

IBDP Business Management

PAPER 1 CASE STUDY PACK NOV 2024

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OneWay Ltd (OWL)



How to use the new Paper 1 Case Study Pack, November 2024

This comprehensive Case Study Pack (CSP) has been produced to help colleagues and students in their preparations for the November 2024 Paper 1 examination (*OneWay Ltd*).

The new format of the Paper 1 CSP contains the following:

1. Glossary of key terms from the pre-release statement.
See pages 3 – 7
2. Additional glossary of key terms relevant to the case study and the hotels industry.
See pages 8 – 13
3. Two sets of True or False Quiz activities to help test students' comprehension and understanding of the pre-release statement.
See pages 14 – 17
4. Two different complete case studies (for reference and exam practice only).
See pages 18 – 20 and pages 34 – 36
5. Two separate sets of Paper 1 mock exam questions, using the new assessment format.
See pages 21 and 37
6. Full mark schemes for both mock exams.
See pages 22 – 33 and pages 38 – 49
7. A comprehensive PowerPoint presentation that includes:
 - Ready-made PPT file to use in lessons (over 40 slides).
 - Lesson activities that engage students.
 - Assessment advice, including writing frameworks for the extended response questions.
 - Embedded videos (to provide additional context to the case study).
 - Additional exam-practice questions for 2, 4, 6, and 10-mark questions.
 - Top tips for Paper 1
 - Accompanying teachers' notes.

With best wishes for the upcoming exams in November 2024!

Paul Hoang
22nd August 2024

Key Terms

For November 2024 examinations



Key terms appear in alphabetical order for ease of reference. Line numbers in the pre-release statement are shown in brackets.

Board of directors (11)

The board of directors is comprised of a small group of individuals elected or appointed to oversee the management and overall direction of a company. *OWL*'s board of directors is responsible for making major decisions (such as whether to diversify and enhance the company's product offerings by closing one hotel and building a theme park), setting company policies, and ensuring that the company's operations align with its goals and mission or vision.

Chain (of hotels) (1)

A "chain" of hotels refers to a series of hotels that are owned or managed by the same company and operate under a common brand name, i.e., the family-owned *OWL* hotels. Chain hotels typically share similar standards, services, and amenities, providing a consistent experience to guests across different locations on Xanadu's beach resorts. The chain is centrally managed, which typically includes a common marketing mix, reservation systems, and corporate policies across its 8 hotels. This enables *OWL* to gain from brand consistency and economies of scale (cost savings and operational efficiencies achieved through bulk purchasing, shared resources, and standardized procedures across its hotels).

Employees (4)

In the context of the hotel industry and the case study, employees refer to the individuals who work for *OWL* and are essential to the operation and service delivery of its hotels. They have a variety of roles, ranging from management and administrative positions at the hotels to frontline service roles and maintenance staff. Key categories of employees in the context of *OWL* include full-time employees, part-time employees, temporary employees, and migrant workers (all of which are defined below). Examples of roles within *OWL*'s hotel could include:

- Front desk – These employees handle check-ins, check-outs, reservations, and guest inquiries.
- Housekeeping – These employees are responsible for cleaning and maintaining guest rooms and public areas of the hotel and beach resort.
- Food and beverages – These employees work in the hotel's restaurants and bars, e.g., chefs, waiting staff, and bartenders.

Key Terms

For November 2024 examinations



Employees (cont'd...)

- Maintenance – Employees who ensure that the hotel's facilities and equipment are in good working order, such as lighting and air conditioning.
- Recreation – These employees organize and oversee activities and entertainment for hotel guests, particularly in resorts.

Full-time employees (3)

Full-time employees are workers who have a standard number of working hours per week (typically around 35-40 hours) and are employed on a permanent basis. They have regular scheduled shifts, such as from 8am to 5pm or 4pm 12am, providing sufficient staffing for each hotel's operations. They are vital to maintaining consistent service quality and operational stability, including roles such as front desk, concierge, housekeeping, food and beverages, maintenance, and general hotel management. Hence, full-time staff are vital for OWL's reputation and guest satisfaction as their role is crucial to the daily operations of OWL's eight hotels and resorts, ensuring a reliable and high-quality experience for all visitors and guests. Full-time employees on permanent contracts often receive employment perks (benefits) such as health insurance, paid annual leave, sick pay, staff discounts on OWL's hotel services, and pension contributions (retirement plans).

Hires (recruits) (3)

Hiring or recruiting refers to the process of attracting, selecting, and employing individuals to fill various roles within OWL's hotels and resorts. This process ensures that the hotel has the necessary employees to operate efficiently and provide excellent service to visitors and guests. Key elements of hiring (recruiting) in the hotel industry include:

- Job postings (job adverts) through various channels such as online employment sites, social media, local newspapers in Xanadu and Utopia, and OWL's company website.
- Shortlisting by reviewing job applications, i.e., selecting candidates who meet the job requirements (job specifications).
- Screening processes, which typically include job interviews, background checks (such as references from previous employers), and skills assessments to determine the suitability of candidates.
- Job offers and training for new recruits to familiarize them with the OWL's policies, procedures, and organizational culture.

Key Terms

For November 2024 examinations



Interest rate

The interest rate refers to the cost of borrowing money or the return on savings. In general, higher interest rates are detrimental to business as they increase the cost of borrowing. Interest rates are typically expressed as a percentage of the principal loan amount. Changes in interest rates influence costs, profitability, and investment decisions. Examples include:

- Borrowing costs of loans and mortgages – Hotel operators often take out loans or mortgages to finance the purchase, construction, or renovation of properties. The interest rate on these loans affects the overall cost of borrowing and the hotel’s financial performance.
- Working capital – At times, hotel operators might need to borrow funds for day-to-day operations, especially during off-peak seasons (winter months) or an economic downturn (such as the one caused by the COVID-19 global pandemic).
- Changes in interest rates also influence the level of consumer spending in the economy, including travel and tourism. Higher interest rates can lead to reduced discretionary spending, especially for those with existing borrowing (such as credit card debts, loans, and home mortgages). Therefore, higher interest rates could adversely impact tourism demand in Xanadu.

Understanding interest rates is essential for OWL’s board of directors when considering major financial decisions, such as the potential closure of one hotel and the investment in a new theme park (lines 12 – 13). These decisions would likely involve financing, where interest rates would play a crucial role in determining the feasibility and cost of such projects.

Located (location) (1)

Location refers to the geographical position of OWL’s hotels and their strategic placement in specific areas on the island of Xanadu to attract visitors and guests and maximize business opportunities. Having hotels in each of Xanadu’s eight beach resorts means that their properties are strategically situated in popular beach destinations on the island, catering to tourists looking for a seaside vacation experience. Accessibility is another important location decision. The ease with which guests can reach their hotel, including its proximity to airports and public transportation links, tend to have higher visitor numbers and occupancy rates.

Key Terms

For November 2024 examinations



Loss (9)

In the context of the case study, a “loss” refers to the financial situation where the expenses of running hotel operations exceed the revenues generated. This results in a negative financial outcome for the business during a specific trading period. For example, lower occupancy rates, as seen during the COVID-19 pandemic when tourism decreased, led to fewer room bookings and therefore significantly reduced OWL’s revenues (when seven of OWL’s eight hotels were temporarily closed). At the same time, OWL is committed to paying its fixed costs such as salaries to the management team and full-time employees, insurance premiums, and maintenance costs, regardless of occupancy levels. This caused OWL to experience financial losses in 2020 and 2021.

Migrant workers (4)

Migrant workers are individuals who move from their home country or place of residence to another location, often in search of employment opportunities. In the case of OWL, the majority of employees are migrant workers from Utopia but work at the hotels in Xanadu. Migrant workers often fill roles in the hospitality sector where there is a high demand for labour, particularly in seasonal or busy periods, such as summer months in beach resorts. However, the temporary closure of the hotels during the COVID-19 pandemic led most of the migrant workers to return home, illustrating the vulnerability of migrant labour in the face of economic disruptions.

Part-time employees (3)

Part-time employees are individuals who work fewer hours than full-time employees so have relatively flexible work schedules but also hold permanent employment contracts. These employees are often essential in managing the fluctuating demands of hotel operations, particularly during busy periods such as evenings, weekends, or holidays when hotel visitor numbers and occupancy rate are higher. Their flexible availability allows OWL to adjust its staffing levels based on guest demand, without overstaffing during quieter periods. Part-time employees typically receive limited perks (benefits) compared to their full-time counterparts, such as comprehensive health insurance or annual paid leave (paid time off).

Permanent (employment) contracts (3)

A permanent employment contract is a long-term formal agreement between an employer (such as OWL) and employees that establishes ongoing employment with no predetermined end date. These contracts outline the terms and conditions of employment, including job responsibilities, compensation (remuneration), perks, and other conditions of employment.

Key Terms

For November 2024 examinations



Permanent (employment) contracts (cont'd...)

Issuing full-time and part-time employees with permanent contracts means these workers are hired on a permanent basis, providing them with job security (rather than being hired temporarily or seasonally). It also indicates OWL's commitment to maintaining a stable workforce that can provide consistent service across its hotels. Therefore, this approach allows OWL to foster a loyal and experienced workforce, which is crucial for delivering high-quality hospitality services to guests visiting Xanadu's beach resorts.

Profit (9)

Profit refers to the financial gain that OWL earns after deducting all costs (fixed expenses plus cost of sales) from its total revenue. Profit is a key indicator of OWL's commercial health and financial performance. This directly affects its ability to sustain its hotel operations and to grow or expand as an organization.

Profit growth (6)

Profit growth refers to the increase in OWL's profitability over a given period of time. It is usually measured in terms of the percentage increase in profit compared to previous trading periods. Profit growth is a critical indicator of OWL's financial health, operational efficiency, and commercial success in Xanadu's hospitality industry. Key measures of profit growth include:

- Higher revenues – Profit growth can result from higher sales revenues from attracting more visitors and hotel guests and maintaining high occupancy rates.
- Improved cost management – This is crucial for OWL's profit growth as controlling costs (related to staffing, maintenance, utilities, and marketing) enables OWL to improve its profit margins and profitability, e.g., optimizing staffing during peak and off-peak seasons contributes to higher profit growth.

Temporary workers (3)

Temporary workers are individuals hired on a short-term basis to meet fluctuating demand, especially during peak seasons or busy periods when OWL has a need for additional staffing needs. These workers are brought in to provide additional support during times when regular staffing levels are insufficient, such as the busy summer months (line 4), when temporary workers help to manage the increased workload at OWL's hotels. Temporary workers usually have short-term finite contracts and do not receive the same benefits as employees with permanent contracts (line 3).



This section of the Paper 1 Case Study Pack introduces additional key terms that may link well with the pre-release statement. Definitions are provided along with application to *OWL* and/or the hotel industry. The additional key terms are presented in alphabetical order for ease of access and reference. Line numbers are also included for terms that appear in the first three paragraphs of the Paper 1 case study.

Note: Although some of these terms are from the HL only part of the course (such as recruitment, migrant workers, and temporary workers), application of any relevant tool, theory, or term from the syllabus will be awarded accordingly in the exams. There is absolutely no requirement for any candidate to use HL tools and theories in the Paper 1 examination.

