

General Certificate of Education
January 2007
Advanced Level Examination



BUSINESS STUDIES
Unit 4

BUS4

Monday 22 January 2007 1.30 pm to 3.00 pm

For this paper you must have:

- a 12-page answer book.

You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS4.
- Answer **all** questions.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 84.
Four of these marks will be awarded for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. All questions should be answered in continuous prose. Quality of Written Communication will be assessed in all answers.

Read the Case Study and answer **all** the questions that follow.

Expansion plans in France

The White Hart Hotel is a great success as it has an excellent reputation and is very profitable. The hotel is well known for great comfort, fine service and exceptional food. Gill and Savan bought the property in the South West of England six years ago after studying hotel management and catering in Switzerland. They had also gained work experience in some of the smartest hotels in Geneva. Before purchasing the White Hart Hotel, they spent several weeks in the South West visiting restaurants and hotels to research into prices and the quality of services offered. On contacting the regional tourist office, they received a forecast that foreign tourist numbers were likely to increase. The couple formed a private limited company to purchase and operate the hotel. 5

Gill manages the staff fairly but firmly. She believes that there is little scope for employee participation in this industry. Until recently, she has been rewarded with excellent employee performance but the latest data suggested some staff discontent (**Appendix A**). Two of the recently recruited catering staff are encouraging colleagues to join a trade union and to apply for official recognition from Gill and Savan. One was overheard to say: "This hotel is making so much money, why shouldn't we be offered a share of the profits as well as our wages?" 10 15

Savan is in charge of finance and marketing of the hotel – but he prefers working in the kitchen. The accounting records are often out of date and are not fully computerised. The budgetary system for recording the allocation of resources and setting targets for the five departments of the hotel is haphazard to say the least. When stocks arrive, it is often not clear to which of the departments – restaurant, bar, accommodation, conference or sports facilities – they should be charged. In contrast to this lack of organisation, Savan had contracted a website designer to produce an internet site for the hotel which has led to many online bookings. This success has led Savan to wonder whether information technology could be more extensively applied to other management functions. The website, together with word of mouth and tourist guide recommendations, has contributed to healthy sales and profits. 20 25

Savan and Gill now feel that it is time for a fresh challenge. Initially, they had hoped to develop a large area of land owned by the hotel but the cost of development was found to be excessive. They now plan to purchase a five-year lease on a large French chateau at what seems a very low price. It would be used to provide catering training courses. There would be two year courses designed to appeal to potential professional chefs, and short one-week or two-week courses for keen amateur cooks. With the success of the White Hart Hotel and their own experience of hotel management training, they are keen to offer their expertise to others. They believe that they have a real flair for this and want to concentrate on what they do best. They are convinced that demand will be high. The White Hart Hotel would be kept open, but managed by a newly recruited manager. 30 35

An accountant has been asked to undertake a financial appraisal of the expansion project. Some of her findings are given in **Appendix C**.

The couple hope to open the chateau in 6 months but a great deal will have to be accomplished before the new venture can start trading. 40

- Equipment has to be ordered, delivered, installed and tested.
- Accommodation for trainees must be decorated.
- Staff have to be recruited and trained to a high level. The couple recognise that the assurance of the consistent quality of the training courses will be essential for long-term success. 45
- Local food and wine suppliers in France have to be contacted as only the best and freshest ingredients will be used. Supplies will have to be available at very short notice as the content of the courses will vary from week to week.
- A marketing plan has to be drawn up. 50

The owners are split on the form which the marketing plan should take. Savan sees the need to think about relevant objectives and a coherent marketing strategy but is relaxed about the budget and timings. “We cannot be sure that we will be ready in 6 months’ time and, as the whole project is costing a fortune, we need to make savings in the marketing area,” he said. However, Gill wants a rigid week-by-week plan, coordinated with the project’s other functional management areas of staffing, finance and operational decisions. She has also suggested allocating a much larger marketing budget than Savan is happy with. She argued: “How can we finally decide on pricing levels and appropriate promotion media if we have not spent some money on researching the potential market for the courses?” 60

Apart from these preparations for the French project, important human resource issues at the White Hart Hotel will also have to be resolved.

- How should the White Hart Hotel manager be recruited?
- How should the demand for union recognition be dealt with?
- How can employee performance be restored to earlier levels? 65

The next few months seem likely to provide a tough test for Savan’s and Gill’s management skills.

APPENDIX A: Summary of employee performance at the White Hart Hotel

	6 months ending 31 December 2006	6 months ending 30 June 2006
Average staff employed (full-time equivalent)	42	40
Staff leaving	7	4
Reason most often given for leaving	‘Lack of promotion prospects’	‘No opportunity for participation’
Absenteeism rate	8%	6%
Serious customer complaints	155	40
Number of customer nights spent in hotel	12 500	11 500

**APPENDIX B: Summary of accounting data for the White Hart Hotel:
year ending 31 December 2006**

	£m
Retained profit	1.0
As at 31 December 2006	
Capital employed	12.0
Long-term liabilities	5.0
Current assets	2.0
<i>Of which: Stocks</i>	0.5
Current liabilities	2.0

APPENDIX C: Accountant's calculations for the French project

Capital cost of proposed French project: £2 million	
Current cost of borrowed capital: 8%	
Annual net cash inflows (end of year):	£m
Year 1	0.5
Year 2	1.0
Year 3	1.0
Year 4	1.0
Year 5	1.5
Average Rate of Return = 30%	
Net Present Value @ 10% discount = £1.64 million	

- 1 (a) Analyse **two** likely benefits of more extensive use of information technology in managing the White Hart Hotel. (8 marks)
- (b) Evaluate the case **for** and **against** Gill and Savan using critical path analysis in the period up to the launch of the French chateau catering courses. (12 marks)
- 2 (a) Do you consider Gill and Savan to be asset led or market led in their approach to marketing? Justify your answer. (10 marks)
- (b) To what extent might the effectiveness of the marketing plan for the French project be dependent on close coordination with other functional areas? (10 marks)
- 3 (a) Using **Appendix B** and appropriate ratios, briefly analyse how the business might raise the £2 million needed to invest in the French project. (8 marks)
- (b) Using **Appendix C** and any other relevant **financial** information, do you agree that Gill and Savan were right to go ahead with this overseas expansion project? Justify your answer. (12 marks)
- 4 (a) Calculate the difference in the rate of labour turnover between the two six-monthly periods referred to in **Appendix A**. (4 marks)
- (b) Discuss how Gill and Savan could most effectively resolve the human resource issues at the White Hart Hotel. (16 marks)