



Small Business Tools

Strategy Case Study

Introduction

This tool has been produced to assist small business owners, and others, to develop your skills in business analysis, which forms an important component in strategic planning. It provides a realistic case study centred upon a small hotel and then requires you to complete a number of exercises in the following areas:

Exercise 1 – Analyse the Internal Environment within the business.

Exercise 2 – Consider the Stakeholder Environment

Exercise 3 – Review the Competitive Environment for the hotel

Exercise 4 – Analyse the hotel's External Environment

Exercise 5 – Summarise the *Strengths & Weakness* (Internal) and *Opportunities & Threats* (External) facing the business.

Exercise 6 – Consider the Strategic Options available to hotel, based on its current position.

By completing these six exercises, you will become more familiar with the type of analysis needed to support strategic planning, which you can then apply to your own business.

You should read the case study in its entirety first to get an overall sense of the key issues in the business before completing the exercises.

The Coach House Hotel - Case Study

History & Background

The Coach House Hotel is a small 20 room property located on the outskirts of a large town in the east of the country. Situated five miles from the town center in a renowned scenic area, the hotel has extensive grounds, with access walks around a small lake. The business is well established and has been operating as a hotel, in one form or another, since the late 1960's. In the immediate vicinity, there are a range of amenities, such as; cultural and heritage sites of note, an 18 hole golf course, lake and river fishing, walking and cycling tracks and of course the various facilities within the town.

The hotel has had a mixed operating history. In the late 1960s, a local family bought the old coach house and the surrounding lands and converted it into a small guesthouse, consisting of 10 rooms and a restaurant. The guesthouse directly targeted the local market and the small number of tourists who were beginning to come to the area. In its early days of operation, the business was completely family run and developed a good reputation locally. In particular, it became known as the place to go for family events and special occasions. However, during the 1980's, the guesthouse went into a long period of decline, due to the lack of interest shown in the running of the business by the younger family members who had taken over. Eventually, the family were forced to sell the business in the late 1980s. It was then bought by a local businessman who invested heavily in the property, completely refurbishing and expanding the facilities and repositioning it as an hotel. Under his direction, the Coach House Hotel traded satisfactorily throughout the 1990s, but never really established a reputation for excellence. Having experienced personal financial difficulties towards the end of 2000, the businessman sold the property to John and Mary Power in late 2001 and they continue to operate the business today.

Owner & Business Profile

John and Mary Power, both in their mid forties, are a local couple who had worked abroad for many years, but returned to the locality in the late 1990s. Prior to purchasing the property in 2001, John had direct experience in the hotel business and had previously worked for an international hotel chain in various management positions. However his experience was largely in the front office area and he had little direct involvement in the food and beverage side of the business over his career. Mary had no direct experience in the industry, but she had held several sales positions in the retail sector. Keen to set up in the hotel business and with the backing of wealthy family members, they purchased the property with a view to creating an upmarket boutique type hotel, geared towards the higher end of the 4 * market.

The Powers believed that there was an existing gap in the local market for a small hotel offering a very personalized experience of high quality. Upon taking over the property, no major construction work was undertaken, but they completely refurbished and upgraded the interior to meet the standards expected from their target customers. The hotel is 4* rated and consists of:

- The original Coach House with 10 rooms
- A tasteful extension, with an additional 10 rooms
- A function room catering for 50 people.
- A restaurant capable of seating 30 people
- A small bar and lounge area, mainly geared to residents and restaurant clients
- Two small meeting rooms, seating 10 and 20 people respectively

The Powers' philosophy from the beginning was that the hotel would seek to develop what they saw as a 'high-end' customer base, by offering a unique experience at a premium price. In achieving this, the hotel would deliver excellent levels of service and quality that set it apart from other 4* properties in the area. This concept was reflected in the décor of the hotel (described by the Powers as being 'elegant but trendy') and all rooms were decorated and equipped to a high standard. The quality of linen, guest supplies, crockery, glassware etc also reflected the elegant but trendy theme. Since opening, they have continued to add new features to the product and all rooms now have flat screen TVs, in-room stereos and wireless broadband access.