All-inclusive

This refers to a pricing method where a single price covers a comprehensive range of services and amenities provided by *OWL*'s hotels. This typically includes room accommodation, meals, drinks (both alcoholic and non-alcoholic), and access to hotel facilities such as swimming pools, gyms, and other activities or facilities offered by the hotel. Therefore, *OWL*'s hotel guests would pay one price that would cover their entire stay. This pricing method can be particularly attractive to tourists who want to manage their budgets easily and enjoy a hassle-free vacation without worrying about additional costs.

Beach resorts (2)

In the context of *OWL*, the business has eight hotels located near or on a beach, offering a range of facilities and recreational activities focused on beach-related experiences. Beach resort hotels are strategically designed to provide guests with easy access to the beach and often include features such as private beach access, beachfront dining options such as beach barbeques, water sports facilities (e.g., snorkeling, surfing, and jet skiing), and beachside entertainment and music events. They cater to tourists looking for a holiday experience on or next to Xanadu's beaches.

Bed and breakfast (B&B)

A "bed and breakfast" (B&B) is a guest house that offers overnight accommodation and includes breakfast in the room rate. B&Bs are often smaller, family-owned properties that provide a more intimate and personalized experience compared to larger hotels and beach resorts.



Key differences between hotels and B&Bs are outlined in the table below:

Feature	Hotels (and hotel chains)	Bed and Breakfasts (B&Bs)
Size and Structure	Large scale, multiple floors, with many rooms (each OWL hotel can accommodate 450 guests)	Smaller scale, with only a few rooms, and sometimes in family homes
Facilities	Extensive facilities, e.g., restaurants, bars, gyms, swimming pools, and elevators	Limited facilities, usually with ensuite bathrooms, but often just common living and dining areas
Services	24/7 service, with a wide range of services, e.g., conference rooms	Personalized service, limited hours of service, limited range of services
Staff	Professionally qualified and trained workers	Run by the owners (often family-owned) with a small and local team
Physical environment	Standardized for chain hotels	Cozy, home-like, unique character
Privacy	More anonymity and privacy	More interaction with hosts (owners) and other guests
Meals	On-site restaurants (breakfast, lunch, dinner), room service option	Homemade breakfast included, but no other meals provided
Location	City centres, airports, popular tourist spots, highways	Scenic, historic, or rural locations
Target audience	All customers, included those on holiday (individuals, families, and tourists) or travelling for business	Individual travellers, couples, or small groups typically on a low budget
Cost	Varies, but can be expensive	Often a more cost-effective option
Star ratings	Often rated using star system, from 1 to 5 stars by external body	Not typically rated, but reputation is based on customer reviews

Additional Key Terms

For November 2024 examinations



The table below outlines the differences between B&B, half-board, full-board, and all-inclusive accommodation options, including their advantages and disadvantages:

Type	Description	Advantages	Disadvantages
B&B (Bed and Breakfast)	Accommodation that includes breakfast only	<ul style="list-style-type: none"> • Lower cost compared to the other options • Flexibility to explore local dining options • Ideal for travellers who spend time out of the accommodation 	<ul style="list-style-type: none"> • Additional cost for other meals • Requires guests to find and pay for lunch and dinner • Limited meal availability within the B&B
Half-Board	Accommodation that includes breakfast and one additional meal (usually dinner)	<ul style="list-style-type: none"> • Balanced cost option for travellers • Freedom to explore local area during the day • Dinner provided after a day of activities 	<ul style="list-style-type: none"> • Lunch not included, requiring guests to find and pay for this • Limited dining flexibility in the local area as dinner is included
Full-Board	Accommodation that includes breakfast, lunch, and dinner	<ul style="list-style-type: none"> • Convenient for guests who prefer staying in the hotel • Ideal for remote locations with few dining options 	<ul style="list-style-type: none"> • Less flexibility to try local eateries and restaurants • Can feel restrictive for guests who want a variety of meals
All-inclusive	Accommodation that includes all meals, snacks, drinks, and activities	<ul style="list-style-type: none"> • No additional cost for food, drinks, and activities • Convenient and hassle-free for guests 	<ul style="list-style-type: none"> • Higher cost • Can discourage guests from exploring the local area • Can lead to wastage or overconsumption



COVID-19 pandemic

The COVID-19 pandemic refers to the global outbreak of the novel coronavirus (SARS-CoV-2) that began in late 2019 and had major impacts on practically all businesses in all sectors, including hospitality and tourism. These impacts included travel restrictions, temporary closures of hotels and holiday resorts (OWL temporarily closed seven of its eight hotels in April 2020), and financial losses.

Family rooms (5)

In the context of the hotel industry, “family rooms” are a type of guest accommodation designed to cater to families travelling together. These rooms are typically larger than standard rooms and offer amenities and facilities that make them suitable for parents and children, e.g., a more spacious room equipped with a microwave, fridge, game console, queen or king-sized bed for parents and additional twin or bunk beds for children. Each OWL hotel has 50 family rooms to cater to a broad range of guests, including families looking for comfortable and convenient accommodation options.

Hotels

Hotels are establishments that provide lodging (accommodation), meals, and various other services for travellers and tourists. Hotels cater to both leisure and business visitors and offer a range of accommodations and amenities and facilities to meet different needs and preferences. Examples include: a variety of room types (such as single rooms, twin rooms, double rooms, suites, and family rooms), TV, telephone, internet access, conference or meeting rooms, swimming pools, fitness centres, spas, on-site restaurants, bars, and housekeeping services. OWL operates a chain of eight hotels on the island of Xanadu, with each hotel located in one of the island’s beach resorts. These hotels offer a combination of accommodation types, including twin and family rooms, catering to a variety of guests.

Hospitality

In the context of the hotel industry and the given case study, hospitality refers to the range of services and experiences provided to guests to ensure their comfort, enjoyment, and satisfaction during their stay or visit. It encompasses the overall management and operation of OWL’s hotels, restaurants, and other facilities that cater to travellers and tourists on the island of Xanadu. Key elements of hospitality include well-maintained and equipped accommodation, guest services (front desk operations and concierge services), room services, food and beverages (on-site dining options), recreational and leisure facilities, as well as safety and cleanliness.



Hospitality (cont'd...)

OWL's ability to attract and retain guests relies heavily on its hospitality offerings, which include comfortable accommodations, dining options, recreational facilities, and personalized service. The pandemic's impact on travel and tourism and the subsequent temporary closure of 7 of OWL's hotels highlighted the importance of being adaptable and resilient in the hospitality industry.

Phone app

In the context of the hotel industry, a "phone app" refers to a mobile application designed to enhance guest experiences by providing various services and features related to OWL's hotel operations. These apps are increasingly common in the hospitality industry. Key features and functions of a phone app include allowing guests to make bookings and reservations, check-in and check-out, ordering room service, booking spa appointments, accessing hotel customer loyalty programmes, and booking hotel amenities directly from their smartphones. An effective phone app can help to streamline OWL's operations, improve communications, and attract tech-savvy travellers looking for convenience during their stay or visit.

Self-service buffet

A self-service buffet refers to a dining option where OWL's hotel and resort guests can serve themselves from a variety of food and beverage selections available at its dining venues, such as its restaurants. Buffets allow guests to select from multiple dishes, often featuring a range of cuisines and meal types, and to choose their portion sizes. Buffets typically offer a wide selection of dishes, including starters (appetizers), main courses, sides, desserts, and beverages, catering to different tastes and dietary preferences.

Theme park

A theme park (or amusement park) refers to a large venue that is designed around a specific theme or concept, offering various attractions, rides, entertainment, and activities for visitors. Theme parks are popular destinations for families and tourists, and they can significantly enhance the attractiveness of a hotel or resort. In particular, theme parks can serve as major attractions for hotels, drawing in visitors who are seeking entertainment and activities beyond traditional lodging. Examples include the Disneyland hotels and resorts across the world, as well as competitors such as Universal Studios, Legoland, Alton Towers, and PortAventura World.



Tourism (7)

Tourism refers to the activity of travelling to destinations for leisure, recreation, or business purposes. Tourism is a vital sector for many economies, including Xanadu. It encompasses various activities and services that cater to the needs of leisure and business travellers. It creates jobs and supports businesses, including hotels, restaurants, and retailers. OWL relies on the arrival of tourists to its hotels and beach resorts, making tourism crucial for its revenue and profitability.

Tourists (10)

Tourists are the individual people who travel to the island of Xanadu, primarily for leisure, recreation, or vacation purposes. These tourists are typically non-residents who visit Xanadu's beach resorts and stay at OWL's hotels. They contribute to the local economy by spending on accommodation, food, entertainment, and other services provided by OWL and other businesses on the island. There were 4.2 million tourists who visited Xanadu in 2023. While there is a gradual increase in tourist numbers on the island, the growth rate is slow, and projections for the next few years indicate only modest improvements.

Twin rooms (5)

In the context of the hotel industry, a twin room refers to hotel accommodation designed to accommodate two guests in a single room, typically featuring two separate beds. These rooms are popular choices for travellers who prefer not to share a bed, such as friends, relatives, siblings, or colleagues (business travellers sharing accommodations). The layout may vary, but twin rooms generally provide enough space for two guests to comfortably stay and move around. They provide a flexible option for guests who may not want to book separate hotel rooms. OWL has 125 twin rooms in each of its hotels, which allows the company to cater to different types of travellers visiting Xanadu's beach resorts. Twin rooms can also help OWL maintain high occupancy rates, especially during the busy summer months when tourism on the island is at its peak.



True or False Quiz 1

To test your comprehension and understanding of the OneWay Ltd (OWL) case study, answer 'True' or 'False' to each of the statements below.

Answers

Statements	True or False?
1. OneWay Ltd (OWL) is a family-owned chain of hotels.	
2. OWL is located on the island of Xanadu off the coast of Utopia	
3. Between 2010 and 2020, OWL faced increased competition, preventing it from profit growth.	
4. In 2023, three of OWL's directors visited theme parks in France and Germany as part of the company's market research.	
5. Each OWL hotel employs only full-time employees on permanent contracts, but temporary workers during the summer months.	
6. Tourist numbers in Xanadu are increasing rapidly.	
7. The COVID-19 pandemic significantly reduced tourism in Xanadu.	
8. There are no theme parks currently in Xanadu.	
9. OWL has a hotel in each of Xanadu's eight beach resorts.	
10. OWL's board of directors is considering closing one of its hotels and building a theme park.	



True or False Quiz 1

To test your comprehension and understanding of the OneWay Ltd (OWL) case study, answer ‘True’ or ‘False’ to each of the statements below.

Answers

Statements	True or False?
1. OneWay Ltd (OWL) is a family-owned chain of hotels.	True
2. OWL is located on the island of Xanadu off the coast of Utopia	True
3. Between 2010 and 2020, OWL faced increased competition, preventing it from profit growth.	True
4. In 2023, three of OWL’s directors visited theme parks in France and Germany as part of the company’s market research.	False – UK and Spain
5. Each OWL hotel employs only full-time employees on permanent contracts, but temporary workers during the summer months.	False – there are also part-time workers
6. Tourist numbers in Xanadu are increasing rapidly.	False – not rapidly
7. The COVID-19 pandemic significantly reduced tourism in Xanadu.	True
8. There are no theme parks currently in Xanadu.	True
9. OWL has a hotel in each of Xanadu’s eight beach resorts.	True
10. OWL’s board of directors is considering closing one of its hotels and building a theme park.	True



True or False Quiz 2

To test your comprehension and understanding of the OneWay Ltd (OWL) case study, answer 'True' or 'False' to each of the statements below.

