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Advanced GCE

BUSINESS STUDIES

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Business Strategy

CASE STUDY

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May be opened and given to candidates upon receipt.

INSTRUCTIONS TO CANDIDATES

This copy may **not** be taken into the examination room.

The business described in this case study is entirely fictitious.

This paper consists of 8 printed pages.

THE CEDARS COUNTRY CLUB

The Cedars Country Club is on the outskirts of a market town. Formerly a large country house set in its own grounds, the site was acquired by its current owners, Lawson Leisure Ltd, six years ago. Lawson Leisure Ltd is a wholly owned subsidiary of a publicly quoted leisure conglomerate. After a period of extensive capital refurbishment the house is now the Cedars Hotel and restaurant. The Hotel is luxuriously appointed to meet the expectations of its target market: corporate guests and weekend luxury breaks. Another feature attractive to the corporate market is the Cedars Conference and Training Suite, created at the time of the conversion from a disused stable block. Other outbuildings provide additional hotel accommodation. The tariff for the Hotel allows guests access to a Cedars Health Club and the use of all of its facilities: gym, sauna, jacuzzi, swimming pool, bowls, boules, croquet, soccer, squash courts, tennis courts. The Health Club is housed in a purpose built annexe behind the hotel so that Health Club members need not go into the Hotel itself. In the grounds there is a nine-hole golf course.

For administrative and accounting purposes The Cedars Country Club is divided into four profit centres. These are the Hotel, the Cedars Restaurant, Conference Centre and the Health Club. As General Manager, John Oats has overall responsibility to the board of Lawson Leisure Ltd for the performance of the facility. In addition he has the specific role of manager of the Hotel and Restaurant but he relies heavily upon his deputy, Sharon Walker, to perform this role. Peter Hunt manages the Conference Suite whilst Toni Slade manages the Health Club. Lawson Leisure Ltd have set a number of targets for The Cedars Country Club, one of which is an increase in profits of RPI + 3% (profit last year was just over £150,000). John, in turn, uses this target as the basis for formulating specific operational profit objectives for each of the profit centres. Toni Slade has been set a profit target of £35,000 for the coming year, 2002. On hearing her target, Toni used last year's figures as a basis for her budget. She has, for example, budgeted £7,500 for variable costs, such as pool chemicals. Toni feels all the other costs incurred by the Health Club are fixed. Toni's salary is £25,000 pa.

The Health Club has a staff of 14 full time employees, see Table 1.

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Table 1

Health Club Full Time Staff Details

Name	Position	Joined	DOB	Courses					
				1	2	3	4	5	
Slade, Toni	Manager	7/98	2/5/70	Y	Y	Y	Y	Y	35
Foottit, Ben	Ast. Manager	5/00	13/4/74	Y	Y	Y	Y	Y	
Agrawal, Ankit	Ast. Manager	9/01	9/5/80	Y	Y	Y	Y	–	
Adams, M		8/99	31/7/82	Y	Y	Y	Y	Y	
McCurdy, S		9/00	21/2/82	Y	Y	Y	Y	Y	
Scott, L		10/00	19/1/80	Y	Y	Y	Y	Y	40
Woodhead, C		10/00	27/7/81	Y	Y	Y	Y	–	
Fitzpatrick, S		2/01	16/7/79	Y	Y	Y	Y	Y	
Singh, K		5/01	6/1/80	Y	Y	Y	Y	Y	
Ross, D		6/01	21/9/80	Y	Y	Y	Y	Y	
Owen, G		10/01	14/6/82	Y	Y	Y	Y	Y	45
Chan, K		10/01	2/5/81	Y	Y	Y	Y	–	
Smith, A	Trainee	6/01	3/8/79	Y	Y	–	Y	–	
Jones, D	Trainee	11/01	1/5/85	Y	–	–	–	–	

Notes: Courses

- 1 Swimming Pool 50
- 2 Meeting Client Needs; Safe Practices in the use of Gym Equipment
- 3 Meeting Client Needs; Marketing & Customer Care
- 4 Time valid Health & Safety 1; First Aid
- 5 Time valid Health & Safety 2; Use and Handling of Hazardous Substances