To translate their philosophy into words, they originally adopted the motto "Five Star Service at Four Star Prices" to reflect their approach, but they later dropped this after the first year of operation, as they felt it was raising expectations too high in terms of what they could actually deliver in practice. A small example of this was that some guests were disappointed as they expected a full 24 hour room service menu, as would be the case in a five star property, but this was not available at the Coach House Hotel. So to avoid transmitting a confused message, the Powers revised their motto to "luxury you can afford" which they continue to use today.

In terms of customer profile, the Powers generally felt that their customers, across all markets, would be relatively affluent, 30-50 years of age, with high expectations in terms of quality and service. They would be individuals who were seeking a peaceful relaxing environment, yet wanted to be close to major activities and attractions. The general business strategy was identified as being to grow the business in the following areas:

- Local corporate business for accommodation, small meetings and dining (lunch & dinner)
- Local market for dining, small weddings and functions
- Domestic and International tourist trade (independent travellers), particularly in the summer months
- Weekend break market throughout the year

From the outset, the Powers made a conscious decision regarding their pricing policy. Their prices would be higher than those charged by other 4* properties in the region, but given the experience they would offer, John and Mary felt that this would, in the end, represent good value for money. Their key business objective from the beginning was naturally to achieve the highest level of return on their investment, but they took a long term view to achieving this and were supported in this by the family investors.

Human Resources

John and Mary naturally take a direct role in the business, but they did not want their lives to be dominated by it. They believed in having an appropriate level of staff to enable them to maintain a separate life from the business, but also to ensure they offered the best experience possible to guests. John is directly responsible for the overall management of the hotel and restaurant operations, whereas Mary takes responsibility marketing and sales. The Powers employed a number of key supervisory staff, who are heavily involved in running the business. They currently include:

- Accountant - Michael Devine
- Reception Supervisor - Karen Dunne
- Head Chef - Francois Lavergne
- Restaurant Supervisor - Yana Bakalova
- Functions Supervisor - Frank Kelly

In addition to the supervisory team, at present there are approximately 10 full-time and 10 regular part-time employees at the hotel (although this was previously higher as we shall discuss later). As with many other hotels, recent years have seen a boom in the demand for labour and the hotel has experienced difficulties in not only in recruiting, but also retaining high calibre staff in certain areas. The Powers were always committed to training and development and John took responsibility for this area. However, pressures within the business have shifted his focus elsewhere and the amount of training undertaken has declined in the past eighteen months.

John takes an active role in day to day operations and generally the hotel runs relatively smoothly, although there can be strains at peak times. Where the greatest problems have occurred are in the food and beverage areas and there has been a high turnover of staff in the restaurant and kitchen departments. As the restaurant has never reached its full potential, John has focused a lot on this area and many initiatives and menu changes have been tried in seeking to get the right balance.

John holds a weekly meeting with the key supervisory team to plan the business. In the early days, these were generally constructive and participative, but lately this has changed. As the business has come under increased pressure, John has been a little stressed at times and this has impacted on his interactions and relationships with his team.

Marketing

With a background in Sales, Mary was a strong believer in the importance of marketing and in the first few years the hotel spent well above the industry average, in terms of % of sales, on their marketing effort. The full range of direct and third party channels were used, including:

- A comprehensive website with an online booking facility was developed
- The hotel also subscribes to hotel marketing websites such as Hotels.com
- Hotel, wedding and conference brochures were developed
- The hotel are members of a number of marketing and trade associations
- Advertising in local, national and specialist media
- Attendance at trade fairs, workshops and networking events

The Powers believed there was no such thing as wasted expenditure on marketing and once the media was relevant to their overall target customer base, or a segment within it, they were willing to allocate the necessary expenditure. Mary took direct responsibility for this area and in the first few years spent a lot of time 'out on the road' seeking to drum up business. In the past year however, she has been more involved in the day to day operation of the business and the marketing effort has not had the same level of attention as it did previously.

The Business Environment

The town has a rapidly growing population of 30,000 and is renowned as an historic site of interest, with many attractions such as a Castle and the old city walls to name but a few. It also has a strong cultural tradition and features many popular events throughout the year, attracting domestic and overseas tourists in large numbers. At weekends and peak periods the numbers of people within the town increases dramatically.