Answers

Statements	True or False?
1. Each OWL hotel has full-time and part-time employees who are hired on permanent contracts.	
2. OWL hires temporary employees only during the busy winter months.	
3. Most of OWL's employees are migrant workers from Utopia.	
4. Each OWL hotel can accommodate 450 guests.	
5. Each OWL hotel has 125 twin rooms and 50 family rooms.	
6. In April 2020, OWL temporarily closed all eight hotels due to the COVID-19 pandemic.	
7. In 2023, Xanadu attracted 4.2 million tourists.	
8. During the hotel closures due to the COVID-19 pandemic, all employees from Utopia were required to stay in Xanadu.	
9. OWL made a profit in 2022.	
10. OWL made a loss in 2020 and 2021.	



True or False Quiz 2

To test your comprehension and understanding of the OneWay Ltd (OWL) case study, answer 'True' or 'False' to each of the statements below.

Answers

Statements	True or False?
1. Each OWL hotel has full-time and part-time employees who are hired on permanent contracts.	True
2. OWL hires temporary employees only during the busy winter months.	False – summer months
3. Most of OWL's employees are migrant workers from Utopia.	True
4. Each OWL hotel can accommodate 450 guests.	True
5. Each OWL hotel has 125 twin rooms and 50 family rooms.	True
6. In April 2020, OWL temporarily closed all eight hotels due to the COVID-19 pandemic.	False – 7, not 8 hotels
7. In 2023, Xanadu attracted 4.2 million tourists.	True
8. During the hotel closures due to the COVID-19 pandemic, all employees from Utopia were required to stay in Xanadu.	False – most returned home
9. OWL made a profit in 2022.	True
10. OWL made a loss in 2020 and 2021.	True

IB Business Management – Paper 1 Case Study Pack

Case Study: OneWay Ltd (OWL)

SL and HL Mock Exam TZ1

For November 2024 examinations



1 hour 30 minutes

INSTRUCTIONS

- Do not open this examination paper until you have been instructed to do so.
 - Read the case study carefully.
 - Section A: answer **all** questions.
 - Section B: answer **one** question from a choice of two.
 - You are permitted to use a calculator for this examination paper.
 - The maximum marks available for this paper are **30 marks**.
-
- The data and information included in this mock exam are provided for illustrative purposes only, in order to provide students with practise for the final examinations in November 2024.

OneWay Ltd (OWL)

OneWay Ltd (OWL) is a family-owned chain of hotels located on the island of Xanadu off the coast of Utopia. OWL has a hotel in each of Xanadu’s eight beach resorts. Each OWL hotel has full-time and part-time employees on permanent contracts. OWL also hires temporary employees in the busy summer months. The majority of OWL’s employees are migrant workers from Utopia.

5 Each OWL hotel can accommodate 450 guests in its 125 twin rooms and 50 family rooms. Between 2010 and 2020, OWL faced increased competition, preventing profit growth.

The COVID-19 pandemic reduced tourism significantly. In April 2020, OWL temporarily closed seven hotels, and most employees from Utopia returned home. The hotels reopened in January 2022. OWL made a loss in 2020 and 2021 but made a **profit** in 2022.

10 In 2023, Xanadu attracted 4.2 million tourists. Tourist numbers are increasing, but very slowly. Anticipated growth for the next few years remains low. OWL’s board of directors are considering closing one hotel and building a theme park. In 2023, three OWL directors visited Alton Towers in the United Kingdom and PortAventura World in Spain. Xanadu has no theme park.

Table 1: Tourist numbers in Xanadu (millions)

2021	2022	2023	2024 (forecast)	2025 (forecast)	2026 (forecast)
2.80	3.80	4.20	4.31	4.39	4.46

- 15 With Xanadu’s tourism industry slowly recovering, OWL’s board of directors is under pressure to identify new growth opportunities to pay off its existing loans. The concept of developing a theme park is part of a broader strategy to diversify the company’s product offerings and reduce dependency on traditional hotel income. The board of directors believes that a theme park could attract more families and longer stays, which would boost overall revenue.
- 20 However, there are significant challenges associated with this strategic shift. Firstly, the development of a theme park needs substantial **capital expenditure**. The current interest rate is relatively high, yet obtaining external finance at favourable rates remains vital to maintain OWL’s profitability. The directors are considering various financing options, including bank loans, a share issue, and forming a strategic alliance with several international entertainment companies.
- 25 In addition to the potential theme park, OWL is also exploring ways to enhance its existing hotel services to remain competitive. One proposal is to convert some of its hotels to an all-inclusive model, providing guests with a comprehensive package that includes all meals, drinks, and entertainment for a fixed price. This model has proven successful in other tourist destinations, as well as on cruise holidays to Utopia and Xanadu, as it simplifies budgeting for guests.
- 30 Another area of focus is improving the customer experience through technology. OWL plans to develop a phone app that allows guests to book hotel rooms, check-in, and access hotel services from the convenience of their smartphone. The app will also provide updated information on local attractions and allow guests to make reservations for restaurants and activities within the hotels.

35 The hospitality industry relies heavily on its workforce, and *OWL* is no exception. The company's
 reliance on migrant workers from Utopia has been both a strength and a challenge. Migrant
 workers often bring diverse skills and perspectives but also face issues related to job security and
 employee loyalty. *OWL* is committed to providing training and development programmes to
 enhance the skills of all its workers and improve customer service quality. In addition, investing in
 40 skills development is expected to improve job satisfaction and reduce labour turnover, which is
 particularly important in the hospitality sector.

To differentiate itself from competitors, *OWL* is also planning to introduce a variety of guest
 services. This includes the introduction of self-service buffets as part of its all-inclusive hotel
 package, offering a wide range of international cuisine to cater to diverse guest preferences.

45 *OWL* also recognizes the importance of family-friendly services. Alongside the potential theme
 park, *OWL* plans to enhance its hotel amenities with children-friendly pools, playgrounds, and
 entertainment programmes. These additions are designed to create a more enjoyable and
 memorable experience for families, encouraging repeat visits and positive word-of-mouth.

50 Whilst on a business trip to the United Kingdom (UK), two of *OWL*'s directors stayed at the *Z
 Hotel* in Piccadilly, London. They gain first-hand experience and were impressed with the
 customer service and customer loyalty scheme. *OWL* does not currently offer a membership
 reward programme for its guests. Members of *Z Hotel*'s customer loyalty programme, which is
 free to join, enjoy the following benefits at any of its hotels in Bristol, Glasgow, Liverpool, or
 London in the UK:

- 10% discount for room bookings at any *Z Hotel*
- 55 • Complimentary cheese and wine
- Free room upgrade – subject to availability
- Early check in and late check out – subject to availability
- 10% discount for food and beverage purchases (excluding breakfast)
- Complimentary tea and coffee any time of the day.

60 The two directors are keen to introduce a similar customer loyalty scheme at all *OWL* hotels.

However, the success of these initiatives depends on effective marketing strategies, including
 brand positioning. *OWL* needs to communicate its new product offerings clearly to potential hotel
 guests. This includes highlighting the convenience and value of all-inclusive packages, the
 excitement of the theme park, and the quality of its hospitality services.

65 In addition, one of the directors has concerns about the threat of competition from bed and
 breakfast (B&B) operators on the island. B&B options attract a different segment of tourists who
 prefer more flexible dining options and are more affordable than *OWL*'s all-inclusive hotels. It is
 estimated that there are over 2,000 B&Bs in operation on the island. *OWL* also faces *growing*
 competition from Airbnb which provides an online platform for short-and-long-term homestays.

70 In particular, the growing popularity of Airbnb for families visiting Xanadu has disrupted the
 traditional hospitality market, offering unique and often more personalized experiences at highly
 competitive prices. Airbnb's platform is exceptionally user-friendly, enabling guests to effortlessly
 search for, compare, and book accommodations online. The convenience of using a single app or
 website to manage the entire booking process, including communication with hosts and accessing
 75 reviews from previous guests, significantly enhances its appeal to younger visitors on the island.
 Furthermore, B&Bs and Airbnb properties benefit from less stringent regulatory requirements
 compared to traditional hotels in Xanadu.

*Companies, products, or individuals named in this case study are fictitious and any similarities with
 actual entities are purely coincidental.*

SECTION A

Students of Placeholder International School, answer **all** questions from this section.

1. Define the term *profit* (line 9). [2 marks]
2. Define the term *capital expenditure* (line 21). [2 marks]
3. Describe **one** fixed and **one** variable cost of operating OWL's hotels. [4 marks]
4. Explain **one** advantage and **one** disadvantage for OWL operating a family-owned business (line 1). [4 marks]
5. Calculate the mean value of tourists in Xanadu for the entire period shown in **Table 1** (*express answer to 2 decimal places*). [2 marks]
6. With reference to the external environment, explain **two** potential challenges for OWL. [6 marks]

SECTION B

Answer **one** question from this section.

7. Discuss whether OWL's marketing strategy should include the launch of its own customer loyalty scheme. [10 marks]
8. Discuss the opportunities and threats for OWL of diversifying into the theme park industry. [10 marks]

IB Business Management – Paper 1 Case Study Pack

Case Study: OneWay Ltd (OWL)

SL and HL Paper 1 TZ1 Mark Scheme

For November 2024 examinations



TEACHERS' NOTES

- These are suggested answers only.
- Teachers should use their professional judgement in awarding answers that may not be included in this mark scheme.
- The data and information included are provided for illustrative purposes only to give students practise for the final examination in November 2024.
- While there is no need to include any HL content, students should be awarded accordingly if the inclusion of such content directly addresses the demands of the question.

SECTION A

1. Define the term *profit* (line 9). [2 marks]

Profit refers to the financial gain that a business achieves when its total revenue from business activities exceeds its total costs for a given time period. This includes costs such as employee wages, maintenance, utilities, marketing, and other operational.

Award [1 mark] for a definition that shows some understanding of profit.

Award [2 marks] for a clear and accurate definition of profit, similar to the example above.

Application and examples are not required.

2. Define the term *capital expenditure* (line 21). [2 marks]

Capital expenditure refers to the spending on acquiring, upgrading, and maintaining non-current assets, e.g., buildings, machinery, equipment, and technological infrastructure. It is a long-term investment and aims to generate future financial benefits by increasing the firm's capacity to attract customers and boost revenues.

Award [1 mark] for a definition that shows some understanding of capital expenditure.

Award [2 marks] for a clear and accurate definition of capital expenditure, similar to the example above.

Application and examples are not required.