Full time staff are supplemented by a number of casual staff, particularly at weekends when the Health Club is especially busy. By working shifts the Health Club can open from 6.00 to 22.00, seven days per week, 365 days of the year. The relatively anti-social nature of this working pattern and low pay compared to other occupations and the young average age of leisure industry workers all contribute to a high level of staff turnover within the industry. The Health Club's employment budget for the financial year 2002 is £180,000. All non-managerial staff are paid on a uniform salary scale with increments for seniority and qualifications. A recent article in the industry trade newspaper suggested that six months is an average length of service. At Toni's insistence Health Club staff have to attend training courses covering the various aspects of their job unless they already have a valid competency certificate. Competition for trained staff is mainly from other health clubs but also from the travel and tourism industry as a whole, with employment on cruise ships having a particular attraction. 60

Toni sees three main advantages for the training policy. First, it reduces the insurance costs of the business. Second, the resulting increased professionalism can be used in promotional activities. Third, it offers increased flexibility in working practices because it is possible to rotate staff around the different tasks required to operate the Health Club. It costs about £130 to send a member of staff on a four-day swimming pool lifeguards' course. Toni has allocated £3,000 for training for the coming year, 2002. Once a National Pool Life Guard qualification has been achieved a member of staff can supervise the swimming pool unaided, up to the notional capacity of the pool. The notional capacity of the pool depends upon the 75

main activity within the pool. For a normal swimming session it is 50 people in the water. Once this capacity is exceeded another member of staff is required so that the Club remains within industry guidelines. Although such guidelines do not yet have the force of law, they have been cited in litigation when a plaintiff has brought an action against other swimming pool operators. 80

Toni is receptive to ideas from her staff about how the Health Club might achieve the objectives set by John Oats. Reflecting her desire to raise Club profits, Toni wants to increase membership. The Club's insurers have made it clear that any expansion in numbers of people potentially using the Club at any one time would lead to a rise in premiums. Consequently, in 1999, the Club introduced a pricing strategy that is based upon categories of membership. These are Full, Off Peak, Day and Hotel, see Table 2. 85

Table 2 90

Current Tariff and Membership Profile, 2001 as at 1/11/01

Category	Capacity	Members	Tariff, pcm*	Restrictions	
Full	300	258	£47.50	n/a	
Off Peak	200	200	£29.50	Monday to Friday, 10.00 to 16.00	95
Day	50	n/a	£14	10.00 to 19.00	
Hotel	As Hotel	n/a	n/a	n/a	

★ 2% discount if by monthly direct debit, 4% discount if by annual direct debit.

★ Plus £180 at time of enrolment.

John Oats, Sharon Walker and Toni felt that a tiered membership scheme could enable them to exploit different membership characteristics (see Table 3). 100

Table 3

Membership characteristics as at 1/11/01

	Full Member	Off Peak	
Age, youngest	18	28	105
Mean age	42	58	
Age, eldest	65	82	
Retention rate	92%	96%	
Waiting list	n/a	34	
Guests, number which can be signed in by a member at any one visit	2	1	110

Toni decided the current tariff after discussion between herself, Ankit Agrawal and Ben Foottit. In making this decision they were mindful of the Club's tariff in previous years (Table 4) and the fees of some nearby competitors, (Table 5). 115

Table 4

Health Club Tariff

	Membership		Tariff, pcm		
	Full	Off Peak	Full	Off Peak	
1996	400	n/a	£34.99	n/a	120
1997	400	n/a	£37.95	n/a	
1998	400	n/a	£39.95	n/a	
1999	216	200	£45.50	£25.50	
2000	238	200	£46.50	£27.50	

Table 5

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Selected, Current, Competitor prices

Nuneton Town Leisure Centre (publicly owned) = £29.99 pcm
 John Smith School Enterprises = £24.99 pcm
 Stappleham Hall Country Club = £62.50 pcm

