



# Cambridge International AS & A Level

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**BUSINESS**

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Paper 3 Case Study

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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.



## Historic Buildings and Gardens (HBG)

HBG was started in 1965 as a social enterprise in country R. HBG's main objective is to protect the country's heritage through conserving buildings and gardens of historic interest. HBG now owns over 200 historic buildings and gardens throughout country R. These are open to the public and HBG receives most of its income from the two million members who pay an annual subscription to visit the historic buildings and gardens. HBG charges admission fees to non-members. Gift shops and cafés also provide a source of income. HBG needs sufficient income to cover costs and finance expansion in new conservation projects. However, it is also aware of a responsibility to provide social benefits to local communities such as employment and education.

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HBG appointed Eusebio Alves as Managing Director in October 2018 with the objective of increasing membership, admissions and income as they had been falling in recent years.

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### Strategic Review

Eusebio started by conducting a strategic analysis of HBG. He completed a SWOT analysis. Table 1 is an extract from the results of the analysis.

**Table 1: SWOT Analysis 2018**

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<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• High brand awareness</li> <li>• Highest membership of any organisation in country R</li> <li>• High levels of customer satisfaction among the over 50 age group</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Increasing levels of international tourism to country R</li> <li>• Rising gross domestic product (GDP) per head</li> <li>• New technologies to improve the customer experience and marketing</li> <li>• Falling cost of renewable energy sources such as wind power</li> </ul>	20
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Average annual labour turnover of 11% in the last 5 years</li> <li>• 10% reduction in membership since 2015</li> <li>• Limited access for disabled people at 40% of properties</li> <li>• 70% of members are over 50</li> <li>• Narrow hierarchical organisational structure</li> <li>• Corporate culture unwilling to accept change</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Minimum wage legislation proposed for 2021</li> <li>• Laws to protect the rights of disabled people being considered by the government</li> <li>• Increasing consumer awareness of social responsibility</li> </ul>	25
		30
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Eusebio noted the following observations made by employees, managers and customers:

- local managers were frustrated by the time taken for senior managers to respond to ideas for innovation and change
- other employees feel they have little responsibility and are just given orders without explanation 40
- customers complain that they are not valued and there is little opportunity for giving feedback to HBG.

Eusebio used this analysis to identify four strategic changes required in order to achieve the objectives he had been set: 45

- making the business more responsive to market changes
- improving social responsibility
- targeting younger customers
- improving financial control by establishing profit centres.

Eusebio recognised that these four strategic changes would need to be supported by developing a change culture within HBG to be successful. 50

### **Centralised control**

At the end of 2018, Eusebio told his Board of Directors that: 'HBG is bureaucratic with a centralised organisational structure. It is essential to change the way the business is organised and make it more responsive.' He proposed the following changes. 55

- remove three layers of middle management
- delegate greater authority to managers of buildings and gardens to make decisions about local marketing and operations
- operate buildings and gardens as individual profit centres
- encourage two way communication with employees. 60

However, the Board of Directors would retain control of national marketing, purchase of new buildings, IT infrastructure and strategic decision making. The Human Resources Director expressed concerns about the implications of decentralisation and the need for training. However, in early 2019 HBG began to implement the organisational changes proposed by Eusebio. This followed a two-month employee consultation. 65

### **Social responsibility**

Eusebio thinks that HBG should focus more on its corporate social responsibilities. He told the Board of Directors that: 'we can gain a competitive advantage over other businesses in the leisure industry if we focus on increasing our positive social and environmental impact. However, we must ensure that HBG makes a genuine change to its culture and uses independent social auditors to report on our progress.' 70

## Target market

Country R has an ageing population. HBG has used a consistent marketing strategy for targeting its core customers. National advertisements are placed in newspapers and magazines aimed at older readers. Every year HBG has a themed television campaign; in 2019 the theme was titled 'Connecting with the past'. HBG cafés sell traditional style food and drinks. 75

HBG recruited Nelinha Torres from a social media company to be the new Marketing Director. Her aim is to create a more dynamic marketing strategy that targets a younger audience without losing older members. She commissioned market research and found the following information.

- 15% of visitors bring children to HBG buildings and of these 20% were grandparents bringing grandchildren 80
- families with children ('young families') value their leisure time but have limited income
- price elasticity of demand for young family membership is estimated to be  $-1.5$
- most customers under 50 use the internet to plan and book their leisure activities in advance 85
- although there is good brand awareness, 60% of respondents were not aware of the variety of facilities and events at HBG buildings and gardens.

Nelinha and her team are due to present their marketing strategy proposals to the Board of Directors next week.

