Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **October/November 2018**

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Dart Leisure Resorts (DLR)

DLR operates holiday parks in country Z which offer accommodation, leisure facilities and entertainment to customers. DLR was founded in 1970 to offer low-price holidays to families in country Z. Business growth has been internal, based on building holiday apartments which are inexpensively decorated and furnished. By 2014 DLR faced financial difficulties. Increased competition from other holiday parks, rising operational costs and changing customer holiday preferences resulted in DLR recording losses for the first time.

Strategic review

In response to continued problems in 2016, Iona Farfrae was appointed as the new Chief Executive Officer (CEO). She had previously been the Marketing Director of an international hotel group. Iona carried out a comprehensive strategic review of DLR and identified a number of key internal weaknesses including:

- ineffective management of human resources
- inadequate controls on investment
- absence of clear corporate goals
- confused marketing strategy
- IT system that was no longer fit for purpose.

Iona realised that major changes were needed, especially as customer satisfaction ratings had reached an all time low.

Strategic choices

Following the review, DLR externally recruited new directors for key functional areas. In addition, in September 2017, the following strategic decisions were taken with the aim of achieving a 10% share of the holiday parks market in country Z by 2020.

Decision	Justification
Sale of two holiday parks.	Generate funds for investment and reduce the need for external finance.
Reposition the DLR brand to target higher income customers. Achieved by upgrading facilities at the remaining five holiday parks in 2018 at a cost of \$25m.	Supported by Force Field Analysis. Decision tree analysis supported investment in upgrading facilities – expected monetary value of \$10m.
Introduction of a new integrated IT system to reduce operating costs. Estimated capital cost of \$5m in 2018.	Forecast accounting rate of return (ARR) of 20%.

Following these decisions, Iona commented in a newspaper interview that: ‘the upgrading of the facilities will transform our holiday parks. When I first joined DLR and visited the parks there was a clear need for modernisation. I believe that DLR will offer the modern, high quality leisure facilities and accommodation at reasonable prices that customers now expect.’

Developing the new marketing plan

With the strategic choices made, the new Marketing Director, Alec Vye, spent two months developing a new marketing plan to achieve the objective of a 10% market share. The marketing plan included:

- increased prices for the improved accommodation but bigger discounts for the off-peak season
- discounts offered to loyal customers for advance bookings and payments
- increase in promotional spending
- increased willingness to respond to discounts offered by competitors
- greater use of social media.

Operational efficiency

During the newspaper interview in 2017, Iona commented that: 'capacity utilisation, which means apartment occupancy, is a key performance indicator for a holiday park. DLR has failed to match the industry average and this has reduced our profitability. Our new investment strategy aims to improve occupancy and profitability.'

At the most recent Board meeting in 2018 the Operations Director presented the latest figures showing trends in occupancy and revenue per apartment. Selected data from his report are shown in Table 1.

Table 1: Summary of performance

	DLR		Industry Average	
	2017	2018	2017	2018
Number of apartments	2300	1800		
Average number of apartments occupied daily	1200	1300	73%	75%
Average price paid per apartment per day ($)	80.20	84.50	91.00	92.40
Average revenue per apartment per day ($) (Revenue/Number of apartments)	41.84	61.03	66.43	69.30
Apartments: Total fixed cost per day ($)	84 000	81 000		
Variable costs per occupied apartment per day ($)	10.20	11.50		

A return to profitability

In the year ending 30 September 2017, DLR made a small operating loss. At the 2018 AGM Iona reported much improved performance. In her CEO statement she wrote: 'During 2018 we have modernised 75% of our apartments. Revenue per apartment has risen despite the disruption caused by modernisation. Disposal of two holiday parks has strengthened our financial position. An exciting new advertising campaign launches in January 2019. DLR has made substantial gains in shareholder value and remains on course to achieve its corporate objectives.'

The Finance Director forecasts that, compared to the income statement for the year ending 30 September 2018, shown in Appendix A, the following changes would occur:

- revenue increases by 10%
- cost of sales increases by 5%
- promotional expenses increase by $2m
- dividends increase to 40% of profit for the year.

Hard human resource management

DLR has used a 'hard' approach to human resource management. With a highly centralised organisational structure, senior management maintained close control of employees. The new Human Resource Director, Mercy Chant, has been reviewing the current human resource strategy. She has identified the following:

- 30% of employees have full-time permanent contracts
- extensive use of zero hour contracts
- many employees are on part-time temporary contracts
- labour turnover is high
- an employee survey carried out in 2017 indicated a dissatisfied workforce with little involvement in business decision-making and no commitment to the DLR brand.

Mercy has recently told other directors: 'DLR has almost completed an ambitious investment programme to return the business to profit. However, we cannot achieve all of our objectives without a fundamental change in the way we manage employees. They are our most valuable asset and we must develop their potential and involve them in the business.' Mercy plans to have detailed proposals for a new human resource strategy for the next Board meeting. Further information on employment and training is shown in Table 2.

Table 2: 2018 Human Resource data

	DLR	Industry Average (for holiday parks of a similar size)
Employees per holiday park	210	230
Average number of employees leaving each park	65	45
Average full-time equivalent salary	$7600	$9200
Average training expenditure per employee	$150	$400

External influences

The holiday park industry operates within a dynamic external environment. Iona commissioned a PEST analysis of the changing business environment in 2018. The major influences on this industry in country Z are summarised in Table 3.

Table 3: External Influences

Factor	Comments
Economic	• Planned improvements in economic infrastructure as a result of changes in government fiscal policy • Forecast average annual GDP growth of 3.5% over the next three years • Interest rates expected to rise by 1% in 2019 • Exchange rate depreciation of country Z's currency
Demographic	• An ageing population
Social	• Increasing interest in sustainability
Legal	• Increase in minimum full-time annual salary to $8500 by 2019
Technology	• 'Millennials' (people born from 1990 onwards) adopt new technologies • Social networking continues to grow • By 2020 over 75 billion devices worldwide will be internet enabled
Competition	• Increasingly competitive market conditions • Market leader in country Z has plans to open three new holiday parks in 2019

Appendix A: Income statement for DLR

Year ending 30 September 2018 ($m)	
Revenue	80
Cost of sales	10
Gross profit	70
Expenses	53
Operating profit	17
Financial Expenses	5
Profit before tax	12
Corporation tax @15%	1.8
Profit for the year	10.2
Dividends	4
Retained earnings	6.2

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