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Business management

Higher level and standard level

Paper 1

21 October 2024

Zone A afternoon | Zone B afternoon | Zone C afternoon

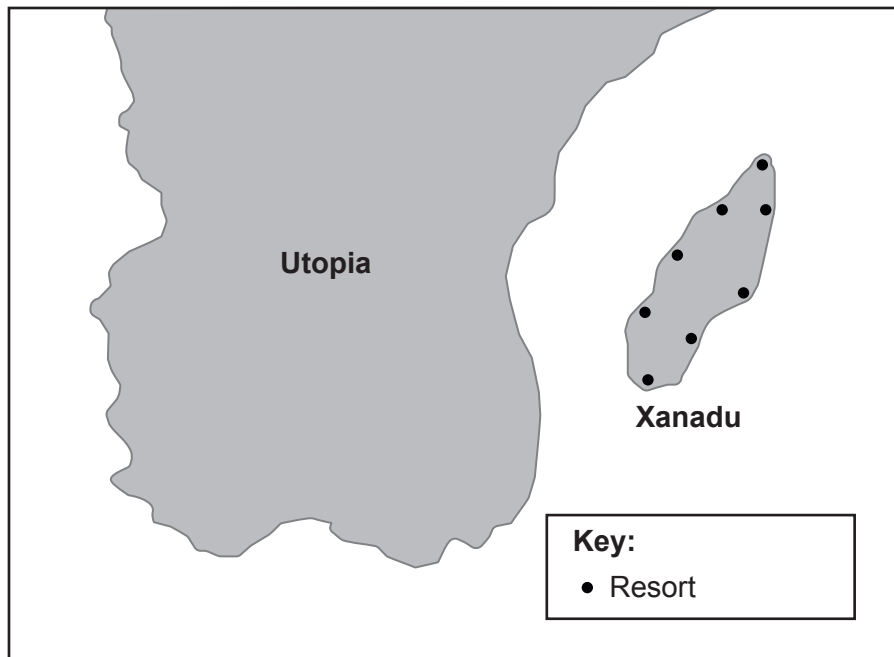
1 hour 30 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all questions.
- Section B: answer one question.
- You are permitted access to a calculator for this paper.
- The maximum mark for this examination paper is **[30 marks]**.

OneWay Ltd (OWL)

Figure 1: The island of Xanadu, off the coast of Utopia



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 *OWL* operates in the tertiary sector. *OWL* has been losing market share since 2018. During the pandemic, cash-flow problems forced *OWL* to take out an overdraft.

OWL provides all permanent employees with:

- fringe payments which include free meals and free uniform
- job rotation
- performance-related pay (PRP). In 2023 employees received \$500 on average.

20 The pandemic transformed the employment environment in Xanadu and Utopia. The expansion of the gig economy suited employees with childcare commitments. Many of *OWL*'s former managers had found jobs that offered flexi-time and the opportunity to work from home part of the week.

25 Before reopening its hotels in January 2022, OWL offered jobs to former employees. However, many turned down this offer as they had found jobs elsewhere. The former employees who did accept the job offer identified job security and fringe payments as key factors in their decision to return to work at OWL.

30 Many competitor hotels also have employee shortages. Sandeep Kumar, the human resources director, introduced flexi-time for hotel managers and one day per week of working from home. Vacancies were filled, but Sandeep had to recruit some applicants with limited experience. OWL decided to outsource cleaning duties. Previously, OWL employed 30 part-time cleaners at each hotel.

All new OWL employees receive seven-days of training, consisting of:

- three days at an OWL hotel, delivered by existing employees
- four days at a specialist hospitality training centre.

35 In 2022 and 2023, customer complaints increased. These complaints included poor room cleanliness and bill errors. Customers complained that managers were often unavailable until the next day to deal with their complaints.