3. Describe one fixed and one variable cost of operating OWL's hotels. [4 marks]

Fixed costs of operating OWL's hotels include a description of any one of the following points:

- Employee salaries – OWL incurs fixed salary payments for its full-time employees, including hotel managers and permanent staff, regardless of hotel occupancy levels. These costs remain constant and are essential for sustaining OWL's operations.
- As OWL has existing loans (line 16), for capital expenditures, such as renovating its hotels, the business incurs fixed costs in the form of interest repayments to lenders. These payments must be paid regardless of the hotel's occupancy levels or its sales revenue, thereby contributing to the company's financial obligations each month.
- Property leasing – OWL must pay fixed costs associated with leasing the hotel properties and ongoing maintenance expenses. This includes property taxes to the government, insurance costs, and regular maintenance of facilities, which do not fluctuate with occupancy rates at the eight hotels.
- Utilities – Typically, the cost of electricity, water, telephone, and internet services, incur a fixed component that must be paid, regardless of the level of usage. While these utilities tend to vary with usage, OWL will still incur basic monthly service charges to keep the hotels operational, regardless of the number of guests.

Variable costs of operating OWL's hotels include a description of any one of the following points:

- Food and beverage costs – Costs related to purchasing food and drinks for hotel guests will vary based on occupancy levels. Higher guest numbers during the summer months will result in increased food and beverage sales, leading to higher cost of sales.
- Housekeeping and cleaning supplies – The costs of cleaning products and labour for housekeeping (who are paid hourly wages) are variable, as they depend on the number of rooms occupied at each hotel. More guests during peak periods lead to more rooms needing cleaning and additional supplies being used.
- Utility costs based on usage – Increased guest numbers during the summer months will lead to higher utility consumption for services like air conditioning, ice making machines, lighting, heating (of swimming pools) and laundry.
- Guest amenities and supplies – The costs associated with providing guest amenities, such as toiletries, towels, and linens, are variable expenses. These costs increase with higher occupancy levels, as more guests require additional supplies and amenities during their stay. This will certainly be the case if OWL implement an all-inclusive package at its hotels (line 26).
- *Accept any other fixed or variable cost that is appropriately described in the context of the case study.*

Mark as a 2 + 2

Award [1 mark] for a relevant fixed cost (and variable cost). Award a further [1 mark] for each description of this, written in the context of case study, up to the maximum of [4 marks].

4. Explain one advantage and one disadvantage for OWL operating a family-owned business (line 1). [4 marks]

Advantages could include an explanation of any **one** of the following points:

- Flexibility and quick decision-making – As a family-owned business, OWL benefits from a streamlined decision-making process. Family members can often communicate more efficiently and make swift decisions without the need for lengthy formal meetings. This is particularly beneficial for a seasonal business like OWL, which needs to adapt quickly to changes in tourist numbers and market conditions. For example, deciding to close seven hotels temporarily during the COVID-19 pandemic and reopening them in January 2022 could be facilitated by quick decision-making processes.
- Effective cost control and resource management – Family-owned businesses often have a more personal stake in the financial health of the organization, leading to more cautious and careful cost management and resource allocation. OWL's ability to manage labour costs effectively by hiring temporary employees during the busy summer months is crucial. This practice helps OWL to align its workforce with the fluctuating demand, ensuring that the hotels do not incur unnecessary expenses during the off-season.

- Strong degree of commitment and loyalty – Family members tend to have a strong commitment to the organization’s success, which can translate into higher levels of motivation and productivity. This intrinsic motivation can enhance *OWL*’s overall financial performance. The family-owned nature of *OWL* likely contributes to a high level of personal investment in the quality of service and customer satisfaction at its eight hotels, helping the business to build a loyal customer base despite increased competition from B&Bs and Airbnb alternatives.
- Enhanced customer relationships – Family-run businesses often excel in making their customers feel welcome and valued. In the hospitality industry, where customer experience is vital, *OWL* can leverage its family-owned status to provide a more personalized and attentive customer service at its eight hotels, such as providing better attention to the needs of families on vacation in Xanadu. This approach can differentiate *OWL* from larger, impersonal multinational hotel chains, thereby attracting more repeat customers and positive word-of-mouth recommendations.
- *Accept an explanation of any other advantage of a family-owned business that is appropriately explained in the context of the case study.*

Disadvantages for *OWL* could include an explanation of any **one** of the following points:

- Limited Resources: Family-run businesses like *OWL* may face limitations in financial resources and investment capacity compared to larger multinational corporations. This can hinder *OWL*’s expansion opportunities, technology upgrades, and/or marketing efforts, making it challenging to compete effectively in a highly competitive market.
- Emotional decision-making – Family dynamics can sometimes result in decisions driven more by emotions and intuition rather than objective (scientific) and data-driven strategies. Personal relationships and conflicts may adversely affect *OWL*’s operational efficiency and growth. For example, decisions regarding major strategic shifts, such as the potential closure of a hotel and significant investments in a theme park, can become contentious. Disagreements or conflicts among family members may delay actions or lead to suboptimal decisions, thereby undermining *OWL*’s ability to adapt and thrive in the highly competitive hospitality industry.
- Continuity challenges – Similarly, the stability or sustainability of a family-owned business can be threatened by succession issues. If there is no clear plan for passing leadership to the next generation, or if family members are conflicted, not interested, or unsuitably qualified to take over, it can jeopardize the future of *OWL*.
- Limited professional expertise, experience, and skills – Family-owned businesses tend to rely heavily on family members who might lack specific professional proficiency needed to manage various aspects of the business effectively. For example, the owners might struggle with functional areas such as advanced financial management, strategic marketing, or technological innovation, which are crucial for maintaining *OWL*’s competitiveness and exploring new growth opportunities like developing a theme park.
- *Accept an explanation of any other disadvantage of a family-owned business that is appropriately explained in the context of the case study.*

Mark as a 2 + 2

Award **[1 mark]** for a relevant advantage (or disadvantage). Award a further **[1 mark]** for each explanation, written in the context of case study, up to the maximum of **[4 marks]**.

5. Calculate the mean value of tourists in Xanadu for the entire period shown in Table 1 (express answer to 2 decimal places). **[2 marks]**

Tourists in Xanadu (millions)	2021	2022	2023	2024 (forecast)	2025 (forecast)	2026 (forecast)	Total
	2.80	3.80	4.20	4.31	4.39	4.46	23.96

- Total tourists for period 2021 to 2026 = 23.96
- Mean = 23.96 / 6 years = 3.99 million tourists

Award **[1 mark]** for appropriate working and **[1 mark]** for the correct answer.

6. In the context of the external environment, analyse two potential challenges for OWL. **[6 marks]**

In analyzing the external environment, a STEEPLE analysis can be used to explain the challenges facing OWL. The examples below are for illustrative purposes only rather than as a prescriptive or definitive list:

Social challenges

- Changing consumer preferences – The rise in popularity of Airbnb and B&Bs on the island of Xanadu suggests a shift in consumer preferences towards more flexible, personalized, and (usually) more affordable accommodation options. OWL’s traditional hotel model may therefore struggle to attract this segment of tourists unless it adapts by offering similar flexibility and personalized experiences rather than an all-inclusive package (lines 42 – 43). This change is likely to have intensified after the economic impacts of COVID-19 which caused recessions throughout the world.
- Migrant workforce issues – OWL relies heavily on migrant workers from Utopia, which also brings challenges. While these workers bring diverse skills, they also face issues related to job security and employee loyalty, potentially impacting service quality and labour turnover in an adverse way. Ensuring consistent training and maintaining high employee morale amidst such challenges is crucial for OWL’s operational effectiveness.

Technological challenges

- Adoption of digital solutions – OWL plans to develop a phone app to enhance customer experience by allowing guests to book rooms, check-in, and access hotel services via their smartphones (lines 31 – 32). However, implementing and maintaining such technology requires significant investment and expertise. Ensuring the app is user-friendly, secure, and integrated with existing systems is crucial but challenging, especially if OWL as a family-owned business lacks the necessary technological infrastructure and skills.

Technological challenges (cont'd)...

- Competition from digital platforms – *OWL* faces growing competition from platforms like Airbnb, which offer a user-friendly experience for booking and managing accommodations. These platforms are well-established, technologically advanced, and popular among younger, tech-savvy travellers, making it difficult for traditional hotels like *OWL* to compete without significant technological investments and technical support.

Economic challenges

- High interest rates – The current high interest rates (lines 21 – 22) pose a significant economic challenge for *OWL*, particularly as the company considers substantial capital expenditure such as developing a theme park. Obtaining external finance at a favourable interest rate is crucial for maintaining *OWL*'s profitability, but high borrowing costs could strain the company's financial resources and impact the viability of its expansion plans.
- Slow recovery – Although tourism in Xanadu is recovering (line 15), the growth is slow. The forecasted modest increase in tourist numbers (Table 1) could limit *OWL*'s revenue growth and affect its ability to pay off existing loans (line 16), especially given the high degree of competition from B&Bs and Airbnb.

Legal (or Political) challenges

- Regulatory requirements – The hotel and hospitality industries are subject to stringent regulations compared to the relatively relaxed regulatory environment for Airbnb and B&B operators on the island of Xanadu. This puts *OWL* at a competitive disadvantage as it incurs higher compliance costs and operational restrictions, e.g., B&Bs and Airbnb properties are likely to face less rigorous health and safety standards, particularly if they offer limited services or are considered as private residences.
- Impact of immigration policies – Changes in the government's immigration policies could affect the availability and stability of *OWL*'s migrant workforce from Utopia (line 4). Stricter immigration controls or shifts in bilateral trade agreements between Utopia and Xanadu could lead to labour shortages or increased hiring costs, thereby disrupting *OWL*'s operations and hotel such as service delivery.
- *Accept any other relevant response using a STEEPLE analysis framework and analysed in the context of the case study.*

Mark as 3 + 3

For each point, award [1 mark] for stating a potential external challenge and, depending on the depth and clarity of the analysis, an additional [2 – 3 marks], up to the maximum of [6 marks].

*Do not award responses that analyse internal factors / challenges for *OWL*.*

SECTION B

7. Discuss whether *OWL*'s marketing strategy should include the launch of its own customer loyalty scheme. **[10 marks]**

Customer loyalty schemes are marketing strategies designed to encourage repeat business by offering rewards like discounts, exclusive offers, and special privileges. These benefits incentivize customer loyalty, fostering long-term relationships with the business and its brands.

