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BUSINESS**

**Paper 2 Business 2**

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**Source 1: The Hostel Society**

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## The Hostel Society

The Hostel Society (HS) is a charity which owns and runs 23 hostels in some of the most beautiful and remote parts of the UK countryside. A hostel is an affordable place to stay – providing basic self-catering facilities, communal areas and cycle storage. Guests are typically keen to walk and cycle in the countryside. 1 5

The Hostel Society's mission is:

'To promote a love of the countryside, particularly to people who have a limited income.'

HS is owned by its members who support the aims of the organisation and who pay an annual fee. Over half of the members of HS are under 25 years old but it is the older members who are the most actively involved in the running of the organisation. Many of the guests at the hostels are also members. Members elect the board of directors (called trustees) at HS. As a charity, the income and assets of HS cannot be paid out as dividends or bonuses to trustees or members. 10 15

The board of trustees at HS governs the organisation and sets its strategic direction – each trustee gives his or her time and expertise voluntarily. Other enthusiastic members volunteer to help manage hostels, maintain the grounds, carry out administration tasks and organise events. These volunteers share the values of HS, and gain personal satisfaction from their roles and from encouraging others to share their love of the countryside. They 20 25

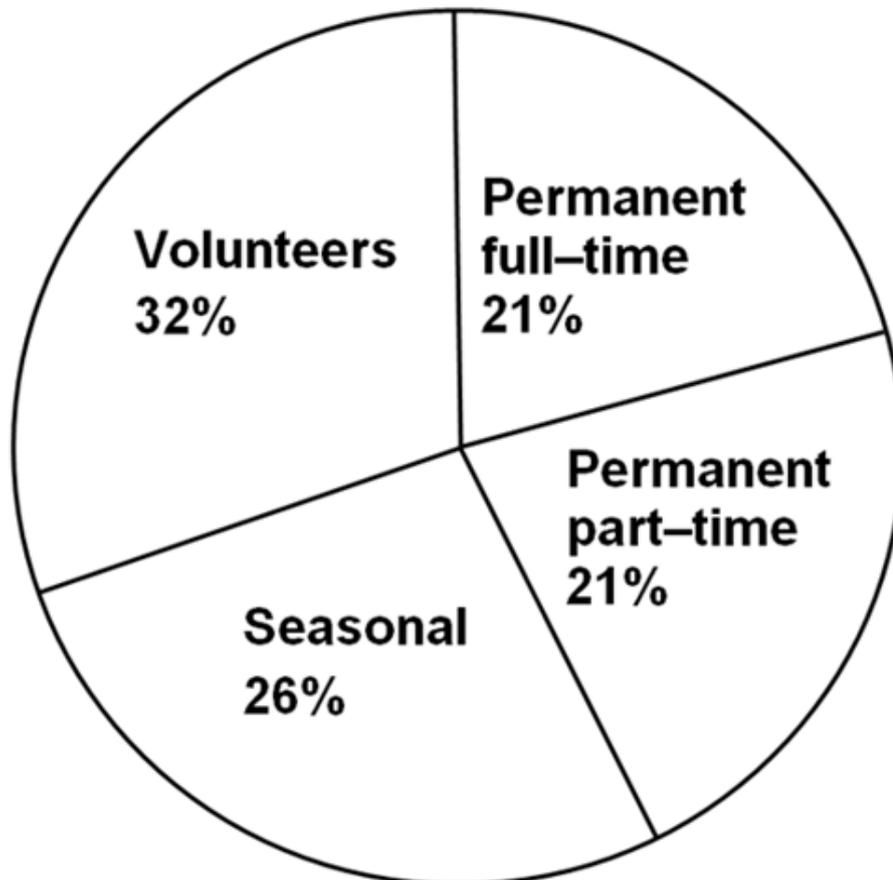
have often been involved with HS for several years.

HS has a flexible staffing structure with a mixture of unpaid volunteers and paid seasonal, full-time and part-time staff (FIGURE 1). This flexibility is seen as key to the success of HS. 30

Seasonal staff are typically students on low hourly pay rates. They cover busy periods in the summer months when many hostels operate at or near to full capacity. In winter some hostels are closed, and others operate with limited opening times. 35

As well as seasonal demand, hostels have busy periods each day when guests leave in the morning and arrive in the late afternoon. The hostels will often be closed in between these times. 40

**FIGURE 1: Overall staffing structure of HS**



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**Staff at HS's head office in Lancaster, take responsibility for membership services, marketing and finance. Staff turnover in Lancaster has been high as employees have been attracted by higher salaries offered for similar roles in other organisations. 45**

**The revenue for HS is generated from guests' stays at the hostels, membership fees and payments for advertising on its website and in its newsletters. The trustees were concerned about the losses in 2015 and 2016 as they always prioritise the long-term financial stability of the organisation. Assets which had been built up over many years from donations from members, had to be used to meet these losses. 50**

**In 2016 the trustees decided to sell three small hostels in fairly remote parts of the Scottish Highlands, claiming that the low occupancy rate (capacity utilisation) of these properties was unsustainable. This was not popular with some members and attracted bad publicity in the media, as these hostels gave access to remote areas of outstanding natural beauty. The hostels were sold to a property developer who planned to use the land to build new housing developments. The sale of these assets raised £1.5m which funded the upgrade of other hostels, together with a promotional campaign aimed at boosting the demand for both people staying at hostels and becoming members of HS. 55 60 65**

**Overall demand for hostels in the UK has been declining as people now expect more facilities when 70**

booking accommodation and many prefer budget hotels. Other hostel organisations have changed what they offer, borrowing large amounts to fund expansion into city-centre hostels. The occupancy rate of these city-centre hostels has been high as the demand is less seasonal. 75

HS has decided to open a city-centre hostel in Edinburgh in 2018. This will:

- be funded by borrowing £3 million
- be aimed at people wanting to stay in the city at any time of the year 80
- offer more facilities than the existing hostels (such as TVs) in en-suite rooms
- be priced from £60 per night for a room for two people. 85

A number of HS stakeholders oppose this decision to open its first city-centre hostel.

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**FIGURE 2: Selected financial and performance data for HS**

|  | <b>2017</b>       | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|-------------------|
| <b>Number of hostels</b>                     | <b>23</b>         | <b>26</b>         | <b>26</b>         |
| <b>Maximum capacity (overnight stays)</b>    | <b>112 000</b>    | <b>142 000</b>    | <b>142 000</b>    |
| <b>Number of overnights stays</b>            | <b>74 000</b>     | <b>75 000</b>     | <b>76 100</b>     |
| <b>Occupancy rate (capacity utilisation)</b> | <b>66.1%</b>      | <b>52.8%</b>      | <b>53.6%</b>      |
| <b>Average price per overnight stay</b>      | <b>£25.00</b>     | <b>£23.50</b>     | <b>£23.50</b>     |
| <b>Variable cost per overnight stay</b>      | <b>£5.50</b>      | <b>£5.50</b>      | <b>£5.00</b>      |
| <b>Annual fixed costs for hostels</b>        | <b>£1 300 000</b> | <b>£1 525 000</b> | <b>£1 450 000</b> |
| <b>Profit from hostels</b>                   |                   | <b>(£175 000)</b> | <b>(£42 150)</b>  |

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