The town also has a strong enterprise base and this too has seen dramatic growth over the past ten years. There is a large business park in the area, with several well known national and international companies established. As with other areas of the country, the last decade has seen a transformation in not only the economic face of the town, but the social and demographic mix has altered significantly also. Many new businesses were attracted to the area, due to its ease of access to the capital city and the quality of the transportation links.

Yet the town has managed to maintain a positive image for the quality of life it offers and this has also served as an attraction, particularly to overseas businesses. Housing development in and around the town has been intense and there has also been an influx of 'commuters' who were unable to afford the rocketing prices in the capital and within the traditional commuting areas. The town is well served with transportation links, and can be reached from the capital by road within two hours.

As a result of this growth, disposable income of the town's inhabitants has also grown significantly, and a wide range of hotels, restaurants and social outlets were either refurbished, or newly developed to cater for the growth in demand. Several of the major domestic hotel chains and two International chains have operations in the locality and there is a wide variety of independent hotels. All grades of accommodation are represented, but the bulk of the new hotels coming on stream have tended to be in the budget and mid price range. Added to this is a healthy stock of B&Bs, self catering apartments and a few hostels. Since the Powers took over the Coach House Hotel, two other 4* Star properties offering a similar experience have opened closer to the town centre. At peak periods, accommodation remains difficult to find, particularly within the town, yet during the week or at quieter periods there would seem to be an over supply. As a result, there is strong competition within the hospitality sector and a number of new projects are underway which will further compound this.

Unfortunately national economic growth has not been as strong in the past year, as it had been up to 2005. A number of the larger companies in the business park have reduced staff numbers and there are rumours that some of them may be pulling out altogether. Although local consumer spending has so far not declined drastically, there are concerns that past confidence has been eroding steadily. One particular concern locally, and indeed nationally, is the growing reputation that the country is generating as an 'expensive' destination. Already, patterns of demand are shifting somewhat resulting in shorter stays and greater utilization of budget type accommodation. Locals have also noticed a slight decline in weekend business and attendance at festivals and events was down this year over previous years. The continued global economic and political instability is naturally also of concern. Consequently, most hospitality and tourism operators in the area are bracing themselves for potential shocks in the coming years.

Coach House Hotel - Business Performance

Since the Powers reopened the Old Coach House in 2002, its reputation has improved significantly, from what had been the case under the previous owner. However, after their first two years of operation, financial performance continued to be below expectations and they made some notable changes to the business model in early 2005, including;

- The Powers believed that part of the poor performance was a pricing issue and having looked again at what the other 4* star hotels were charging, they reduced their rates and prices more into line with other comparable properties in the area. Given the intense competition, rates within the town fell further in 2005 and the Powers followed this with a further reduction in their own rates.
- The restaurant has been a constant source of worry to the Powers. When they first opened, they promoted the restaurant as a 'fine dining experience' and they had an excellent young chef who was building a good reputation locally. However, by the end of 2004, John felt that the restaurant was not producing the required return or broadening its client base. Heavy competition from new fine dining restaurants in the town led John to believe that this was no longer the way to go and he 'dumbed down' the restaurant somewhat, offering a fusion type menu that many of the mid priced restaurants in town were offering. His young chef was not happy with the new direction taken and left shortly after the changes were introduced. Since that time the restaurant has never managed to find a consistent level of success. Whilst, the hotel does a good lunch trade on Sundays and throughout the evenings, the client mix is not in line with their ideal profile and lunch trade has been consistently

- poor. To counteract this, John closed the restaurant during the day and now operates a light lunch carvery in the lounge area.
- Wedding bookings had also not lived up to expectations by the end of 2004. Although many couples loved the location, the function room was too small to cater for the numbers expected at many weddings and there were not enough bedrooms available to cater for guests who wanted to stay in the hotel. This meant that the hotel could really only cater to small weddings. After 2004, the Powers decided to reduce expenditure on wedding promotions and advertising and redirect the effort to develop the conference and meeting end of the business.
 - In terms of international tourists, the hotel had originally targeted the independent traveller but the financial pressures after 2004 forced them to accept a limited number of small scale tours throughout the summer season, at a significant discount from normal rates.
 - Another factor contributing to the lower profitability than expected was that up to the end of 2004, the hotel intentionally operated with slightly higher staffing levels than the norm, in order to live up to the unique service promise that was at the core of their offering. In an attempt to reduce the labour budget, staffing levels were reduced and a number of employees were let go in early 2005.
 - From 2005, marketing expenditure was severely curtailed and the bulk of marketing expenditure from 2005 onwards was focused on attracting a greater share of local and national corporate business for accommodation and conferences. There was also a renewed effort to increase the hotel's share of the weekend break market. To support this, a range of heavily discounted special offers were introduced to these markets.