## Oldbury Castle 90

Oldbury Castle is a building of historic interest owned by HBG. It attracts 105 000 visitors per year. Following the creation of Oldbury Castle as a profit centre, visitor numbers have increased by 10%. However, the manager is concerned about the profitability of the café. He has monitored its financial performance and has noted that it does not cover its full costs. The café is similar to those at other HBG properties and sells a range of traditional meals and refreshments. A recent customer survey suggested that many visitors do not consider the café offers value for money. Feedback also indicates that the menu is considered old fashioned. The manager is considering whether to keep the café open or to use the space to expand the gift shop, which is highly profitable. Table 2 contains data regarding revenue and costs. 95

**Table 2: Revenue and cost data** 100

	<b>Café</b> Year ending 15 May 2020 (\$000)	<b>Gift shop</b> Year ending 15 May 2020 (\$000)	
Revenue	300	200	
Direct costs of food/sales	50	80	105
Direct labour	120	40	
Allocated fixed costs from Oldbury Castle	105	30	
Allocated fixed costs from HBG	35	10	

## Project Alderly

HBG's mission is to conserve historic buildings and gardens in country R. It keeps a sizeable fund to enable it to purchase appropriate buildings and gardens. HBG is about to purchase Alderly Gardens. These gardens are of national significance. Although the gardens are well maintained, HBG will not open them to the public until facilities such as toilets for customers 110

are improved. HBG's experienced building team will complete all improvements. Eusebio wants the gardens to be open to the public in time for the holiday season, which starts in 23 weeks. Eusebio has created a project team to manage the transition and they have gathered information and produced a network analysis. Further details are provided in Table 3 and Appendix 1.

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**Table 3: Network analysis for opening Alderly Gardens**

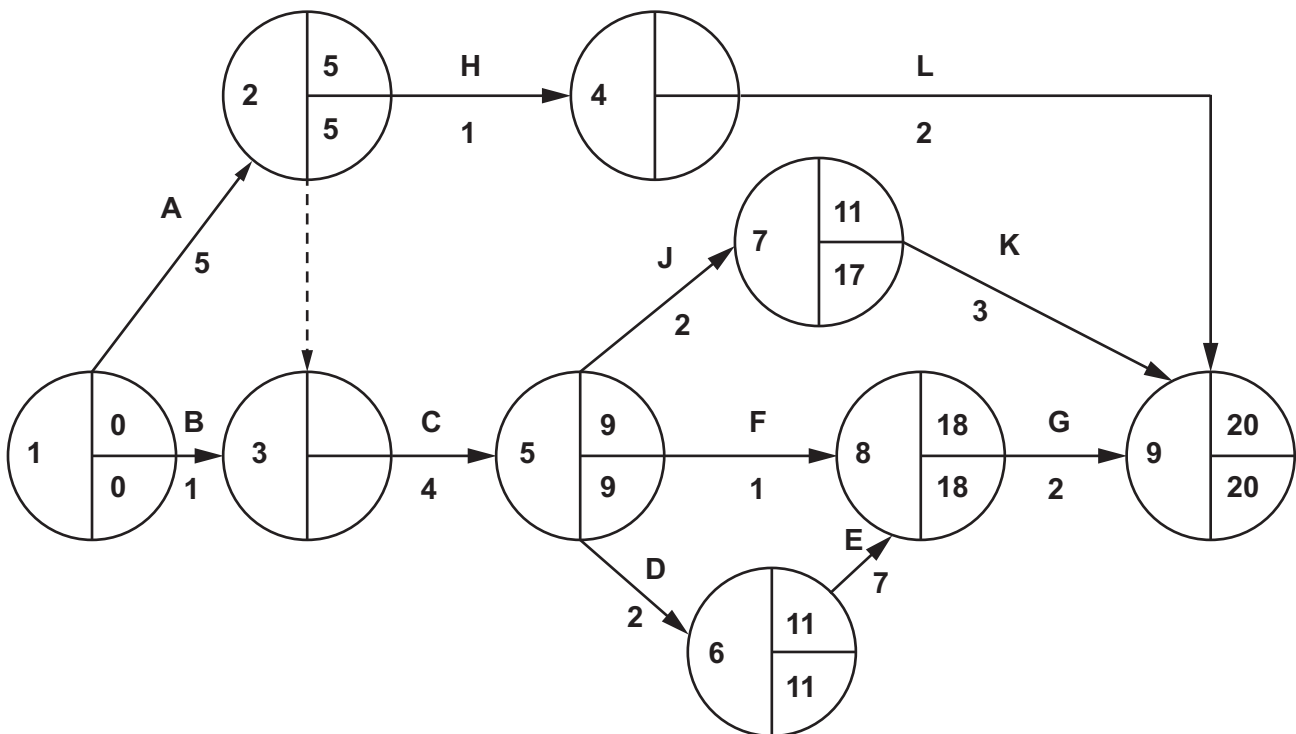
Activity	Activity described	Preceding activities	Duration (weeks)
A	Complete purchase of gardens	None	5
B	Draft building plans	None	1
C	Gain planning permission for building work	A & B	4
D	Order and delivery of materials	C	2
E	Building work	D	7
F	Order and delivery of fixtures and fittings	C	1
G	Install fixtures and fittings	E & F	2
H	Plan marketing	A	1
J	Recruit employees	C	2
K	Train employees	J	3
L	Implement the marketing plan	H	2

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**Appendix 1: Critical Path Analysis**







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