For *OWL*, introducing a customer loyalty scheme can be beneficial. These advantages include but are not limited to:

- Enhanced customer satisfaction and retention – Offering a customer loyalty scheme is more likely to encourage repeat visits, which is crucial for *OWL* as it seeks to increase its occupancy rates amidst slow tourism growth. Member benefits such as room booking discounts, free upgrades (subject to availability), and complimentary guest services can enhance customer satisfaction and loyalty, making *OWL* a preferred choice for returning tourists. This also builds and fosters long-term relationships with customers, leading to sustained revenue streams for *OWL*.
- Competitive advantages – In a highly competitive market with over 2,000 B&Bs and the rise of Airbnb, a customer loyalty scheme can help differentiate *OWL* from its rivals. Unique member offerings such as early check-ins, late check-outs, and exclusive discounts can make *OWL*'s proposition more attractive to guest and visitors on the island of Xanadu. Porter's generic strategies suggest that differentiation is crucial to achieving a competitive advantage. *OWL* can leverage a customer loyalty scheme to create a distinct value proposition that appeals to its target customers, particularly families and repeat visitors.
- Increased revenue – By encouraging repeat business and higher spending per customer through exclusive member discounts and perks, *OWL* can increase its overall revenue. Loyal customers are also more likely to participate in upselling opportunities, such as upgraded rooms and additional hotel services at *OWL*'s resorts. A significant portion of revenue often comes from a small percentage of loyal customers, including through positive word of mouth promotion. Implementing a loyalty scheme can help *OWL* maximize revenue from its most valuable customers.
- Enhanced customer data collection – Implementing a customer loyalty scheme allows *OWL* to collect valuable data such as customer profiles, their preferences, and spending patterns. This data can be used to personalize marketing efforts, tailor guest services, and improve overall customer experiences, leading to increased customer satisfaction and loyalty. Data-driven decision-making emphasizes the importance of leveraging customer data to make informed and improved business decisions. By understanding customer preferences better, *OWL* can create targeted promotions and improve service offerings, ultimately raising revenues.
- *Accept any other relevant advantage or reason, discussed in the context of the OWL case study.*

However, drawbacks or challenges of introducing a customer loyalty scheme could include:

- Set-up, implementation, and operational costs – Setting up and maintaining a customer loyalty scheme can involve substantial costs, including technological infrastructure, marketing, and staff training. There are also ongoing costs of operating and maintaining the loyalty scheme.

- Potential for low participation – There is no guarantee that the loyalty scheme will be financially successful or perceived as value for money, especially if guests do not ordinarily visit Xanadu regularly. Furthermore, if competitors offer better rewards programmes and incentives, customer participation with *OWL*'s customer loyalty scheme may be low. This would result in minimal impact on customer retention and sales revenue despite the cost of investment in the scheme. The expectancy theory of motivation suggests that the perceived value of rewards influences participation – this applies to customers as well as employees. *OWL* must ensure that the loyalty scheme is appealing and offers attainable benefits to encourage customer engagement and repeat business at *OWL*'s hotels.
- The introduction of a customer loyalty scheme as part of *OWL*'s marketing strategy to gain and retain customers will require training for all staff across its eight hotels to effectively promote and manage the scheme. This adds to the operational complexity and costs, as well as requires additional time and resources. However, *OWL*'s reliance on migrant and temporary workers, who may already face issues related to job security and employee loyalty, could be a challenge to the initiative. Ensuring that all staff are adequately trained and motivated to support the customer loyalty scheme is crucial to its successful launch and ongoing appeal to hotel guests.
- *Accept any other relevant disadvantage or reason, discussed in the context of the OWL case study.*

Overall, introducing a customer loyalty scheme can be a strategic marketing move for *OWL*. A customer loyalty scheme would aim to enhance guest retention at *OWL*'s chain of hotels on the island of Xanadu. By providing rewards such as discounted room rates, complimentary services and other exclusive perks, *OWL* can create a more attractive value proposition for its guests. This strategy is intended to differentiate *OWL* from competitors on the island, encourage repeat visits, increase customer satisfaction, raise market share, and ultimately drive revenue growth by establishing a loyal customer base.

Candidates can make any recommendation so long as this is substantiated and the line of argument is based on the evidence presented in the response.

Limitations of information in the case study include:

- Market research data – Any effective marketing strategy is likely to be based on thorough market research. The case study does not provide information of detailed market research on customer preferences and the potential acceptance of a loyalty scheme. Understanding the target market's needs and expectations is critical for designing an effective programme, beyond the two directors' first-hand experience (line 50). Therefore, *OWL* should conduct thorough primary market research to gather insights on what incentives would most appeal to its own guests in Xanadu and how these compare to the offerings of rival hotels on the island.
- Financial analysis – There is a lack of detailed financial analysis on the expected costs versus financial benefits of implementing a customer loyalty scheme. An accurate cost-benefit analysis is essential to make an informed decision about the affordability and financial gains from such a scheme. Hence, it is recommended that *OWL* should conduct a detailed financial analysis and projection to estimate the initial and ongoing costs of the loyalty scheme, as well as the forecast gain in revenue from customer loyalty.

In conclusion, introducing a customer loyalty scheme could be highly beneficial for OWL, provided that it is well-designed to meet customer expectations and preferences and that the financial and operational challenges are carefully managed. In addition, conducting thorough market research and a detailed financial analysis are crucial prerequisites to ensure that the customer loyalty scheme delivers the desired outcomes. If executed effectively, the customer loyalty scheme can help OWL differentiate itself in a competitive market, increase customer retention, and drive long-term profitability.

Award [1 – 2 marks] for a response that shows little understanding of the demands of the question. There is minimal use of Business Management tools and theories, which are irrelevant or used inaccurately. There is little, if any, reference to the stimulus material.

Award [3 – 4 marks] for a response that shows some understanding of the demands of the question. There is some use of Business Management tools and theories, but these are mostly lacking in accuracy and relevance. There is superficial use of information from the stimulus material, often not going beyond the name of the organization. Any arguments made are largely not substantiated.

Award [5 – 6 marks] for a response that shows an understanding of the demands of the question, but these demands are only partially addressed. There is some relevant and accurate use of Business Management tools and theories. There is some relevant use of information from the stimulus material that goes beyond just the name of the organization but does not effectively support the argument. Arguments are substantiated but are mostly one-sided (unbalanced)s.

Award [7 – 8 marks] for a response that mostly addresses the demands of the question. The response contains mostly relevant and accurate use of Business Management tools and theories. Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. Arguments are substantiated and the response has some balance.

Award [9 – 10 marks] for a response that shows clear focus on addressing the demands of the question throughout. There is relevant and accurate use of Business Management tools and theories. Relevant information from the stimulus material is integrated effectively to support the argument. Arguments are substantiated and balanced. There is an explanation of the limitations of the case study or stimulus material.

8. Discuss the opportunities and threats for OWL of diversifying into the theme park industry. [10 marks]

When considering the closure of one of its hotels in order to diversify and open a theme park, OWL must evaluate both opportunities and threats to make a balanced and well-informed decision.

Opportunities of diversifying into the theme park industry include a discussion of the following:

- **Additional revenue streams** – By attracting more visitors, the theme park could draw in more customers each day, and not only guests who stay at hotels (such as local residents on the island of Xanadu). In addition, opening the island's first theme park could attract more families and encourage some to stay longer, thus increasing occupancy rates at OWL hotels. This could boost OWL's overall revenue by catering to a broader market. This is important for OWL as it strives to "diversify the company's product offerings and reduce dependency on traditional hotel income" (lines 17 – 18).
- **Complementary business model** – Although this strategy involves diversification, opening a theme park could complement OWL's existing hotel operations by offering bundled packages, such as hotel stays with theme park entrance tickets. This potentially increases guest spending and customer loyalty, especially for those travelling to Xanadu as a family. At the same time, it also helps to spread risks of only relying on hotel services for its revenue stream.
- **First mover advantage** – As no other hotel on Xanadu will have a theme park, this differentiation strategy gives OWL a competitive advantage by being the first (and perhaps only) to provide such a facility to hotel guests and tourists to the island. This provides OWL an opportunity to establish a unique selling proposition (USP) on the island. This would clearly differentiate OWL from competitors like B&Bs and Airbnb, which do not offer such attractions.
- **Brand enhancement** – Expanding into the theme park industry could enhance OWL's brand image as a family-friendly holiday destination as well as possibly attracting a new customer segment (such as local teenagers living in Xanadu or Utopia). The attraction could also encourage repeat visits, especially if OWL is able to develop a season ticket or annual pass for visitors to the theme park.
- **Capitalise on tourism industry growth** – Although tourism growth in Xanadu is slow, it is gradually recovering (Table 1). A theme park could position OWL to capture more of this growing market by offering a novel and appealing attraction, especially as tourist numbers are expected to increase slightly in the coming years. Indeed, the data from Xanadu Tourist Board does not factor in the possible increase in tourist numbers should the island have a theme park.

Threats of diversifying into the theme park industry include a discussion of the following:

- High capital expenditure and financial risks – Opening and developing a theme park requires substantial capital expenditure. Given the high current interest rates (lines 21 – 22), financing this project could strain *OWL*'s financial resources and potentially affect its profitability, especially if it needs to use loan capital.
- External financing challenges – *OWL* might face difficulties in securing a favourable interest rate for external financing through bank loans. There may also be challenges with a strategic alliance (lines 23 – 24), given there is a lack of financial data in the case study to provide convincing evidence that working with external parties would be financially beneficial to all members of the strategic alliance.
- Uncertain demand – Despite the potential financial benefits, there is no guarantee that a theme park will attract the expected number of visitors (only 3.48% growth from 2024 to 2026 as shown in Table 1). The success of the theme park is closely tied to the broader tourism market, which remains volatile due to factors like the ongoing recovery from the COVID-19 pandemic. With slow growth in tourism as well as the competitive threat from B&Bs and Airbnb, *OWL* might struggle to achieve the desired return on investment from closing one of its hotels and investing in a theme park.
- Potential competition with established attractions – International theme parks like Alton Towers and PortAventura World are well-established brands. Although *OWL* might be the first on Xanadu, it will need to overcome these strong competitors to attract visitors, especially if tourists prefer to visit well-known parks abroad.
- Operational and strategic challenges – Entering the theme park industry represents a significant shift from *OWL*'s core hotel business. Managing both hotels and a theme park could dilute the focus of *OWL*'s senior management. Managing a theme park requires different expertise and resources compared to running hotels. Diversion of focus and resources potentially compromises the quality of both operations.
- Environmental and regulatory challenges – Building and operating a theme park on Xanadu could raise significant environmental concerns, particularly if it involves substantial land use, waste generation, and resource consumption. Local environmental regulations or opposition from environmental groups could delay the project, increase costs due to compliance requirements, or even prevent the project from moving forward. Furthermore, any negative environmental impact of the plans could damage *OWL*'s reputation, particularly among eco-conscious tourists.

Accept any substantiated conclusion based on the line of argument presented in the extended response. Two examples are provided below for illustrative purposes:

Conclusion 1

Diversifying into the theme park industry presents a unique and promising opportunity for *OWL* to expand its revenue streams and establish its position as a leading player in Xanadu's tourism industry. By leveraging the first-mover advantage and focusing on the importance of family-friendly services, *OWL* can differentiate itself from competitors and create a unique selling point that boosts occupancy rates across its hotels. Despite the substantial investment required, the long-term benefits, such as increased brand recognition, customer loyalty, and the spreading of risks, outweigh the potential threats. With careful planning, effective execution, and strategic partnerships, *OWL* is well-positioned to succeed in this new venture and secure its financial future.

Conclusion 2

While the theme park industry offers potential benefits, the significant financial, operational, and market risks make it a highly uncertain business venture for OWL. The substantial capital expenditure required, alongside the challenges of securing favourable financing and the potential for uncertain demand, could strain OWL's resources and jeopardize its profitability. Furthermore, the complexities of managing a new and unfamiliar business (theme park) could lead to operational inefficiencies and divert attention from OWL's core hotel business. As diversification is the highest-risk growth strategy (according to the Ansoff matrix), OWL should approach this growth option with caution. It would be sensible to delay or scale back the project until thorough market research is completed and affordable financing options are secured.