For legal, and operational, reasons the minimum membership age is 18 (children can be admitted to the club as 'guests' of members who, as part of their membership agreement, have supervisory responsibility). Members can use any of the Club's facilities, either on a first come first served basis or by booking for squash, tennis and golf. Encouraged by the insurers the membership card has been updated to an electronic swipe card. These cards give Toni access to real time measurements of capacity utilisation of the different parts of the Club. Although installed to monitor capacity, and therefore safety levels, the system has delivered several other benefits. For example, when members arrive at reception they can be encouraged to use the less busy facilities. Casual feedback suggests that members' perception of the quality of the Club has seen a marked improvement. 130
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Toni is concerned about a letter of complaint she has received via John from a member (Figure 1) as there is potential for considerable negative impact generated by dissatisfied members. Hence, ensuring members feel positive about the Health Club is a key concern for Toni. She feels that retaining members is cheaper than seeking to attract new members. Analysis of new members' application forms shows a high proportion were encouraged by personal recommendation from existing members. The issue of swimming pool access arose because, at the start of the current academic year, Toni was asked by her daughter's class teacher if the school might use the swimming pool for one hour per week to deliver their obligation under the Key Stage 2 national curriculum. That the school is a ten-minute walk from the Club had financial attractions for the school, saving them £75 per week by not having to hire a coach to transport the 30 children. Realising the pool is under used on mid-week mornings, Toni believed there would be no disruption for the Club and so she agreed. That it could assist the Country Club in getting planning permission for a new all weather surface it wants to install was a potential advantage. 145
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Being an integral part of the Country Club has both advantages and disadvantages for Toni in her management of the Health Club. Although John Oats has given her day-to-day autonomy, she nonetheless has to refer major issues to him for consideration and approval. In the majority of cases approval has been a formality, especially when Toni has approached John when he has been under pressure. However, there have been notable exceptions. An example was when Toni put forward a plan to establish a licensed cafe selling light refreshments as an additional product benefit. After vigorous lobbying from Sharon Walker, John refused, citing three reasons. First, it would take trade away from the cafe side of the restaurant. Second, he felt it would be incongruous with the image the Health Club should project. Third, it would significantly increase costs, for example complying with the legislation surrounding the preparation and sale of food. Toni countered that insistence on a dress code (smart casual) in the Hotel means members go elsewhere to socialise after a visit to the Health Club. This argument was unsuccessful. It is against this refusal by John that Toni is uncertain how to respond to an enquiry from the town's rugby club regarding corporate membership. The suggestion is that, for an annual subscription, the rugby club have access to the Health Club for two designated evenings per week for fitness sessions. A discussion with Ben and Ankit raised several issues that Toni needs to think through before she replies. At present, the Health Club does not have a corporate membership scheme.

Another uncertainty surrounds the very future of the Cedars Country Club. Lately rumours have been circulating amongst the staff that Lawson Leisure Ltd is looking to rationalise its operations. Although no one yet believes that the Country Club will be sold the suggestion that the operation of the Health Club might be franchised out is gaining currency. Toni knows of several national companies that manage leisure facilities, either under their own brand identity or on behalf of the owner, both in the private or public sectors. On several occasions in the last few weeks staff have independently asked about job security. Indeed one, Liam Scott, has enquired about a possible transfer to the Conference Centre. In the face of mounting unease, Toni has been trying to offer reassurance but at the same time trying to disguise her own anxieties.

Should a firm of leisure professionals be brought in they would almost certainly have their own manager. Toni feels she would have a 50% chance of retaining her job if this were to happen. One of the many aspects of her job that Toni enjoys is the dedication and enthusiasm of her staff. This, she believes, reflects the team culture she has been at pains to establish and maintain. A change of management would inevitably bring a change in culture and working practices. In the face of doubts about her own position, Toni is surprised to find herself wondering about her responsibilities to herself and her staff. If tenders were invited, and she bids, she estimates her chances of winning as 25%. She feels that £10,000 would be the minimum capital requirement to mount a bid and to provide sufficient working capital for the first few months of operation.

Recognising the importance of the decision facing her, she wondered who she could turn to for impartial advice, particularly about the likely economic outlook.

INTEROFFICE MEMORANDUM

TO: TONI SLADE
FROM: JOHN OATS
SUBJECT: SWIMMING POOL USAGE
DATE: 7/10/2001
CC:

See attached letter. Please brief me about this so that I can reply soonest.

John

Under the changed membership terms introduced last year we have reserved the right to close any facility at our discretion. All existing members were sent copies of the new membership terms, but I have no record of Dr Allenby returning the same. Does he know we can close the pool?

I think we have two options. Either, send a letter of apology or do nothing. What we do after that depends on how he reacts.

We need to discuss this before we respond.

Figure 1

*The Coach House
Long Walk*

5th October 2001

The Manager
The Cedars Country Club
Nuneton Road

Dear Mr Oats,

I write to protest at the unacceptable closure of the swimming pool this Wednesday morning. When I demanded access to the pool last week one of your staff was rude saying it was shut and not giving me any other information. I have been a member of the Club for seven years and expect to be able to use any facility as and when I choose and pay a considerable fee for this right. That you have unilaterally decided to close the swimming pool to allow a group of rowdy school children exclusive use is contrary to the membership agreement I signed upon joining the Club.

I insist that access to the pool is restored forthwith failing which I will cancel my membership and instruct my solicitor to recover my subscription and damages.

Yours truly,

Col David. R. Allenby (Ret.)