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BUSINESS STUDIES B

Business Processes

CASE STUDY

MONDAY 7 JUNE 2010: Morning

DURATION: 1 hour 15 minutes

SUITABLE FOR VISUALLY IMPAIRED CANDIDATES

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HELSOR HOTEL GROUP LTD (HHG)

Tom Helsor had always been interested in the hotel industry since leaving university. After working for a number of major hotel chains, he decided to buy a hotel of his own. In 1998, Tom bought a hotel in Bude, a very popular seaside town. He was a sole trader and managed the hotel himself, employing 11 staff, the majority of whom are part-time. The hotel has 20 en-suite guest bedrooms, most of which are double rooms.

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In 2000, the business became a partnership when his sister, Joanna, joined the business. Joanna re-mortgaged her house and along with her own personal savings was able to invest £500 000 in the business. She had always been interested in the hotel in Bude but felt that Tom could be making more profit from it. Together they bought another hotel in Padstow. Joanna took over managing the hotel in Bude whilst Tom managed the new hotel. Joanna was able to introduce more efficient methods of controlling the finances of the Bude hotel, such as monitoring cash flow. She then trained Tom so that he could introduce the same methods at the hotel in Padstow.

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Other family members saw how successful this business was and wanted to invest to enable the business to expand. At this stage Tom and Joanna decided it would be sensible to turn the business into a private limited company. The business was incorporated in 2002 and became Helsor Hotel Group Limited (HHG). Three other family members bought shares, each investing £200 000 into the company. Tom and Joanna held 35% of the shares

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each whilst the other three shareholders had 10% each. Tom became Managing Director as he had the most experience of the hotel industry. Joanna became Finance Director. 35

With this major change in the ownership of HHG, Tom and Joanna decided that they should be controlling the whole business rather than managing a hotel each. In addition to being Managing Director, Tom took on responsibility for operations and human resources. Joanna became responsible for both finance and marketing. Because of this, HHG needed to recruit two hotel managers for the hotels in Bude and Padstow. It was vital to get experienced hotel managers so that the two directors could delegate the day today running of the hotels. The other shareholders were only interested in being involved in major decision-making, such as expansion. 40 45

The business was very successful and by 2008 HHG had bought two more hotels, one in Tenby and another in Lyme Regis. All four HHG hotels are situated in traditional British seaside towns. During the peak summer holiday season, each hotel is nearly always full. During the rest of the year, the hotels are quieter. HHG had been careful when deciding on locations for its hotels. The business had undertaken a lot of research to find towns that attracted visitors throughout the year before making location decisions. Joanna had been in charge of this research and always made sure she asked a number of different groups of people to gain a range of opinions. These included: 50 55 60

- local tourist information centres;
 - holiday-makers in the area;
 - local hotel owners.
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Whilst efforts had been made to find hotels that attracted some guests all year round, HHG is still affected by seasonal demand. Despite this affecting their competitors in the same way, Joanna believes it is still possible to increase the number of guests in the winter months and is looking into ways of doing this. **70**

The objectives of the business have changed a lot since Tom first set up as a sole trader, when he was happy just to support himself each year. As a private limited company, the other shareholders have different objectives. **75**

The four hotels currently owned by HHG were going concerns when they were bought. The directors and shareholders felt this was a less risky way of expanding because they could see whether or not the hotel was successful before buying it. **80**

In 2008 each hotel was rebranded as ‘The Helsor Hotel’. This included refurbishing the bedrooms and reception areas, fitting new carpets with the company logo, changing the stationery and buying new staff uniforms. The directors wanted all hotels to be of the same quality so that guests could recognise the brand image when they walked in. Other issues they had to address when buying existing hotels were: **85**

- the need to ensure that sufficient rooms complied with disability legislation;**
- whether or not to install wi-fi provision in all rooms.** **95**

The promotion that took place when they re-launched a hotel included advertising, sales

promotion and public relations. Tom felt that they were sometimes wasting money as they were changing something for the sake of it. **100**