Since the changes were made, business levels such as occupancy rates did improved slightly throughout 2005, but this was still not converting fully to bottom line profitability as predicted. The reduced staffing levels increased the pressure on the Powers and they had to take a more active role in the day to day operation of the business. Morale dropped among employees and a number of key team members left, including the reception supervisor. This meant Mary had to take over that role for almost three months until a suitable replacement was found.

Since the beginning of 2006, the family investors have become increasingly concerned at the financial data and are now exerting more influence over the business than had previously been the case. There has been a further deterioration of business performance since the beginning of 2006 and the general economic slowdown has hit corporate occupancy, the key business segment. There has also been a decline in other key markets, even with the discounted offers available. With a relatively high fixed cost base the profit margins have decreased significantly. Some of the consequences of include:

- Corporate accommodation bookings are down, as local businesses cut back on spending
- Average occupancy was 68% in 2005, but has fallen to 65% to date in 2006
- The over reliance on special offers has reduced average room rate achieved
- Domestic weekend business is also suffering. At first the Powers did not understand why, but they now believe that people are choosing to stay closer to town, due to greater enforcement of drink driving regulations.

In an effort to further tackle costs within the business, the family investors have put more pressure on the Powers to introduce additional cost cutting measures, which they hope will lead to an improvement in the turnover to profitability ratio. As a result the following changes were made over the past few months: advertising spend has been further reduced, staffing levels have again been cutback, the restaurant now closes on Mondays and Tuesdays with only a limited menu available to residents, cheaper suppliers were found for many hotel products and the menu was again redesigned to offer higher margins per menu items. Unfortunately some of these actions have not gone down well with their regular clientele and "Not what it used to be" seems to be a growing theme.....

Exercise 1

Conduct an analysis of the *Internal Environment* within the Coach House Hotel. Try to identify:

What is the hotel good at? What is the hotel really good at in comparison to its competitors?	Where are the gaps in company capabilities and resources? Where is the company at a disadvantage in comparison to competitors?
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Summarise your findings below

Exercise 2

Consider the hotel's *Stakeholder Environment* for a moment. Who are the main stakeholders and what are the expectations and level of power associated with each?

Stakeholder	Influence on Hotel's Business Strategy

Exercise 3

Consider the *Competitive Environment* for the Coach House Hotel:

Competing Sellers: What opportunities do the hotel's competitors provide? What threats do they face from competitors?

New Entrants: Is it easy for new entrants to enter the industry?

Suppliers: What opportunities do the hotel's suppliers provide? What threats do they face from suppliers?

Buyers: What opportunities do the hotel's buyers provide? What threats does the hotel face from buyers?

Substitutes: What opportunities do substitute products/services provide? What threats does the hotel face from substitutes?

Overall Industry Attractiveness: Based on your analysis, what conclusions can you draw about the industry?

Summarise your findings below

Exercise 4

Analyse the **External Environment** for the Coach House Hotel. Based on reviewing and analysing the case study, consider the five environmental components and how they are likely to impact on the business:

Summarise your findings below

Factor	Likely Impact on the Hotel
Political	
Economic	
Social	
Technological	
Environmental	
Legal	

Exercise 5

1. Based on your findings in the previous exercises, summarise the current position of the Coach House Hotel in terms of its *Strengths & Weakness (Internal) and Opportunities & Threats (External)*.

Summarise your findings below

<i>Strengths</i>	<i>Weaknesses</i>
<i>Opportunities</i>	<i>Threats</i>

Exercise 6

1. What do you consider to be the *Strategic Options* available to the Coach House Hotel, based on its current position?

Summarise your findings below