Magical Fun Motel
Business Case Strategy

Group 5 Consulting Firm

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Mr. & Mrs. Chen
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Dear Mr. & Mrs. Chen,

It was a pleasure meeting with the two of you, thank you for the opportunity to develop a strategy for the Magical Fun Motel.

Here at the Group 5 Consulting Firm, we take pride in the fact that our organization has been providing strategies of the highest quality for years that help to identify any issues within a business. We will also be providing you with ways to address the root of the problem, as well as all of the symptoms that have been causing any issues we have encountered.

Our team has been working day and night to make sure that we figure out your issues and come to a clear and concise solution, which has been laid out for you in our report.

We would like to thank you again for choosing us and hope you are satisfied with our work.

Sincerely,

Group 5 Consulting Firm

Group 5 Consulting Firm LLC.

<u>Executive Summary</u>

This report provides an analysis and evaluation of the current and prospective profitability, liquidity and financial stability for Magic Fun Motel.

The research has drawn attention to the facts of the decreasing revenue in the past two years, 2015-2016 and the three quarters of 2017. Further evaluation has uncovered other effects, such as high employee turnover, lower occupancy rate, not offering complimentary services, and low business exposure locally and through the travel websites. Additional findings show some constraints and limitation in business operations of Magic Fun Motel.

The report evaluates options and concludes that it would be ideal to implement suggested strategies to meet the challenge presented by the market and could satisfy the new consumers demand.

> As a result of our business analysis, we propose to take the following actions:
❏ Establish the staff of housekeeping department and front desk, with guaranteed working hours and higher pay rate
❏ Implement complementary services (continental breakfast/ Wi-Fi connection)
❏ Enhance motel visibility by increasing advertisement locally, through the social media and travel websites.

The report's finds allowed us to project the future revenue for 2017 to $1,214,578.38 that shows the increase in the average of $33,000 over the revenue of 2014, the higher revenue from the data provided (Graph 1.3, p.9).

All calculations and detailed analysis can be found in the completed report and attached appendices (Excel spreadsheet).

Problem Statement

Decreasing revenue has been the overall issue for the past two years (2015-2016) for Magical Fun Motel. The growth and the advancement of the company rely on ensuring that customers are satisfied, and employees are retained. Ultimately, creating a cultivating, long-term, sustainable business.

Operating a motel requires countless working hours and a tolerance of ambiguity. After conducting a detailed analysis, our team pinpointed a few factors that have attributed to the declining revenue stream. Conclusively, the issues sighted were the consistent results of low occupancy rates. The survival of the business is contingent upon each customer that walks through the door. Other items that tie into the overall business strategy include the lack of brand awareness. Subsequently equating to customers not being attracted to book online and stay at the motel. Moreover, if there is a decision made by the customer to consider their stay, they are comparing the hotel with other industry competitors. Magical Fun Motel is undertaking the lower end of the market share. In perspective, the challenge of creating a fluid customer journey will be imperative for continuous success. Finally, there is a crucial aspect of the employee turnover rate. Employees are the foundation of the business because they contribute to the mission, vision, and overall value of the company.

Without these vital adjustments being implemented into the business strategy for Magical Fun Motel, there will be unfavorable consequences. The ultimate result will be withdrawal from the industry.

Symptoms

Our symptoms to the problem include a negative perception of motels compared to hotels. There is not enough branding or marketing of motels especially Magical Fun Motel. Tourists and residents can find similar deals and prices on brand name hotels through marketing services. From these symptoms leads to low customer traffic to hotel and online, causing a low market share. Symptom from this is low occupancy rates for Motel. Lastly, a symptom of our causes and problem is employee turnover (one employee a month).

KPI & Stakeholders

Detailed in table 1.1 is a Balanced Scorecard listing the targeted areas which include financial, internal, customers, and people. Included in the scorecard, there is the objective, measures of the KPIs, and specific targets that Magical Fun Motel should be looking to meet. Focusing on the KPIs should measure an interest and drive customer attraction to the hotel. This data gathered from the KPI provides solutions for the underlying problem. The KPI measures we want to focus on are, new profit, variable costs, measuring the number of new customers, expanding our customer base through online exposure, track amount of repeat customers and their satisfaction, and track why we have high employee turnover.

