

CAMBRIDGE MANAGEMENT AWARD

EXECUTIVE DIPLOMA

MODULE ASSIGNMENT

MODULE TITLE: Case Study

MODULE NUMBER: 4191/B

Valid between 1 January 2002 and 31 December 2002

INSTRUCTIONS TO CANDIDATES

You should read the assignment carefully.

It is important to complete the **Assignment Cover Sheet** when you have finished your work. You must complete the details and sign the declaration to confirm that the assignment is all your own work and your tutor must sign to verify that it is your own work.

The length of the assignment must be between 7000 and 8000 words.



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Case Study – Diploma Version 2

Oude Markt

Jean and Marie Valjean own a hotel in the town of Bruges in Belgium. The hotel “Oude Markt” is situated in the centre of the old town, almost on the old market square, hence its name. The hotel dates back over 100 years, and the building itself is older. There are 10 double rooms, all with modern facilities, and the small public areas retain an “old-world” atmosphere. There is no restaurant within the hotel, although breakfast is served in a small conservatory with a terrace for outdoor dining if the weather allows. There are many restaurants within a few minutes walk of the hotel, and guests have been encouraged to use these for evening meals.

The main attraction of the hotel is its proximity to the centre of the town, with its canals, old buildings, churches and museums.

Jean and Marie have owned the hotel for 10 years and spent the first 3 years bringing the hotel facilities up to date in terms of the en-suite shower rooms, refreshments and decoration. They have spent some money on the public areas, although they admit that these are now beginning to look “tired”. They recognise the need to spend more money on these areas, even if they are “old world”.

Jean and Marie have noticed changes in business over this time, particularly in the last two years. These are as follows:

Occupancy levels

The break-even point for the hotel is 40% occupancy for 30 weeks at the standard, walk-in rate. For the first few years of their ownership, this was exceeded in both percentage levels and time period. The profit was used to continually refurbish the hotel and to bring the rooms up to current expected standards. Over the past 2 years, the occupancy level has dropped to 44% and 42% respectively over a 30-week period within the year. Their research has shown Jean and Marie that many hotels within the town are experiencing a similar drop in occupancy levels. There are hotels, however, which are thriving: these are modern, chain hotels, which are offering basic accommodation with no hotel facilities other than a room with en-suite shower. Prices here are lower, and some hotels are offering cut-price deals, such as 3 nights for the price of two. Jean believes that while these hotels are attracting custom, they are working on low profit margins. He believes that the large number of hotels within the chains allow them to benefit from economies of scale which he and Marie cannot match.

For 20 weeks in the year, the occupancy levels at the Oude Markt fall well below 40%, usually during January, February, October and November. This has traditionally been a lull in the tourist trade, and hotels have customarily laid off staff and closed many rooms during this time. Jean and Marie do the same, using the time to renovate rooms in rota and take their own holidays. They put their staff of 5, who maintain the rooms and work in the kitchen, on half time, and half pay. The local tourist office figures show, however, that visitors are coming into the town more evenly over a twelve month period, and the special breaks offered by the chain hotels are bringing visitors in during these previously quiet months.

Profit margins

The hotel aims to work at 75% standard room rate gross profit margin (g.p.m) based on occupancy levels as described, over a twelve month period. After paying expenses, including staff wages, this g.p.m. provides a cushion for the shortfall months, salary for Jean and Marie and some profit. Over the last two years, the net profit margin has been almost at zero, and the renovation schedule has fallen behind. The gross profit has remained the same per room occupancy, but the occupancy levels themselves have fallen.

Finance

There is a small business loan on the hotel, repaying at 10% current g.p.m. per annum. The owners have the facility to increase their loan to a repayment of 40% current g.p.m. if they wish. Of course, to make this viable, they would need to ensure the loan guarantees a sufficient increase in profit and profit margins to bring the percentage repayment down to a more manageable level.

The current situation leaves Jean and Marie in a difficult environment:

- The trend in occupancy for their hotel and hotels like theirs seems to be downwards. If it drops below their break-even point, they will be in financial difficulties in the medium to long term.
- They need to spend money on renovation to maintain the attractiveness of the hotel, perhaps build more on-site facilities, but they do not have the ready capital for this.
- The market sector and customer buying trends seem to be changing, too, with more independent travellers looking for cheaper, less atmospheric hotels, offering basic yet appropriate facilities and standards of service.
- They have lost the focus of their customer base and are unsure where to position the hotel in the market.

The options.

Jean and Marie have decided upon a number of choices:

1. Borrow money to renovate the hotel up to a minimum standard and hope for an upturn in their traditional market.
2. Borrow further money to their maximum to build new accommodation, restaurant, and small leisure facility
3. Sell and purchase a similar hotel in the country in which you live.

THE TASK

In the light of this third option, Jean and Marie have come to you as a business consultant to seek your advice on which, if any, of these options they should take.

Your role is to advise them on their business strategy over the next 3 – 5 years, using the information you have been given and that which you will need to research.

Your report should be in the form of a strategic business plan for the next 12 months, taking into account more medium- and long-term requirements.

You should address at least the following:

- Global and regional trends in travel & tourism at the current time and how these might affect the market sector in which Jean and Marie currently operate. You should also consider other market sectors in which they may operate more profitably.
- Procedures, processes and costs of establishing and maintaining a similar hotel in a tourist area of the country in which you live. This will include an awareness of legislation covering business development and financing of non-nationals wishing to set up businesses in your country. You should also advise on the viability of such plans.
- Financial strategies which look to ensure long term stability and balance investment risk. You should use financial tools such as marginal or absorption costing to support your recommendations. Jean and Marie will expect an appraisal of their capital investment plans to improve their hotel and a strategy to manage operational expenditure against sales and profit.
- Staffing strategies which maintain and improve current staff skill levels, optimize current human resource capability, prepare staff for change and increase staffing where required. These strategies must take into account their effect on the organisational culture.
- Justification of your strategic plan, through reference to real examples of local and global views on the business issues raised by the options open to Jean and Marie.

Please note the following:

Information about the company which is not given may be assumed, and all such assumptions should be justified.

You may provide a number of alternative strategies, depending upon the level of assumption and risk analysis you make.

All strategies you suggest should be supportable through reference to calculation, research, examples and/or theoretical models.

Your report should be addressed to Jean and Marie as a suggested strategic plan.