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Paper 3 Case Study **October/November 2020**

INSERT **3 hours**

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INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **8** pages. Blank pages are indicated.

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Normax Hotels (NH)

NH is a public limited company that owns 32 hotels in country X. Jolin is the Chief Executive. NH has a centralised organisational structure. NH has three types of hotel:

- Luxury hotels offer high quality accommodation at premium prices in city centres and exclusive beach resorts. They attract guests from all over the world as well as high-income earners in country X.
- Family hotels offer family rooms, children's play areas, babysitting services and activities for children in rural and seaside locations.
- Basic hotels offer clean, simple accommodation with basic food and facilities. The guests are low-income travellers and students. They are located in city retail parks.

Each hotel manager has limited authority to make decisions because they are told what to do by NH's Head Office. NH is organised into the following functional departments: administration, operations, finance, marketing, human resources, IT and strategic planning.

International expansion?

Country Q is a low-income country. It has a small but growing number of locally owned hotels. Jolin has held two meetings with the Minister for Tourism in country Q to discuss the possibility of opening three NH hotels in her country. These would be located in areas of outstanding natural beauty. Jolin told her that the three hotels would employ several hundred people and generate significant profits. However, the Minister expressed concern that country Q could lose more than it gained from such an investment from a large foreign company. She would have to consider the proposal in more detail.

Operations issues

Jolin is concerned that profits have recently decreased. He monitors key statistics and is considering introducing lean production principles. Table 1 shows some relevant information. NH holds high levels of inventory of supplies needed for the rooms. Each hotel can supply enough sheets, towels, soaps and cosmetics to every room every day, whether needed or not. The kitchens are expected to have enough food inventory for three days. A small but increasing number of employees have been dismissed for taking home food from the kitchen stores.

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Table 1: NH capacity utilisation (room occupancy) and price data, 2019

Hotel type	Total number of rooms	Budgeted average number of rooms occupied per night	Average number of rooms actually occupied per night	Price per room per night
Luxury	1600	1400	1300	$150
Family	1400	1100	1000	$110
Basic	2000	1800	1600	$40

Customer service

Hotel managers claim that they follow company policy and insist that employees do the same. However, many customers complain about the difficulty of communicating with employees and managers who often claim that they are 'too busy'. Another common complaint is that the hotels need modernising. Head Office has received some letters from employees with ideas for improvements but these have not been considered. Table 2 shows information about NH customers' experience.

Table 2: NH customers' experience

Hotel type	Customer complaints 2019	Percentage change of customer complaints from 2018	Average customer satisfaction rating out of 10
Luxury	8560	+8	8.3
Family	6800	+7	7.1
Basic	9040	+9	8.1

Human resource issues

Hotel employees are recruited by each hotel manager. Many employees have part time, flexible and temporary contracts. None of them are on zero hour contracts. All employees are trained to perform only one role in the hotel. The hotel managers are given strict labour cost budgets. Each manager has assistant managers who decide the allocation of tasks. Employees have worksheets that detail each task and how long it should take. No time is allowed to discuss these details. The Human Resource Director has just returned from a conference about Management by Objectives (MBO) and is now considering the information in Table 3.

Table 3: NH employee information

	2018	2019
Employment costs as a percentage of total costs	68%	74%
Employees average hourly wage rate	$8	$8
Trade union membership as a percentage of employees	14%	18%
Percentage of employees involved in disciplinary proceedings	3%	6%
Labour turnover: non-management employees	14%	26%
Labour turnover: assistant managers	4%	15%
Average job satisfaction rating out of 10: non-management employees	6	5
Average job satisfaction rating out of 10: assistant managers	9	8

60 *65* *70*

Marketing NH hotels

Jolin is worried about room occupancy rates being below budget. Katie, the Marketing Director, told Jolin that: *75*

- the balance between the advertising media used (magazines, television and direct marketing) needed to be reviewed
- economic and market conditions have not been favourable
- room prices are fixed at the start of each year.

Jolin insisted that Katie should revise the marketing plan to achieve the objectives of increased occupancy rates and increased revenue. *80*

A possible takeover

Pitro, the Finance Director, has prepared the latest financial statements. See Table 4 and Table 5. Jolin recently told him: 'I have been approached by the owners of EatBest, a restaurant chain, who want to sell the business. If NH takes over EatBest it could be completed in 2021. It would involve making a cash payment of $20m plus 0.5m NH shares. EatBest's restaurants are valued at $40m.' *85*

Jolin has forecast that this takeover would result in the following changes to NH's accounts for the year ending 31 October 2021:

- revenue would increase to $170m, cost of sales would increase to $46m and expenses would increase to $109m *90*
- additional borrowing of $50m at 5% interest per year
- current assets and current liabilities increase by 10%.

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Table 4: NH income statement year ended 31 October 2020

	$m
Revenue	140
Cost of sales	36
Gross profit	104
Expenses	84
Operating profit	20
Interest	4
Profit before tax	16
Profit after tax	8
Dividends	5
Retained earnings	3

Table 5: Extract from NH statement of financial position at 31 October 2020

	$m
Non-current assets	80
Current assets	35
Total assets	115
Non-current liabilities	(60)
Current liabilities	(20)
Total liabilities	(80)
Net assets	35

Directors' meeting

Jolin has just had a meeting with the directors. He started by reminding them that NH is recognised as having three core competencies which must provide the framework for any strategic decisions made. These are:

- outstanding customer service
- professional standards that focus on efficiency
- clear leadership based on understanding the industry.

The directors discussed whether the organisational structure of NH should be changed. Jolin told the directors: 'I am convinced that we need to change the organisational structure of NH. When the company started with just one hotel it was obvious that functional organisation was best. Now I think this is a barrier to success. Perhaps we should consider management theory including Chandler's assertion that strategy and structure are linked. Maybe we also need to consider *125* delayering NH's organisational structure.'

Jolin finished the meeting by telling directors: 'We also need a new strategy to avoid decline. We have to review our objectives and structure as part of producing a detailed strategic plan for success.'

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