
SECTION A

Answer this question. You should spend up to 50 minutes on this section.

Total for this question: 40 marks

1

Ashton Hotels

Ashton Ltd is a family owned business operating three luxury hotels located in historic English cities. All of the hotels have a similar number of rooms and comparable facilities including a restaurant, bar and room service. The business was set up by Mr and Mrs Ashton in 1966 but over the past few years they have become less interested in the company and have let the managers of the individual hotels make most of the decisions. Mr and Mrs Ashton finally decided to hand over the running of the business at the end of last year and their daughter Hannah has now taken over as Managing Director. Hannah had previously been a highly successful Marketing Director for a multinational bank and had worked in several European countries; she now wanted a new challenge. Hannah is determined to turn the business around and her objective is to achieve a return on capital of 15% or more within five years.

You are a Management Consultant hired by Hannah. With reference to the appendices included on pages 4 and 5, analyse the main strengths and weaknesses of Ashton Ltd's position. Based on this analysis, write a report to Hannah recommending the actions she should take to achieve her objective. (2 marks are included for appropriate report format)

Appendix A: Data for Ashton Ltd (year ending 31 May 2007)

Location	Bath	Cambridge	Oxford
Hotel name	The Bath House	Varsity	The Spires
Labour turnover	200%	150%	60%
Written customer complaints	400	52	15
Number of stars awarded by 'The Great UK Hotel Guide' (minimum 0; maximum 5)*	Three	Four	Four

*Assessed two years ago when The Bath House lost one star due to, "disappointing quality of furnishings and food, and poor customer service". Next assessment: 2010.

Appendix B: Extracts from Ashton Ltd's accounts published 31 May 2007

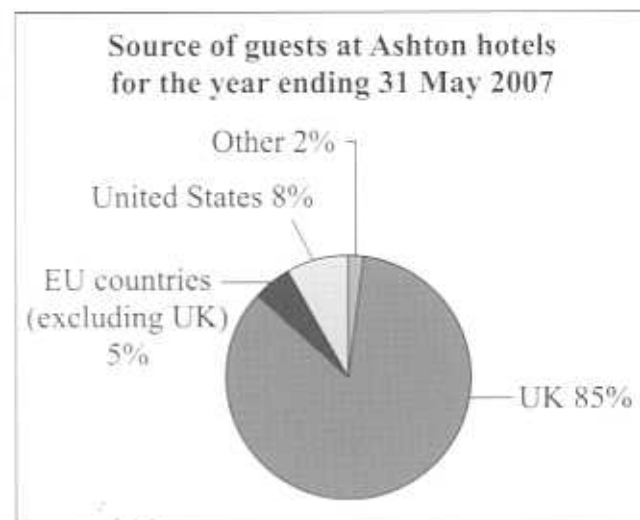
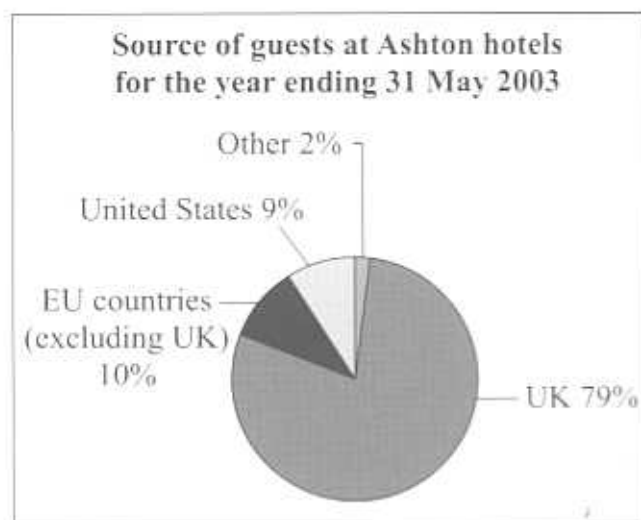
Current assets	£200 000
Current liabilities	£100 000
Gearing	10%
Turnover last financial year	£6 000 000
Net profit last financial year	(£20 000)*
Dividends last financial year	£22 000
Capital employed	£10 000 000
Capital expenditure on refurbishments last financial year	£21 000

*The profit or loss of each individual hotel is not calculated by Ashton Ltd.