All of the KPIs have specific targets that Magical Fun Motel should be looking to meet to create a more efficient, effective, and satisfying experience for the customers. Although, a focus must be on the employees of Magical Fun Motel and decreasing turnover because this can lead to customer satisfaction and sales. Applying these KPIs and targets will solve the underlying problem of decreasing revenue.

The stakeholders consist of anyone that can affect or be affected by the organization's actions, objectives, and policies. The stakeholders at Magical Fun Motel include the Owners (Jason and Esther Chen), the employees, the customers, external business (laundry service). The owners having direct control of Magical Fun Motel will be the ones who figure out solutions to the underlying problem. Front desk employees will have direct contact with the customers and housekeeping must be efficient, this can impact customer satisfaction, sales, motivate returning customers, acknowledgment, and awareness of marketing services, and efficiency of transactions. The customers will impact the business with the sales, store traffic, completing customer surveys. Lastly, the external laundry service that is used will have to be efficient and effective and continue to be affordable and reliable to the business. Magical Fun Motel will need the help of all four stakeholders in correcting the business and the underlying problem.

Table 1.1:

|	Objectives	Measures (KPI's)	Targets
Financials	Increase Revenue	● Net profit ● Variable cost	● Increase net profit by 5% per 3 months ● Decrease variable cost 3% in 3 months
Internal	Expand Customer Base	● Google and TripAdvisor Reviews ● Measure amount of new customers	● 10 positive online reviews per month to increase exposure ● At least 10 new customers per month
Customers	Increase customer loyalty	● Track amount of repeating customers, and who are using marketing services per month (Lagging) ● Customer satisfaction from completed surveys before checkout (Lagging)	● Increase by 3% returning customers ● Receive less than 5 negative surveys from customers monthly.
People	Decrease employee turnover rate	● Track Anonymous employee survey ● Measure employee training on customer service, housekeeping, and daily duties (Leading)	● Only 1 employee turnover per quarter ● Only 1 negative employee survey per quarter ● Increase efficiency of work by 3%. Monitor quarterly

Root Cause Analysis

While using the data that was presented and the external data we found, we outlined a fishbone diagram and root cause analysis that determined potential causes leading to the decrease in revenue. Material is the first cause in which no complimentary services (continental breakfast/ WiFi), leading to negative perception of the motel. Our measures and method of not using enough marketing services (additional local marketing, continue Booking, add Priceline and Expedia, etc.). The company needs to measure, track, and compare online bookings through the company website, marketing services, and face to face. Through data we discovered fluctuating rates and not being consistent, rates do not regularly beat hotel rates. Machine would be another cause due to the older motel (1970, few renovations). Although Magical Fun Motel did a few renovations the building still has wear and tear. Additionally, the motel has to be aware and monitor breakdowns and malfunctions to pool, laundry room, vending and ice machines. A potential cause Magical Fun Motel needs to be mindful of is mother nature and how weather affects customers (hurricane, heat). Also, how the effect of weather and natural disasters could lead to damages to the building structure, equipment and the business overall. Manpower is a cause due to overworking, negative employee environment (employees are unhappy with operations, lack of guidance, high turnover, low hours, no benefits, underpaid, work multiple jobs). Lastly, a root cause was detected after analyzing the data which was not reinvesting money back into the business, that being the only way to improve and expand the business. These causes were studied diligently because of the current business model. Addressing this would have a positive impact on the ongoing business operations.

Data Needs

The data that needs to be looked into will come from both internal and external sources, and will all need to be analyzed to be sure that it is a proper fit to diagnose the problems within the Magical Fun Motel. The internal data we will be looking into include yearly revenues, which will be calculated with the data we have been provided. For the issue of retaining employees, we will be checking to see if there is room for higher pay, as well as if you need to have such a large staff. Also for internal data, descriptive statistics will be used to show how the company is averaging in room nights and occupancy, as well as the fluctuation you see week to week. For external data, we will be checking to see how the Magical Fun motel is doing in comparison to its competitors, using this data we will be able to find out what the deeper problems the company is having. Using all of this data will give us the information we need to come up with the necessary solutions and steps to leading you in the right direction.