When HHG bought the 2 hotels at Tenby and Lyme Regis, most of the existing staff kept their jobs. However, Tom felt that new managers should be recruited from outside the business to run each of the hotels. **105**

Tom and Joanna have been concerned for some time that the HHG hotels waste resources. For example a lot of food is thrown away and towels and bed linen are changed every day in the bedrooms, even if guests stay for more than one night. All bedrooms have baths as well as showers and a lot of water can be wasted if most guests have a bath rather than a shower. A number of hotel chains have introduced initiatives to make their hotels more environmentally friendly. Tom and Joanna want to look at ways of reducing the environmental impact of hotels owned by HHG. **110**
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At a recent shareholders' meeting, the directors and shareholders voted to increase the number of hotels they owned. Tom said it was time for a new challenge. He suggested that the company should buy a plot of land and design and build a new hotel. He had been reading about the Government initiative for eco towns and thought it would be exciting for HHG to be part of this. A hotel in an eco town would attract business people rather than tourists. Joanna thought this was very risky as it was a different market for them. She thought they should follow their tried and tested method of buying an existing hotel in a traditional seaside town and rebranding it. The other shareholders told them **120**
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to research their ideas and present their proposals at the next meeting. Tom and Joanna have different ideas on the best way to present their proposals.

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Tom and Joanna worked hard to get as much information as they could in order to persuade the other shareholders to vote for each of their proposals.

Figure 1 below shows a summary of Tom's proposal. 140

Fig. 1

TOM'S PROPOSAL

To buy a plot of land and design and build a hotel

Location: One of the proposed eco towns

Forecast average percentage occupancy rate

Month	Jan	Feb	Mar	Apr	May	Jun
%	50	50	50	70	70	70
	Jul	Aug	Sept	Oct	Nov	Dec
	60	60	70	60	60	50

Cost to build £6 000 000

FACILITIES:

- 60 rooms
- Leisure Club
- Conference/function suites
- Business Centre

FORECAST PROFITS

By 2015, Tom anticipates an annual net profit from all aspects of the hotel operations would be in excess of £1 000 000.

ADVANTAGES INCLUDE:

- **HHG is able to design and build a hotel to its own specification;**
- **possibility of Government grants.**

DISADVANTAGES INCLUDE:

- **all the figures are forecasts only;**
- **HHG is not experienced in running hotels targeted at business customers.**

Figure 2 below shows a summary of Joanna's proposal.

Fig. 2

JOANNA'S PROPOSAL

To buy an existing seaside hotel

Location: Hastings

Average percentage occupancy rate achieved in 2009

Month	Jan	Feb	Mar	Apr	May	Jun
%	30	20	20	40	70	90
	Jul	Aug	Sept	Oct	Nov	Dec
	95	95	80	50	20	50

Cost to buy £3 000 000

FACILITIES:

- 40 rooms;
- Award-winning restaurant;
- large garden;
- very large car park.

FORECAST PROFITS BASED ON PREVIOUS YEARS' FIGURES

Year	Forecast net profit
2011	£100 000
2012	£350 000
2013	£365 000
2014	£390 000
2015	£400 000

ADVANTAGES INCLUDE:

- **HHG is experienced in the seaside market;**
- **the figures are all based on the actual profits and occupancy gained by the Hastings hotel last year.**

DISADVANTAGES INCLUDE:

- **extensive refurbishment needed;**
- **the hotel would not be built to HHG's specification.**

Both proposals were presented to the next meeting of the shareholders. The shareholders felt they could not reach a decision at the meeting as they wanted time to go through the proposals in more detail. Joanna feels that by waiting they could miss out on the opportunity to buy the hotel in Hastings. Tom's proposal would take a lot of planning so he is not too concerned about having to wait for a decision. The shareholders do not want to rush this as both proposals would cost huge amounts of money and there were no guarantees of success. Either proposal would certainly involve the need for external finance. Whichever proposal HHG selects there will be external factors that may impact on their plan of action. HHG will carry on as usual until the next meeting.

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