



To be opened on receipt

AS GCE APPLIED BUSINESS

F242/01/CS Understanding the Business Environment

PRE-RELEASE CASE STUDY

JANUARY 2013



INSTRUCTIONS TO TEACHERS

- This Case Study **must** be opened and given to candidates on receipt.

INFORMATION FOR CANDIDATES

- You **must** make yourself familiar with the Case Study before you sit the examination.
- You **must not** take notes into the examination.
- A clean copy of the Case Study will be given to you with the Question Paper.
- This document consists of **4** pages. Any blank pages are indicated.

Beacon's View

The background

Until the summer of 2009 *Beacon's View* was a 3-star boutique hotel situated at the top of a hill in Somerset overlooking the Bristol Channel. The location of the hotel offers a breathtaking panoramic view of the surrounding areas, including the Severn Estuary, the Severn Bridge, long stretches of white sandy beach, and the medieval towns and villages of Dunster and Porlock. Kay and Pete Hubbard fell in love with the hotel, decided to invest all their life savings and bought it in the summer of 2009 when it had gone into administration.

Kay, having worked for the local conservation authority as a surveyor for many years, is a specialist in period building restoration. As such, her strengths lie in her knowledge of the characteristics of period buildings and the regulations regarding renovating historical buildings. Pete ran a successful electrical contracting business. Together, they were confident that they had the skills and knowledge to restore the hotel to its 19th century splendour.

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The restoration

Restoration works followed soon after the purchase of the business had been completed. The entire exterior and interior of the building including sash windows and antique fire places were painstakingly restored. Reclaimed materials were used wherever possible, not just for creating the authentic feel but also to recycle for a more sustainable future – a practice in which Kay fervently believes. A Victorian garden was designed and planted in the five acre grounds, the perfect place for a romantic stroll amid intricate bedding schemes full of native and exotic plants.

Pete was responsible for bringing the hotel up to 21st century standards with under-floor heating, effectively insulated walls, as well as 30 solar panels installed in a corner of the garden. All these measures were taken to make sure that the hotel is energy efficient, thus keeping running costs low. Kay and Pete see energy efficiency as a unique selling point. For a touch of luxury, each of the 24 en-suite rooms has a jacuzzi spa bath installed, a flat screen television with DVD player amongst other 'mod cons'. The spacious bedrooms with high-vaulted ceilings are undeniably 19th century English but with sophisticated modern flourishes.

To enhance the authentic 19th century feel, the hotel is furnished with antique furniture carefully chosen by Kay and Pete. Furthermore, the staff, from the receptionist to the chefs and the chambermaids, are all dressed in 19th century costumes in order to create a time-warp effect as soon as the guests step beyond the threshold of the hotel. Kay and Pete's attention to detail is second to none.

It was a month before all the renovation works were due to be completed that Kay and Pete, having devoted all their time to the restoration, suddenly realised that they were novices when it came to running a hotel. During the frantic research which followed, Kay discovered two possible options which could support their running of the hotel. These options were: operating as a franchisee or joining a hotel operators' co-operative. Kay and Pete decided to join the hotel operators' co-operative. After nine long months of round-the-clock painstaking work, *Beacon's View* was ready to open its doors in the spring of 2010.

Beacon's View today

Beacon's View now offers two luxury state rooms at £400 per night, two family rooms at £250 per night, ten standard double rooms at £190 per night and ten single rooms at £120 per night. Set in five acres of unspoilt pasture and woodlands, the hotel provides a perfect venue for all-year-round short breaks, holidays and business conferences. *Beacon's View* targets the high-end of the market, its customers come from all over the world, attracted by the unique décor and the various Victorian murder mystery weekends held in partnership with a local theatre group. In addition, the hotel is also popular with local residents who favour the

award-winning Victorian restaurant. Room bookings have been encouraging right from the beginning, with the support of the website of the hotel operators' co-operative and despite the economic conditions in the last few years (see **Appendix 1**).