Graph 1.1:
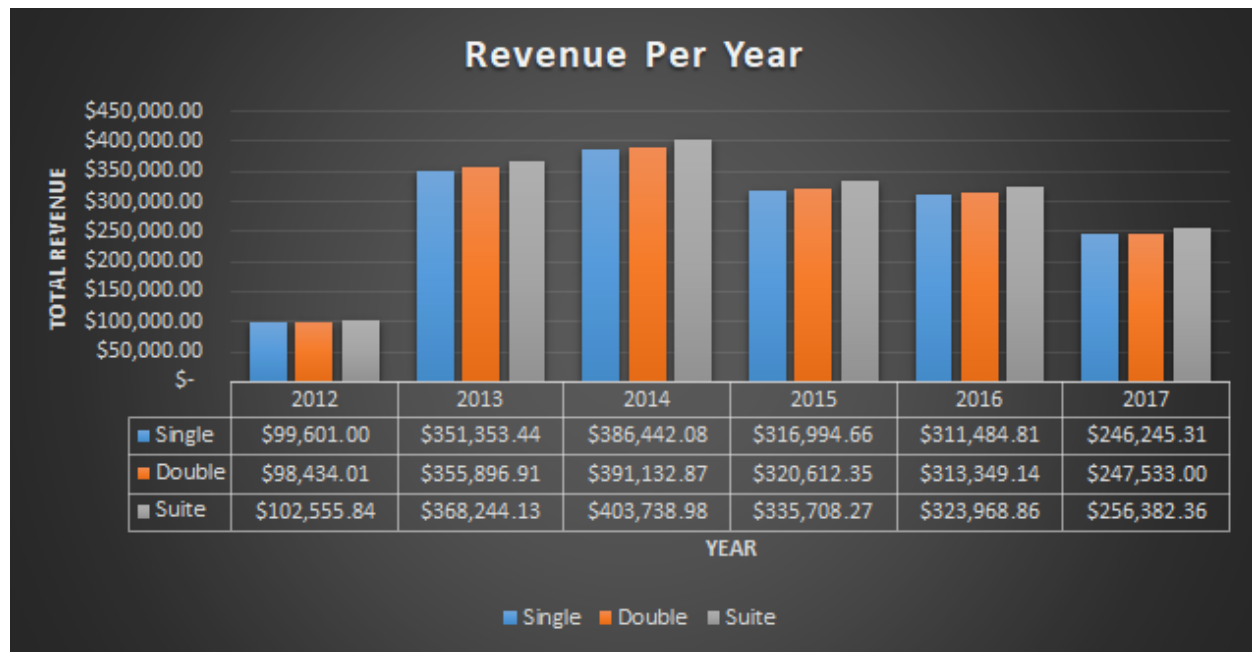
Based on the information given by the Magical Fun Motel for the past five years, Group 5 consulting has been able to get your average revenues for single, double, and suite type rooms each year. Using this information we can tell that the company started out very well, but over the past 3 years (2015-2017) the company has seen a decrease in not just one of the type of rooms but all three. Another thing you can see from this graph is that all of the room types are very close to how much money they are bringing into the company. We also looked deeper into your information and noticed that in the months when you were using some form of advertising service that your room occupancy went up on average about 12%. Based on this information, we have decided to do a forecast for 2017. Considering the company is currently on booking.com, we should see another increase in revenue this year compared to the last 2.