40 Committed to improving its corporate social responsibility (CSR), OWL set a target to cut food waste by 50%. Recently, OWL released a phone app, called “Waste Not”. Xanadu’s residents can download the app and collect, for \$2, a box of food worth at least \$10 from their nearest OWL hotel. Food that would have been thrown away is now kept in plastic boxes in refrigerators to be collected by users of the app. OWL has had to increase its refrigeration capacity to provide this service.

45 In 2022, 65% of OWL’s guests were repeat customers. The majority, preferring to visit other restaurants on the island for their evening meals, chose the bed and breakfast option. In 2023, OWL changed one of its hotels, the Ryen, to all-inclusive. For a higher room charge, hotel guests do not pay for any meals and drinks and simply help themselves to food from a self-service buffet. Converting to an all-inclusive model enabled the Ryen to operate with fewer restaurant and kitchen employees.

50 In 2023, when compared with 2022, the Ryen’s:

- wage costs fell 15%
- food wastage increased 25%
- room bookings increased 30%
- profits increased 25% to \$12 million.

55 However, during the 2023 summer season, many guests waited for up to two hours for a dinner table to become available. Some guests used social media to complain that they would not book an OWL hotel again.

60 OWL plans to move all of its hotels to the all-inclusive model in 2025. Very few competitors currently offer all-inclusive holidays. Each OWL restaurant currently seats 200 guests. Building extensions to the restaurants would take place in the first three months of 2025 at a cost of \$0.5 million per hotel. These extensions would increase restaurant seating capacity by 50%.

The theme park project, if implemented, would cost \$78 million and be externally financed. Interest rates are currently 5%. The marketing director has forecasted theme park visitor numbers and other financial figures, shown in **Table 1**.

Table 1: Forecasted visitor numbers and financial figures for OWL’s new theme park

	Visitors (000s)	Profit (\$ m)	Cumulative profit (\$ m)
Year 1	250	6.40	6.40
Year 2	350	13.45	19.85
Year 3	500	24.00	43.85
Year 4	530	26.15	70.00
Year 5	540	26.80	96.80

65 To maintain the park’s popularity, after five years, OWL would replace less popular rides with new rides. This would require significant additional investment in year 6.

The finance director has calculated that the theme park project would achieve payback in its fifth year of operating, with an average rate of return (ARR) of 4.82%. However, he is concerned that the project’s success may result in a competitor entering the market, reducing visitor numbers in
70 years 4 and 5 by 50%.

OWL would outsource the theme park’s food and refreshments to catering companies, which would pay OWL a total of \$2 million per year to operate in the park.

To run the theme park, OWL would recruit 250 employees, mainly from Utopia. OWL plans to close one of its hotels, the Zube, and use it as accommodation for employees. The Zube is OWL’s oldest
75 and least profitable hotel and would need extensive modernization if it was to continue to attract bookings from tourists.

Sandeep is concerned about the weekly rent that OWL plans to charge employees for staying at the Zube: the rent would be equivalent to 40% of their wages. OWL may be accused of exploiting employees.

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

Section A

Answer **all** questions from this section.

1. State **two** types of businesses, **other than** hotels, that operate in the tertiary sector (line 14). [2]
2. Define the term *overdraft* (line 15). [2]
3. Describe the **two** types of **financial reward**, **other than** wages and salaries, used by *OWL* (lines 16–19). [4]
4. Explain **one** advantage **and one** disadvantage for *OWL* of allowing managers to work flexi-time (lines 20–22 and lines 27–29). [4]
5. Explain **one** advantage for *OWL* of outsourcing the cleaning of its hotels (lines 30–31). [2]
6. Explain **one** way in which *OWL* is improving its corporate social responsibility (CSR) **and two** ways it is not. [6]

Section B

Answer **one** question from this section.

7. Discuss whether *OWL* should change all of its hotels to operate using the all-inclusive model. [10]
 8. Recommend to *OWL*'s board of directors whether they should open a theme park. [10]
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References: