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BUSINESS **9609/33**

Paper 3 Business Decision-Making **October/November 2024**

INSERT **1 hour 45 minutes**

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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.

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Australasia Fitness Factory (AFF)

AFF was started in 2015 by two sisters, Rosa and Rachel. They inherited a large city centre building, in country M, from their grandfather. The sisters sold half of the building and used the capital to convert the remaining space into a 'fitness factory'. This had two gyms and 10 multi-purpose studios used for yoga and other fitness classes.

This first AFF fitness factory was very profitable because of increasing interest in health and wellbeing. Rosa and Rachel were able to purchase a second building located in a city on the other side of country M. This was converted to a fitness factory and is managed by their brother, Octave.

AFF successfully converted to a public limited company in 2019. Rosa, Rachel and Octave retained 55% of the shares. AFF continued to expand, partly financed by a new share issue in 2023. It now has five fitness factories in different cities in country M.

The external environment

There is continued increase in demand for all types of health and wellbeing activities in country M. The average age of people attending these activities is changing as a result of the ageing population. Government grants are being offered to businesses that relocate out of city centres. The recent increase in inflation in country M has forced the government to increase the legal minimum wage.

Coordinated marketing strategy

Annual membership of AFF is priced at $2500, which includes regular consultations with a personal trainer and unlimited gym use. Members receive 50% discount on fitness classes. Non-member customers 'pay as they go'. This means they pay each time they use the gym or attend a class. All customers, members and non-members, can easily book and pay on AFF's app.

AFF's marketing objective is to increase the number of members of its fitness factories. One way to achieve this is to use customer relationship marketing (CRM). Last year improved communication with members led to an increase in customer loyalty. In 2022, AFF increased its promotional spending from $500 000 to $600 000. This resulted in a 15% increase in annual membership. The number of non-member customers also increased.

Rosa estimates income elasticity of demand (YED) for pay as you go fitness classes is 2.5.

Human resources management (HRM)

Rosa and Rachel are aware that supporting and empowering their employees is important. Fitness instructors and personal trainers are employed on short-term contracts, according to demand. Other employees, such as cleaners, have part-time permanent contracts. All employees receive training in customer care and effective teamwork. Each fitness factory team has a senior operations manager who makes decisions about which fitness classes to offer based on local demand. Senior operations managers receive training in social skills. If AFF continues to expand, Rosa and Rachel think changes to organisational structure will be needed. The impact on employees will have to be considered carefully.

Rachel and Rosa want to take a break from management. They need to recruit a new CEO to lead AFF. They hope to recruit someone who has the enthusiasm and ability to drive the business forward and make decisions. The new CEO will receive an excellent salary and shares in AFF. Rosa said 'we need someone with a high level of emotional intelligence'.

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Quality problems

AFF is receiving an increasing number of customer complaints about problems such as fitness classes starting late because facilities are not ready, broken gym equipment, and unclean changing rooms. The current informal method of quality control is clearly not working. There have been many negative comments from customers on review websites. Rachel would like the new CEO to introduce total quality management (TQM).

Shareholder returns

Increasing shareholder returns has always been a key corporate objective for AFF. Rachel would like the new CEO to manage expansion into a neighbouring country to increase profit and dividends. Rosa believes that shareholders are unlikely to be satisfied with AFF's current financial performance.

Table 1.1 Extracts from AFF's financial statements

	2023	2022
Revenue ($m)	27	25
Operating profit ($m)	1.4	1.5
Non-current liabilities ($m)	20	20
Shareholders' equity ($m)	72	70
Total dividend paid ($m)	0.4	0.5
Dividend per share ($)	2	3
Share price (at year end) ($)	35	40
Dividend yield (%)	5.7	See Q.4a.

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