It is important to recognize the limitations of the case study and stimulus materials. The data provided is limited in scope, particularly concerning detailed financial projections and market research on the demand for a theme park. In particular, the case study does not provide detailed financial projections, cost estimates for the theme park, or the current financial health of OWL. Accurate financial data, including an assessment of OWL's final accounts (income statement and balance sheet) and its financial position (such as its current level of borrowing), are essential for making an informed decision about whether to close one of the hotels and to diversify into the theme park industry. These gaps limit the ability to make a comprehensive and fully informed assessment of the opportunities and threats associated with OWL's diversification into the theme park industry. Further research and analysis would be necessary to provide a more conclusive evaluation.

Award [1 – 2 marks] for a response that shows little understanding of the demands of the question. There is minimal use of Business Management tools and theories, which are irrelevant or used inaccurately. There is little, if any, reference to the stimulus material.

Award [3 – 4 marks] for a response that shows some understanding of the demands of the question. There is some use of Business Management tools and theories, but these are mostly lacking in accuracy and relevance. There is superficial use of information from the stimulus material, often not going beyond the name of the organization. Any arguments made are largely not substantiated.

Award [5 – 6 marks] for a response that shows an understanding of the demands of the question, but these demands are only partially addressed. There is some relevant and accurate use of Business Management tools and theories. There is some relevant use of the information from the stimulus material that goes beyond just the name of the organization but does not effectively support the line of argument. Arguments are substantiated but are mostly one-sided (unbalanced).

Award [7 – 8 marks] for a response that mostly addresses the demands of the question. The response contains mostly relevant and accurate use of Business Management tools and theories. Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. Arguments are substantiated and the response has some balance.

Award [9 – 10 marks] for a response that shows clear focus on addressing the demands of the question throughout. There is relevant and accurate use of Business Management tools and theories. Relevant information from the stimulus material is integrated effectively to support the argument. Arguments are substantiated and balanced. There is an explanation of the limitations of the case study or stimulus material.

IB Business Management – Paper 1 Case Study Pack

Case Study: OneWay Ltd (OWL)

SL and HL Mock Exam TZ2

For November 2024 examinations



1 hour 30 minutes

INSTRUCTIONS

- Do not open this examination paper until you have been instructed to do so.
- Read the case study carefully.
- Section A: answer **all** questions.
- Section B: answer **one** question from a choice of two.
- You are permitted to use a calculator for this examination paper.
- The maximum marks available for this paper are **30 marks**.

- The information included in this mock exam has been provided for illustrative purposes only, in order to provide students with practice for the final examinations in November 2024.

OneWay Ltd (OWL)

OneWay Ltd (OWL) is a family-owned chain of hotels located on the island of Xanadu off the coast of Utopia. OWL has a hotel in each of Xanadu’s eight beach resorts. Each OWL hotel has full-time and part-time employees on permanent contracts. OWL also hires temporary employees in the busy summer months. The majority of OWL’s employees are migrant workers from Utopia.
 5 Each OWL hotel can accommodate 450 guests in its 125 twin rooms and 50 family rooms. Between 2010 and 2020, OWL faced increased competition, preventing profit growth.

The COVID-19 pandemic reduced tourism significantly. In April 2020, OWL temporarily closed seven hotels, and most employees from Utopia returned home. The hotels reopened in January 2022. OWL made a loss in 2020 and 2021 but made a profit in 2022.

10 In 2023, Xanadu attracted 4.2 million tourists. Tourist numbers are increasing, but very slowly. Anticipated growth for the next few years remains low. OWL’s board of directors are considering closing one hotel and building a theme park. In 2023, three OWL directors visited Alton Towers in the United Kingdom and PortAventura World in Spain. Xanadu has no theme park.

15 With the slow recovery in tourist numbers, OWL’s board of directors is considering diversifying the company’s portfolio by exploring new business opportunities. The proposal to construct a theme park on the island aims to attract a broader range of tourists and increase the average length of stay, thereby boosting OWL’s revenues. The directors believe this **diversification strategy** is essential for mitigating the risks associated with dependency on hotel income alone.

20 The construction of a theme park represents a significant financial investment. OWL needs to evaluate the interest rates and funding options available for such a large-scale project. The finance director has provided the following information to support the decision-making process:

Table 1 – Selected estimated financial data related to the opening of a theme park in Xanadu:

Investment cost of theme park development	\$423 million
Sale from selling one hotel	\$110 million
25 Payback period	4 years 8 months
Interest rate on commercial loan	3.25%
Forecast growth in tourist numbers (2024 – 2026)	3.48%

30 The board of directors is exploring various financing options, including loan capital (namely commercial bank loans), government grants, and strategic partnerships with **business angels** who have experience in theme park investments.

35 In addition to the theme park, OWL is considering transforming its hotel services to attract more visitors and guests. One approach is to transition half of its hotels to an all-inclusive model, where guests pay a single price for their accommodation, meals, drinks, and entertainment. This model has gained popularity in other hotels on the island and the directors believe this can lead to increased on-site spending and higher guest satisfaction at OWL’s hotels.

A third strategy is the development of a dedicated phone app for OWL's guests. This app would facilitate hotel online bookings, check-in, check-out, and access to various hotel services such as restaurant bookings and spa reservations. However, OWL will need to outsource the development of the phone app to a specialist provider.

- 40 OWL is heavily reliant on migrant workers from Utopia for its operations. Migrant workers often bring a range of skills and experiences but can face challenges related to high labour turnover. Nevertheless, OWL is committed to offering robust training and development programmes to enhance employee skills and improve the quality of customer services at its beach resorts. With the potential shift to all-inclusive packages and increased technological integration, OWL's
- 45 employees will need to be trained in new service protocols and digital tools, such as the phone app.

To improve its competitiveness, OWL is planning to introduce a variety of guest services aimed at enhancing the overall guest experience. This includes the introduction of self-service buffets in four of its all-inclusive hotels, providing a diverse selection of international cuisines to meet the preferences of different guests.

- 50 OWL is also exploring bed and breakfast (B&B) options in the other four hotels to attract a different segment of guests who prefer more flexible dining arrangements at a more affordable price. B&Bs offer overnight accommodation and includes breakfast in the room rate, providing a more cost-effective option for many customers. These additions are designed to create a more enjoyable experience for hotel guests, thereby encouraging repeat visits and positive word-of-mouth.
- 55 OWL's strategy to diversify its offerings through the development of a theme park and the introduction of all-inclusive hotel packages aims to strengthen its market position. Nevertheless, the proposals also present their challenges, including financial constraints. OWL's finance director has shared the latest income statement for further discussion (see **Table 2**). OWL top priority is to navigate the post-pandemic competitive landscape successfully, ensuring long-term growth and
- 60 sustainability for the business.

Table 2: Statement of profit or loss for OWL, for the year ended 31st March (figures in \$m)

	2023	2022	2021
Sales	48.00	32.00	18.00
Cost of sales	33.60	22.50	13.50
65 Gross profit	14.40	9.50	4.50
Expenses	X	8.00	8.00
Profit before interest and tax	6.20	1.50	(3.50)
Interest	1.20	1.10	1.40
Profit before tax	5.00	0.40	(4.90)
70 Tax	0.75	0.05	0.00
Profit for period	4.25	Y	(4.90)
Dividends	1.50	0.10	0.00
Retained profit	2.75	0.25	(4.90)

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

- 4 -

SECTION A

Students of Placeholder International School, answer **all** questions from this section.

1. Define the term *diversification strategy* (line 17). [2 marks]
2. Define the term *business angels* (line 29). [2 marks]
3. Explain **two** benefits for *OWL* investing in its workforce (lines 42 – 43). [4 marks]
4. Explain **one** advantage and **one** disadvantage of using loan capital (line 28) to fund the construction of a theme park. [4 marks]
5. Use **Table 2** to calculate the following figures for *OWL* (*there is no need to show your working out*):
 - (i) Expenses in 2023 [1 mark]
 - (ii) Profit for period in 2022. [1 mark]
6. Explain **two** advantages and **one** disadvantage of *OWL* relying on temporary workers and migrant workers from Utopia (lines 3 – 4). [6 marks]

SECTION B

Answer **one** question from this section.

7. Recommend whether *OWL* should expand by offering bed and breakfast (B&B) and all-inclusive hotel packages. [10 marks]
8. Recommend whether *OWL* should close one of its hotels and open a theme park (lines 11 – 12). [10 marks]

IB Business Management – Paper 1 Case Study Pack

Case Study: OneWay Ltd (OWL)

SL and HL Paper 1 TZ2 Mark Scheme

For November 2024 examinations



TEACHERS' NOTES

- These are suggested answers only.
- Teachers should use their professional judgement in awarding answers that may not be included in this mark scheme.
- The data and information included are provided for illustrative purposes only to give students practise for the final examination in May 2024.
- While there is no need to include any HL content, students should be awarded accordingly if the inclusion of such content directly addresses the demands of the question.

SECTION A

1. Define the term *diversification strategy* (line 17). [2 marks]

A diversification strategy refers to a growth strategy where a business expands into new products and/or markets that are different from its current product offerings. This strategy, as part of Ansoff's matrix, is often pursued to reduce the risks associated with relying on a single product or market by creating new revenue streams.

Award [1 mark] for a definition that shows some understanding of diversification strategy.

Award [2 marks] for a clear and accurate definition of diversification strategy, similar to the example above.

Application and examples are not required.

2. Define the term *business angels* (line 29). [2 marks]

Business angels are individual investors who provide capital to start-ups or small businesses, often in exchange for equity (ownership). They typically invest their own money and may also offer their corporate expertise, including industry connections, to help the company grow. Business angels are often more flexible and willing to take on higher risks compared to traditional commercial lenders, making them a valuable resource for businesses looking for early-stage funding.

Award [1 mark] for a definition that shows some understanding of business angels.

Award [2 marks] for a clear and accurate definition of business angels, similar to the example above.

Application and examples are not required.

3. Explain two benefits for *OWL* investing in its workforce (lines 42 – 43). [4 marks]

Possible answers include an explanation of any **two** of the following points that align with the company's goal of improving its market position post-pandemic (line 56):

- Enhanced service quality – By providing training and development programmes (line 42), *OWL* can improve the skills and knowledge of its employees, leading to better customer service at its hotels. Well-trained staff are more capable of meeting customer needs, which can result in higher guest satisfaction and positive customer reviews. This is crucial for any business in the hospitality industry, especially as guests and visitors can easily spread positive or negative word of mouth using social media platforms.
- Reduced employee turnover – High labour turnover can be costly due to the expenses associated with recruiting, hiring, and training new employees. Training and development can enhance employee morale and motivation. Investing in the workforce through career development opportunities can increase employee loyalty and job satisfaction, reducing labour turnover rates, particularly among migrant and temporary workers who might otherwise leave for better job opportunities.