Appendix C: Room and guest data for Ashton Ltd (year ending 31 May)

	2003	2007
Average annual room occupancy	47%	58%*
Average room occupancy (June to September)	60%	70%
Average room rate per night	£160	£120
Average additional spending per guest per day (eg. food and drink)	£35	£15
Percentage of repeat guests	33%	22%

*UK industry average annual room occupancy for year ending 31 May 2007 = 60%.



Appendix D: Economic and tourism forecasts (produced by Hannah Ashton)

	2008	2010
Average UK interest rate	4.75%	4.50%
Average value of the £ in American dollars	\$1.89	\$1.94
Average value of the £ in euros	1.6 euros	1.4 euros
Average real GDP growth per annum within European Union countries (excluding UK)	1.9%	2.4%
Index of number of foreign tourists visiting the UK	100 (base year)	120
Proportion of foreign tourists to the UK coming from other European Union countries	51%	55%

Appendix E: Management and staffing information for Ashton Ltd as at 31 May 2007

Hotel managers' remuneration (Scheme introduced in 2003)	Basic salary of £22 000 per annum plus bonus up to £18 000 based on occupancy rates.
Training, setting staff pay rates (excluding managers) and purchase of supplies	Undertaken separately by each hotel
Proportion of permanent full-time staff to temporary and part-time staff	75% : 25%*

*Estimated UK industry average is 55% : 45%.

Appendix F: Marketing information for Ashton Ltd as at 31 May 2007

Hannah's estimate of income elasticity of demand	+2
Combined marketing expenditure budget for the three hotels last year	£25 000
Variance for marketing expenditure budget last year	£4 000 favourable
Breakdown of marketing spending last year in terms of the target region to attract guests (UK : other EU : United States)	71% : 4% : 25%

Turn over for the next section

Turn over ►

DATE 14/06/07

TO: Hannah - managing director

FROM: management consultant - Amy Law

Title: Recommended Actions to achieve the objective of a return on capital of 15% or more within five years.

Strengths

One of the many strengths that Ashton Ltd holds is obviously

Hannah herself who has previously been a highly successful

C1 marketing director for a multinational bank and had worked

P1 in several European countries, depending upon whether her

language skills are up to standards, her skills could be

A1 utilised in the marketing aspect of targeting more EU guests

from EU countries as the number of EU guests have

E2 dropped 5% from 2003 to 2007 (Appendix C), with Hannah's

P1 ~~extra~~ knowledge of cultural backgrounds, she may be

able to boost the ^{no. of} foreign customers if she can recognise

E1 the needs and wants from these customers. As there seems to

E2 be ^{an estimate of} significant increase of a no. of foreign tourists visiting the

P1 UK ~~it~~ ^{not an estimate of} 120 tourists but this depends upon whether these

Support E2 foreign tourists are going to stay long in the UK and stay in a

luxury hotel such as one of Ashton's.

The location of Ashton's hotels are also a supporting

strength to Ashton with the reputable places of

Ready P2 Bath, Cambridge and Oxford, she is able to use these

Ready P2 hotels to her advantage to promote the hotels as

these three places contain money potential ^{UK} business men

who have a high income and are affordable to staying

in these luxurious hotels. What evidence may encourage

Ready P3 these business people to be willing to spend on luxury

E2 articles are the forecasts of the average UK interest rate ^(Appendix D)

were it will drop 0.25% between 2008 and 2010, with the

C2 low interest rates people are more willing to spend on

A their incomes because saving is perceived as less attractive

	as interest rates earned has decreased. But this will depend on whether their salary rates have maintained and not
P2	have decreased to enjoy the excess of disposable income.
E2	With this excess wealth from potential customers their prosperity and confidence could encourage them to engage in purchasing more expensive items.
	And this could be dealt with when and F. charges of 100m per night could increase sales revenue and lead to the objective of a return on capital of 15% or more even
Developed P3	closer. However, if customers are willing to spend a night of luxury wouldn't they rather stay in a five-star hotel
E2	than Anthony's of only three or four star hotels.
Developed P3	Further more, especially in Bath there has been 400 written
E3	complaints from The Bath House hotel. (Appendix A)
	<u>Weaknesses</u>
	The very weakness which may bring down the objective further
C1	is the labour turnover which are extremely high for 'The Bath House' and 'Varsity'.
P1	there is a labour turnover of 200% higher in the Bath House
A1	and 150% in Cambridge. (Appendix A) Surely this issue needs to be
E1	resolved. Firstly, there could be interviews of why there are
P2	such many staff leaving through these interviews Hannah could seek solutions to the problem causing such high
	labour turnovers. Secondly the high rate of labour turnover
C2	is obviously indicating the unhappy nature of these
	customers staff working in the hotels with possibly their low
A2	confidence in the Bath House success as 400 written
	complaints may have demoralised the staff, also
P3	the social groups of existing workers may be disrupted (Mayo's human relations) and cause further demotivation
Developed C3	within the workplace and constantly changing staff.
	What Hannah could try is to motivate these workers
	through non-financial and financial incentives to
A2	make workers stay and find their own goal and
	motivation through these awards. ∴
	such incentives could be raising and developing

existing staff as (from Appendix E) there 75% : 25% of permanent full-time staff to temporary part-time staff

Support E3- these staff members may have been working for many years and may still be pursuing old fashioned services, so training could update new services and staff and satisfy customers and hopefully increase the

P1 percentage of repeat guests as in 2003 it has dropped

A1 11% up to 2007 (from Appendix C)

Residual P2- financial incentives could include performance-related-pays to financially motivate and improve the services/performances from staff and hopefully increase customers and boost sales revenue.

E3- despite this, the training and setting of staff pay rates are undertaken separately by each hotel, if Hannah can take time to investigate which method of training/^{service} is the most efficient she could adopt this method to all three

Residual P3- hotels, however this depends upon whether each hotel has their own unique selling point and those differentiated aspects of the hotel are the reason why there are many different customers staying in different hotels.

A3- or Hannah could attempt benchmarking ~~the~~ other existing successful hotels' performances and possibly alter their own inefficient procedures to improve quality and service. However, all these require excessive time and capital to fund, and the ~~total~~ net profit in the last financial

A2- year has already made a loss of (£20,000) which could add to Ashton's cashflow problems, this could be

Residual A3- worked out as they have a low gearing of 10% which ~~and~~ Ashton could possibly provide a portfolio requesting a loan from the bank to improve the

E3- declining hotel sales at both and Cambridge. And if dividends are paid less than £22,000 a year this could help improve working capital, but this will require

E3- good communication from managers in explaining ~~that~~ to shareholders that dividends received less

P3- in the short term shall bring higher profits to the hotels and larger dividends in the future (longer term).

A2- E25

Conclusion

To conclude, Ashton Ltd's position is in an extremely weak position at the moment with ~~decreasing~~^{damaged} image of hotels (+100 complaints in Bath House) and decreasing price of average room rate per night £120 in 2007 (Appendix C)

To shake all these off, Ashton needs to concentrate on the ~~problem~~^{areas} ~~of~~ the Bath House and problem child (Varsity) and therefore it possibly Ashton's hope at starts with the least written complaints (15).

To improve and decrease the no. of complaints, Hannah needs to deal with what the complaints are mainly about; are they minor or major complaints?

If the complaints are mainly about service Hannah should mainly motivate staff non-financially by offering training and development courses to set the staff common goals and purpose - to improve quality and make sure they see that quality is essential for the company's image.

Especially with the average real GDP growing within EU countries 2.4% estimated in 2010 (Appendix D) this could be an opportunity for Ashton to generate many foreign customers if their needs are satisfied, especially as the marketing expenditure budget is £4000 favourable.

This is sufficient funds to research and target these foreign customers and satisfy their needs and wants.

Therefore with Hannah's European + cultural knowledge and background she is easily able to see the opportunities for Ashton Ltd to become internationally competitive and domestically competitive.

C8 P7 A7 S5 E9