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Kay and Pete attempt to operate *Beacon's View* in an ethical manner. *Beacon's View* has won various awards for its conservation efforts including The Green Tourism Business Scheme Gold Award. Conservation is an important aspect which Kay and Pete would like to uphold as it not only sets the hotel apart from its competitors, but it is also in the interests of external stakeholder groups.

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Beacon's View is now operating at full capacity. Customers often have to make sure that they book their rooms at least six months in advance. The profit and loss account shows profit levels increasing over the last two years, with retained profit standing at £250 000.

Pete is now working full-time at *Beacon's View*, primarily as a handyman but also as the gardener or barman as and when there is a shortage of staff. Kay, also full-time, is in charge of front-of-house, as well as human resources, finance and operations. *Beacon's View* has become their only source of income and this has prompted Kay to look at the future of the hotel more closely.

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The large coach house adjacent to the main building offers opportunities for expansion. It is currently used for storage purposes and could be converted without much difficulty. Kay and Pete have decided that they should each draw up a proposal to include a cash-flow forecast for the conversion of the coach house.

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Kay's proposal

Although *Beacon's View* hosts the occasional wedding, Kay feels that such services could be developed further. The coach house could be converted into a Victorian wedding chapel with a banqueting hall. This would encourage more bookings for wedding parties and free up the Victorian restaurant which is becoming increasingly popular as a fine dining venue.

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Kay has calculated that the retained profit should be more than sufficient to cover the costs of the proposal which are estimated to be in the region of £165 000. The work would be scheduled to be completed well before the summer of 2013, ready for the peak wedding season in the summer months.

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Kay is fully aware of the falling statistics on marriages (see **Appendix 2**) but she feels that she could exploit the growing market of 'renewing wedding vows'. In fact, she has already planned the grand opening of the new venture – she would renew her wedding vows with Pete in full Victorian glory. The main advantage of Kay's proposal is that it does not involve any expensive structural building work. Besides erecting some partitions internally, the main work involves decorating and refurbishment. She cannot wait to reveal her proposal to Pete.

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Pete's proposal

Pete's proposal is to have four self-contained holiday apartments built on two floors in the coach house. These would target larger parties or families in order to generate more revenue for *Beacon's View*. His proposal would involve structural building work which would cost around £500 000. Each apartment could sleep up to five people and would come complete with a living room. Pete feels that this would be a safe option as *Beacon's View* would not be doing anything different from its current business activity.

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Appendix 1

Two million Britons stay at home for their holidays as the recession bites

The official figures from the UK Tourism Survey show that millions of Britons have chosen to take a “staycation” and holiday in the UK because of the recession.

Figures show that a record 7.1 million Britons went on holiday in the UK in May 2012, up from 6 million in May 2011.

In the first five months of 2012 the Survey found that 20.5 million Britons holidayed in the UK – up 16 per cent on the same period in 2011.

Viscountess Cobham, chairman of tourism board Visit England, said: “Results over the last three years suggest an increasing preference for breaks closer to home”.

“Exchange rates which make holidaying abroad forbidding for Britons – and a UK holiday attractive to Europeans – have played a large part in increasing tourist numbers in the UK”, said Sandy Nairne, Director of the National Portrait Gallery, London, which has recorded a record financial year. “Anecdotally, we certainly think there are many more visitors from the UK ... and we are certainly seeing more European visitors.”

Inflation, which is biting into wages, and the fear of, as well as actual, unemployment, is causing many UK holiday makers to forgo the usual summer getaway, or to book later and more cheaply.

Tour operator Thomas Cook, says the same, blaming weaker trading in its main UK business due to the “uncertain economic environment”.

The tour operator also said the weaker euro is having an adverse effect on its earnings in countries which use the single currency.

Appendix 2

UK marriage statistics

According to the Office for National Statistics, marriages are at the lowest rate since records began. Despite an increase after rules on where you can get married were liberalised, fewer people are getting married than at any time in more than 100 years.

A total of 231 490 couples tied the knot in 2009 – down from 232 990 in 2008 and the lowest total since 1895. A smaller percentage of people got married in 2008 than in any year since records began, and at the same time the number of couples living together outside of marriage is on the increase.



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