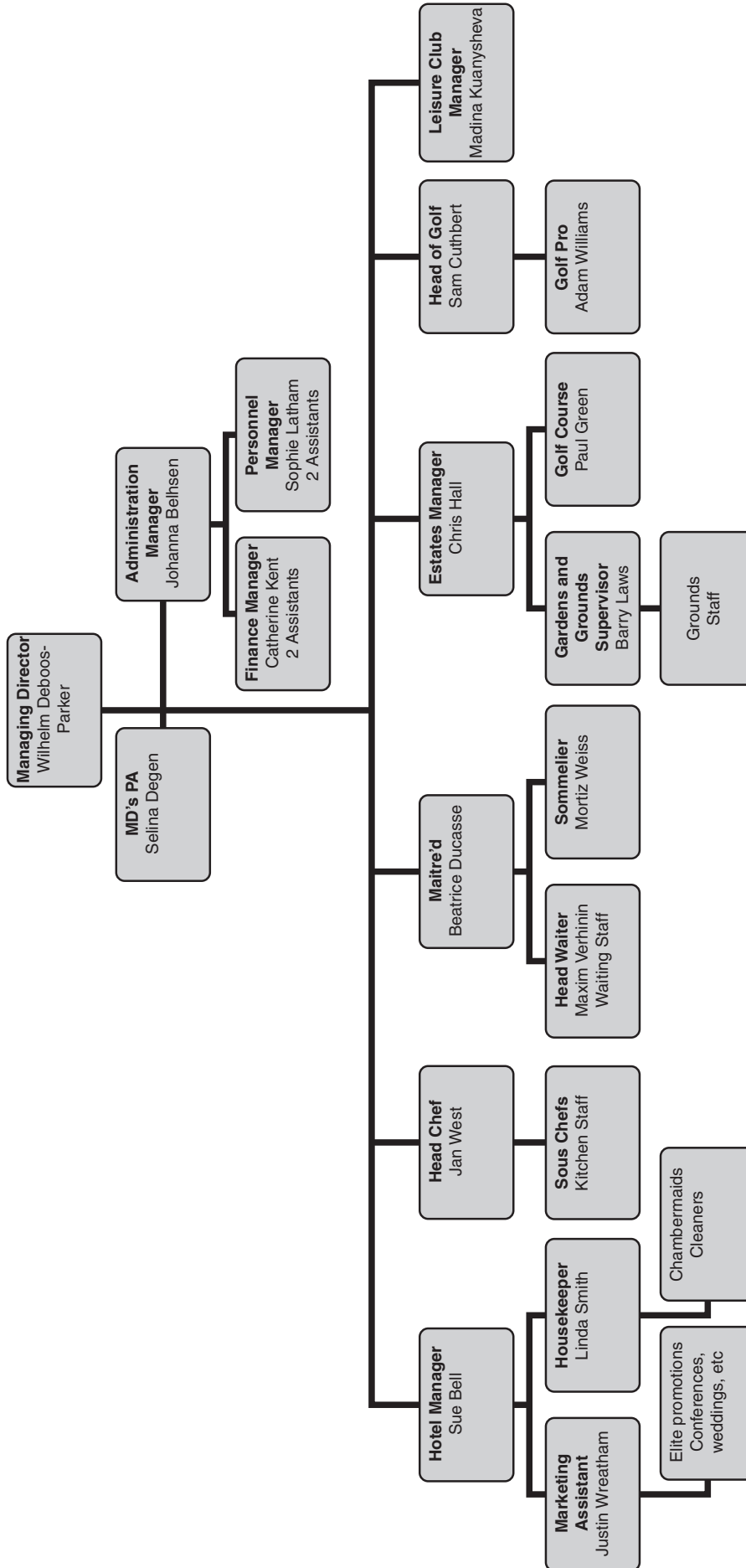
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Appendix 1 – Draft decision tree



Appendix 2 – Extract of BPL organisation chart



Appendix 3

Belvoir Park Ltd – Balance Sheet as at 31 December 2010

| | £000s | £000s | £000s |
|--|-------|-------|---------------------|
| Fixed assets | | | |
| Buildings | 2,000 | | |
| Land | 1,500 | | |
| Equipment | 300 | | |
| | | | 3,800 |
| Current assets | | | |
| Stock | 222 | | |
| Debtors | 171 | | |
| Cash | 454 | | |
| | | 847 | |
| Current liabilities | | | |
| Trade creditors | 545 | | |
| Dividend payable | 50 | | |
| | | 595 | |
| Net Current assets | | | 252 |
| Creditors falling due after more than one year | | | 100 |
| Net assets | | | <u>3,952</u> |
| Share capital | | 500 | |
| Revaluation reserve | | 1,500 | |
| Profit and loss account | | 1,952 | |
| Equity shareholders' funds | | | <u>3,952</u> |

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