- Increased productivity – A well-trained workforce is typically more efficient and productive. Employees who are confident in their roles and familiar with new technologies or service protocols (line 45), such as those required for the all-inclusive model or digital tools, can perform tasks more effectively. This helps to improve OWL's overall operational efficiency.
- Competitive advantage – In any competitive service-based industry, such as the hospitality industry, a skilled and motivated workforce can be a key differentiator. By investing in employee development, OWL can ensure its employees deliver superior service, helping the company to stand out from competitors and attract more guests, which is particularly important given the slow recovery in tourism on Xanadu.
- *Accept any other benefit for OWL investing in its workforce that is clearly explained in the context of the case study.*

Mark as 2 + 2

Award **[1 mark]** for a relevant advantage, plus a further **[1 mark]** for an appropriate explanation written in the context of the case study, up to a total maximum of **[4 marks]**.

If there is no application shown, award a maximum of **[2 marks]**.

4. Explain one advantage and one disadvantage of using loan capital (line 28) to fund the construction of a theme park. **[4 marks]**

Possible advantages include an explanation of any **one** of the following points:

- Retention of ownership and control – By opting for loan capital, OWL may be able to secure the necessary funds without giving up any equity (shares) in the family-owned company. This allows OWL to maintain full ownership and control of its operations, including the management and strategic direction of the new theme park.
- Fixed repayment schedule – Loan capital often comes with a fixed repayment schedule, which provides OWL with a clear understanding of its future financial obligations. This predictability in cash outflows helps the company plan its finances more effectively, especially when managing the large-scale investment required for the theme park. This can make loan capital a cost-effective financing option.
- *Accept any other advantage for OWL of using loan capital that is clearly explained in the context of the case study.*

Possible disadvantages include an explanation of any **one** of the following points:

- Debt repayment obligations – Loan capital requires OWL to make regular interest and principal repayments (the amount of the initial loan), which can strain the company's cash flow, especially during periods of low revenue during off-peak periods or economic downturns. If the theme park does not generate the expected returns, these fixed financial obligations could create significant financial pressure on the company.

- Risk of overleveraging – Taking on a substantial loan to fund the theme park, even if OWL is able to sell one of its hotels, increases OWL's overall debt levels. Higher levels of borrowing can make the company more vulnerable to financial instability, particularly if interest rates rise or if there is a downturn in the tourism market. Overleveraging can also limit OWL's ability to secure additional funding in the future, as lenders may view the company as a higher-risk borrower.
- Opportunity costs – High debt levels may restrict OWL's ability to invest in other business opportunities to expand or respond to unforeseen internal challenges or changes in the external environment. This is because a loan of this magnitude would require a significant portion of OWL's cash flow to be committed to servicing the loan.
- *Accept any other disadvantage for OWL of using loan capital that is clearly explained in the context of the case study.*

Mark as 2 + 2

Award **[1 mark]** for a relevant advantage (and disadvantage), plus a further **[1 mark]** for an appropriate explanation written in the context of the case study, up to a total maximum of **[4 marks]**.

If there is no application shown, award a maximum of **[2 marks]**.

5. Use **Table 2** to calculate the following figures for OWL (there is no need to show your working out):

Statement of profit or loss for OWL, for the year ended 31st March (figures in \$m)

	2023	2022	2021
Sales	48.00	32.00	18.00
Cost of sales	33.60	22.50	13.50
Gross profit	14.40	9.50	4.50
Expenses	8.20	8.00	8.00
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Interest	1.20	1.10	1.40
Profit before tax	5.00	0.40	(4.90)
Tax	0.75	0.05	0.00
Profit for period	4.25	0.35	(4.90)
Dividends	1.50	0.10	0.00
Retained profit	2.75	0.25	(4.90)

(i) **Expenses in 2023.**

[1 mark]

- Expenses = Gross profit – Profit before interest and tax
- Expenses (2023) = 14.4m – 6.2m = \$8.2 million

Award **[1 mark]** for the correct answer. Working out is not required, but included above for illustrative purposes. Do not accept answers that show \$8.2 or 8.2.

(ii) Profit for period in 2022.**[1 mark]**

- Profit for period (2022) = Sum of dividends and retained profit
- Profit (2022) = \$0.1m + \$0.25m = \$0.35 million

Award [1 mark] for the correct answer. Working out is not required, but included above for illustrative purposes. Accept answers that show profit for period as \$350,000. Do not accept answers that show \$0.35 or 0.35.

6. Explain two advantages and one disadvantage of OWL relying on temporary workers (line 3) and migrant workers from Utopia (line 4). [6 marks]

Advantages could include an explanation of any **two** of the following points:

- Flexibility – Temporary workers and migrant workers can be hired on an as-needed basis, based on the level of demand during different times of the year, such as the busy summer months. This flexibility enables OWL to adapt quickly to changes in the number of tourists and guests staying at its hotels, adjusting staffing requirements accordingly without long-term commitment of hiring full-time employees.
- Reduced labour costs – Temporary and migrant workers allow OWL to adjust its labour force according to seasonal demand, particularly during the busy summer months. This flexibility helps the company manage labour costs efficiently by increasing staff levels when needed and reducing them during off-peak periods, thus avoiding the financial burden of maintaining a large permanent workforce all year round. This enables OWL to maintain competitive pricing for its services while protecting its profit margins.
- Access to a diverse skills set – Temporary and migrant workers often bring a variety of skills, experiences, and cultural perspectives that can enhance the quality of service at OWL's hotels. Their diverse backgrounds can contribute to a more dynamic and adaptable workforce, capable of meeting the needs of international visitors to Xanadu (such as language skills). This diversity can also lead to innovative approaches to customer service and problem-solving within the organization.
- *Accept any other advantage that is appropriately explained in the context of the case study.*

Disadvantages could include an explanation of any **one** of the following points:

- High labour turnover rates – OWL's reliance on temporary and migrant workers often results in high labour turnover since they are employed only for short periods, typically during the peak summer months. This constant change in staff can lead to instability within the workforce, disrupting team cohesion and continuity.
- Higher costs of recruitment and training – Being reliant on temporary workers and migrant workers for a seasonal business, the recruitment process can be extremely time consuming and expensive for OWL. These people also require induction and other forms of specialized training. This contributes to OWL's ongoing costs. Hence, the continual and transient nature of hiring temporary and migrant workers can result in higher costs for OWL.

- Lower level of commitment and motivation – Temporary and migrant workers employed in a seasonal business might have lower levels of commitment and motivation compared to permanent staff, as they may not see themselves as long-term members of the company. This lack of commitment can result in lower productivity, less attention to detail, and a diminished quality of service at *OWL*'s hotels. Temporary workers may be less invested in the company's success, which could negatively impact customer experience and overall business performance.
- Potential language and cultural barriers – Migrant workers from Utopia might face language and cultural barriers (the case study lack such information), which can impact communication with both colleagues and hotel guests. These potential language and cultural barriers may lead to misunderstandings, reduced service quality, and potential dissatisfaction among guests and visitors. Furthermore, the need for extra training to bridge these gaps can add to *OWL*'s operational costs and complexity.
- *Accept any other disadvantage that is appropriately explained in the context of the case study.*

For each point, award [1 mark] for each of the two suitable advantages, and one disadvantage, and a further [1 mark] for each explanation, up to the maximum of [6 marks].

If there is no application shown, award a maximum of [3 marks].

SECTION B

7. Recommend whether *OWL* should expand by offering bed and breakfast (B&B) and all-inclusive hotel packages. **[10 marks]**

In light of the current competitive landscape and *OWL*'s recent financial recovery, the proposal to expand its product offerings by introducing bed and breakfast (B&B) and all-inclusive hotel packages presents both opportunities and challenges.

Advantages of expanding for *OWL* include:

- Increased revenue streams – By offering both B&B and all-inclusive options, *OWL* can create multiple revenue streams that reduce its dependency on revenues from traditional hotel services. This expansion strategy is particularly crucial in the post-pandemic era, when *OWL* experienced losses in 2020 and 2021. Increased on-site spending from all-inclusive guests, combined with the appeal of B&B packages, can help improve *OWL*'s overall profitability.
- Enhanced customer satisfaction – The all-inclusive business model has gained popularity in other hotels on the island, indicating a market trend that *OWL* can capitalize on. By providing varied dining options and all-inclusive services, *OWL* can enhance hotel guest satisfaction and customer loyalty, potentially leading to repeat visits and positive word-of-mouth referrals. This could be helpful in establishing a strong brand reputation and attracting new customers to its beach resort hotels.

- Meeting diverse customer needs – The introduction of B&B options caters to a segment of tourists who prefer more flexible dining arrangements (to be able to try out the local cuisine on the island) and those who may be more cost-sensitive. This could attract budget-conscious travellers and families seeking affordable accommodation while still enjoying a quality experience. On the other hand, all-inclusive packages can appeal to guests looking for convenience, as they allow for a single payment that covers meals, drinks, and entertainment, enhancing the overall guest experience. This can be equally appealing for families and guests travelling in groups.
- Improved brand reputation – Providing diverse accommodation options can enhance OWL's brand reputation and the perceived value. This growth strategy could position the company as a provider of quality accommodation that gives good value for money. In particular, all-inclusive packages are often perceived as offering good value, which can attract guests seeking a hassle-free holiday accommodation experience.
- *Accept any other advantage of expanding by offering B&B and all-inclusive hotel packages, written in the context of the case study.*

Challenges of expansion for OWL include:

- Significant capital investment – Expanding to offer B&B accommodation may require substantial capital investment. Offering new all-inclusive hotel packages will also be costly, such as capital expenditure on facilities, food and beverage, marketing, and staff training. OWL would need to ensure it has access to sufficient and affordable sources of finance and a clear plan for generating a return on this investment.
- Financial constraints – The construction of a theme park is a significant financial investment, and OWL must evaluate its ability to fund multiple growth strategies simultaneously. The potential for high costs associated with implementing B&B and all-inclusive hotel services, including staff training, marketing, and facility adjustments, may strain the company's resources. The risk of overextending itself should not be overlooked, particularly given the slow recovery in tourist numbers on the island.
- Operational complexities – Implementing both B&B and all-inclusive business models may introduce operational complexities. OWL will need to train staff on new service protocols and ensure that quality standards are maintained across different offerings. The transition may require additional resources and time, which could temporarily disrupt existing operations.
- Market uncertainties – Although tourist numbers are slowly increasing, OWL faces uncertainty regarding its future growth. The anticipated rise in tourist numbers (forecast to rise by 3.48% from 2024 to 2026) may not be sufficient to justify the investments in expansion. In addition, changing consumer preferences and competitive pressures must be closely monitored to ensure that the new B&B and all-inclusive offerings align with market demand.
- Dilution of the OWL brand – Offering a wide range of accommodation and packages can dilute OWL's brand identity, especially if not carefully managed. Customers might struggle to understand the core value proposition of the company, potentially leading to a weaker brand image and customer confusion. This is because the services offered (B&B, hotels, and all-inclusive packages) are so diverse.
- *Accept any other challenge of expanding by offering B&B and all-inclusive hotel packages, written in the context of the case study.*

Accept any substantiated conclusion based on the line of argument presented in the extended response. Two examples are provided below for illustrative purposes:

Conclusion 1

Given the slow recovery of Xanadu's tourism industry and the increasing competition from B&Bs and Airbnb, OWL should consider closing one of its hotels and using the proceeds from the sale, combined with other financing options, to invest in the theme park. The payback period of 4 years and 8 months is relatively short for such a large-scale project, indicating that the theme park could become profitable within 5 years – which is a reasonable timeframe given the profits that OWL will generate thereafter. Furthermore, the relatively low interest rate of 3.25% on a commercial loan is favourable, making borrowing a viable option to cover the remaining investment cost. With the forecasted growth in tourist numbers, even at a modest rate of 3.48%, OWL can expect a steady increase in visitors, which would help generate the revenue needed to pay off the loan and achieve a positive return on investment. By diversifying into the theme park industry, OWL could enhance its brand, attract new customer segments, and secure a sustainable competitive advantage. Therefore, OWL should proceed with closing one hotel and opening the theme park.

Conclusion 2

Despite the potentially attractive payback period and favourable interest rate on a commercial loan, the significant financial investment required to develop a theme park (\$423 million) is a substantial risk for OWL – especially as its retained profits in 2023 were only \$2.75 million. Selling one hotel would only cover a fraction of this cost, leaving OWL heavily reliant on external financing. This reliance could increase the company's financial exposure, especially if there are any delays in construction or if tourist numbers do not grow as expected. The forecasted growth in tourist numbers, though positive, is relatively modest at 3.48%, which may not be sufficient to ensure the success of such a large-scale project. In addition, the hospitality industry's inherent volatility, coupled with the uncertainty of securing government grants or strategic partnerships, further complicates the decision. OWL should be cautious about diverting its focus and resources away from its core business of hotel accommodation and services. Therefore, OWL should not close one of its hotels in favour of opening a theme park, as the financial risks outweigh the potential benefits.

It is important to acknowledge that the information provided in the case study has certain limitations. The financial data, while indicative of recent trends, may not fully capture the complexities of market dynamics and consumer behaviour in the tourism industry. Internally, there are no insights into the operational challenges of running a theme park, especially given that OWL has no prior experience in this industry. This might include consulting with experts or partnering with a company experienced in theme park management, although this could be expensive as there are no theme parks currently in Xanadu. In addition, there is limited information about external factors such as economic conditions in Xanadu and Utopia, competition on the island, and potential regulatory changes in Xanadu that may impact the feasibility and success of the proposed diversification strategy. Therefore, OWL should remain adaptable and ready to reassess its strategy as new information emerges.

Award [1 – 2 marks] for a response that shows little understanding of the demands of the question. There is minimal use of Business Management tools and theories, which are irrelevant or used inaccurately. There is little, if any, reference to the stimulus material.

Award [3 – 4 marks] for a response that shows some understanding of the demands of the question. There is some use of Business Management tools and theories, but these are mostly lacking in accuracy and relevance. There is superficial use of information from the stimulus material, often not going beyond the name of the organization. Any arguments made are largely not substantiated.

Award [5 – 6 marks] for a response that shows an understanding of the demands of the question, but these demands are only partially addressed. There is some relevant and accurate use of Business Management tools and theories. There is some relevant use of information from the stimulus material that goes beyond just the name of the organization but does not effectively support the argument. Arguments are substantiated but are mostly one-sided.

Award [7 – 8 marks] for a response that mostly addresses the demands of the question. The response contains mostly relevant and accurate use of Business Management tools and theories. Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. Arguments are substantiated and the response has some balance.

Award [9 – 10 marks] for a response that shows clear focus on addressing the demands of the question throughout. There is relevant and accurate use of Business Management tools and theories. Relevant information from the stimulus material is integrated effectively to support the argument. Arguments are substantiated and balanced. There is an explanation of the limitations of the case study or stimulus material.

8. Recommend whether OWL should close one of its hotels and open a theme park (lines 11 – 12). [10 marks]

When considering the closure of one of its hotels to open a theme park, OWL must consider both quantitative and qualitative factors as well as internal and external factors to make a balanced and well-informed decision. These factors include, but are not limited to the following:

Advantages or arguments in favour of opening a theme park include:

- Attracting a broader range of guests and visitors – The development of a theme park can significantly enhance OWL's appeal to a wider demographic, including families and thrill-seekers (both domestic and overseas), who may not have previously considered OWL's hotels. With Xanadu lacking a theme park, OWL can gain from an untapped market, potentially increasing overall tourist numbers to the island. This diversification strategy can lead to higher occupancy rates in the remaining seven hotels as visitors are drawn to the new entertainment option.
- Potential to increase revenue streams – A theme park represents a considerable opportunity for revenue generation beyond traditional hotel income. By creating a unique attraction, OWL can capture a share of the growing leisure market and benefit from additional spending from park visitors on food, merchandise, and hotel accommodation. The projected payback period of 4 years and 8 months suggests that the investment may yield profitable returns relatively quickly, if the theme park attracts sufficient visitors.

- Enhanced brand differentiation – The introduction of a theme park can set *OWL* apart from competitors in the hospitality industry. As a family-owned chain, this unique offering can enhance *OWL*'s brand identity and foster customer loyalty. With positive experiences at both the hotel and theme park, guests may be more likely to return and recommend *OWL* to others, creating a distinctive competitive advantage.
- Quantitative arguments include the sale of one of the hotels at a price of \$110 million, which will help to reduce the estimated cost of investment of \$423 million to develop the theme park. Using internal finance in this way helps to reduce the cost of financing the diversification plan. With interest on commercial loans at 3.25%, so long as the forecasted return on investment exceed this, *OWL* should proceed with the project based on quantitative grounds.
- Whilst the forecast growth in tourist numbers (2024 – 2026) is quite modest at 3.48%, this does not factor in the potential of higher visitor numbers to the island of Xanadu if there is a new attraction, i.e., the theme park. *OWL* is likely to be able to gain from the steady rise in the number of tourists to the island.

Drawbacks of closing a hotel include:

- High financial cost – The \$423 million investment required for the theme park is a significant financial commitment, far exceeding the \$110 million that could be raised from selling one of *OWL*'s hotels. On this this projection, *OWL* would need to sell five of its eight hotels to develop the theme park if the business wants to avoid using external sources of finance. However, this is highly impractical.
- Affordability issues – In addition to the high financial costs, *OWL* only had \$2.75 million as retained profit in 2023. While the interest rate of 3.25% on a commercial loan is relatively low, *OWL* must consider its ability to afford this debt alongside its existing financial commitments. Hence, the large-scale investment could put considerable strain on *OWL*'s finances, especially if the projected payback period of 4 years and 8 months is delayed due to unforeseen challenges.
- Loss of existing revenue – Closing one of its hotels means *OWL* will forfeit the revenue generated by that property. Given the slow recovery in tourist numbers, the hotel may still contribute positively to the overall financial performance of the company, without the huge investment cost of developing a theme park. The decision to close one of the hotel to raise some capital must be considered against the potential loss of revenue from running the hotel, which could negatively impact *OWL*'s financial stability, especially if the theme park does not generate expected returns.
- Significant risks of diversification – The large investment required for theme park development, estimated at \$423 million, poses huge risks for *OWL*, especially as it has no experience in this industry. Entering an unfamiliar industry could lead to operational inefficiencies, potential mismanagement, and higher-than-expected costs, detracting from *OWL*'s core competencies in hospitality services. According to the Ansoff matrix, diversification is the highest risk growth strategy for any organization. This is amplified if market conditions do not improve as anticipated. Uncertainties regarding tourism growth rates in the coming years (only 3.48% over the next few years) may impact the theme park's success. This slow growth may not generate sufficient demand to ensure the profitability of a theme park, making the business venture extremely risky, especially in an uncertain economic environment.

- Negative impacts on human resources – The closure of a hotel may lead to job losses for full-time and part-time employees, including many migrant workers from Utopia. This could create negative perceptions of the company and impact employee morale at the remaining hotels. Furthermore, the operational focus will shift significantly towards the theme park, potentially disrupting the quality of service in OWL's remaining hotels during the transition period.

Conclusions may vary depending on the preceding analysis. Two examples are provided below for reference only.

Conclusion 1

In conclusion, OWL should proceed with the decision to close one of its hotels and invest in opening a theme park. The potential benefits of attracting a broader range of tourists, generating new revenue streams, and differentiating the brand in a highly competitive market outweigh the risks associated with losing one of eight hotels. The theme park can capitalize on the absence of such attractions on Xanadu, positioning OWL as a key player in the leisure and tourism sector. While operational and financial challenges exist, careful planning and market research can mitigate these risks, ultimately enhancing OWL's long-term expansion plans. Embracing this strategic shift allows OWL to secure a sustainable competitive advantage in the evolving hospitality landscape.

Conclusion 2

In conclusion, it may be more prudent for OWL to refrain from closing one of its hotels in favour of opening a theme park. The diversification strategy potentially causes a loss of existing revenue from the hotel, combined with the significant risks associated with the \$423 million financial investment in a theme park. Hence, this poses considerable financial risks and uncertainties for the family-owned business. Instead, OWL should focus on enhancing its current offerings, such as developing the proposed B&B and all-inclusive packages, which can attract a broader range of customers without the drastic need of closing a hotel. In addition, by investing in employee training and improving service quality, OWL can strengthen guest satisfaction and customer loyalty, fostering a more stable and sustainable financial position. By prioritizing existing assets and strengths, rather than opting for a highly risky diversification strategy, OWL can ensure its long-term survival and competitive appeal.

It is important to recognize the limitations of the case study and stimulus materials in informing this decision. The financial projections (Table 1) and operational impacts are based on estimates and assumptions that may not fully reflect actual market conditions. Furthermore, external factors, such as changes in the needs and preferences of tourists, economic conditions in Xanadu and Utopia, and the competitive landscape, could significantly influence the success of both the theme park and OWL's remaining hotels. There is also a lack of quantitative information, such as the average rate of return (ARR) on the project as well as the financing needs in order to determine the affordability of the project. Thus, ongoing monitoring and adaptability will be crucial for OWL as it navigates this diversification strategy.

Award [1 – 2 marks] for a response that shows little understanding of the demands of the question. There is minimal use of Business Management tools and theories, which are irrelevant or used inaccurately. There is little, if any, reference to the stimulus material.

Award [3 – 4 marks] for a response that shows some understanding of the demands of the question. There is some use of Business Management tools and theories, but these are mostly lacking in accuracy and relevance. There is superficial use of information from the stimulus material, often not going beyond the name of the organization. Any arguments made are largely not substantiated.

Award [5 – 6 marks] for a response that shows an understanding of the demands of the question, but these demands are only partially addressed. There is some relevant and accurate use of Business Management tools and theories. There is some relevant use of information from the stimulus material that goes beyond just the name of the organization but does not effectively support the argument. Arguments are substantiated but are mostly one-sided.

Award [7 – 8 marks] for a response that mostly addresses the demands of the question. The response contains mostly relevant and accurate use of Business Management tools and theories. Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. Arguments are substantiated and the response has some balance.

Award [9 – 10 marks] for a response that shows clear focus on addressing the demands of the question throughout. There is relevant and accurate use of Business Management tools and theories. Relevant information from the stimulus material is integrated effectively to support the argument. Arguments are substantiated and balanced. There is an explanation of the limitations of the case study or stimulus material.