Graph 1.2:
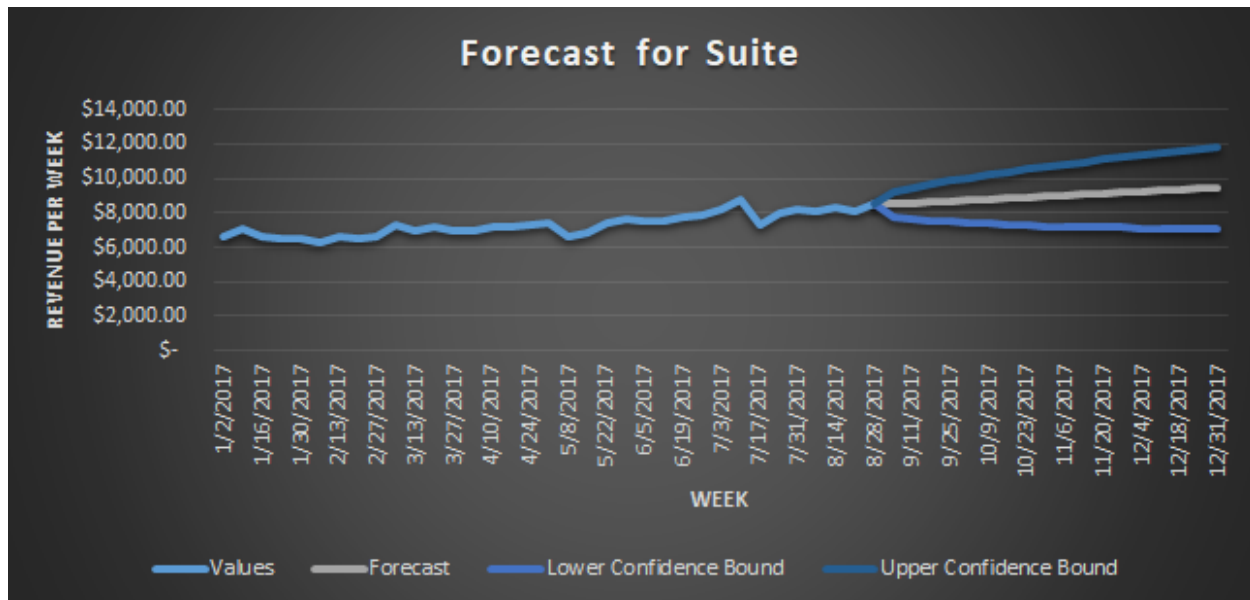
Here in Graph 1.2 we see a forecast based off of the information provided for the first 8 months of 2017; this graph is showing us what the potential revenues will be per week from 9/4 to 12/31. The revenue forecast for the last 4 months of the year is on a steady incline, and the upper and lower confidence bounds ensure at a 95% rate of confidence that Magical Fun Motel should make money somewhere in between those bounds each week. As you can see from this model we are assuming that you keep using booking.com as a source for the potential clientele that would have otherwise been missed out on, one of the main causes of the decrease in revenue for your company would be that you are not receiving enough exposure. When we combined the forecast for suites, singles, and doubles, your total revenue for the year comes out to $1,214,578.38. That is about a $33,000 increase from your highest revenue year which was 2014.

Table 1.2(Internal):

Year	Total Revenue Per year	Total Employee Cost	% of Revenue towards Labor costs
2012	$300,590.84	$30,923.72	10%
2013	$1,075,494.49	$94,409.55	9%
2014	$1,181,313.94	$95,932.46	8%
2015	$973,315.29	$90,858.44	9%
2016	$948,802.80	$90,976.36	10%
2017	$750,160.68	$64,434.44	9%
Total for 6 years	$5,229,678.04	$467,534.98	9%

https://www.hotelmanagement.net/operate/examination-hotel-labor-costs (External)

To help explain the Magical Fun Motel's issue of employee turnover, we thought it would be a good idea to show you the company numbers vs. the industry average. Using the graph above we have displayed the numbers for your company. The link underneath will provide one of the external data sources we used. According to the data you have provided, the amount that you pay out to employees is about 9% of total revenue on average each year in total labor. We calculated the overall employee costs by figuring out how many hours it would take to clean rooms each week, as well as how many hours the front desk clerks could work in a week. Then Summed up the totals giving your yearly total for employee pay. This amount is far too little according to the link above; the company should be spending anywhere from 29 to 35 percent of total revenue on labor. This statistic is based on information gathered from 1980-2015, so though it is not timely, it has been proven over a long time and still is the tight window of 6%. This seems to be a substantial reason why your employee turnover rate is 133%, Magical Fun Motel is losing 12 employees every year, considering you only employ 9 people that number is exponentially higher than the industry average of 70 percent, which was confirmed using 3 different sources, but to get the information we had to pay extra, and the Magical Fun Motel did not include that in our budget.

Table 1.3:

	Single Occupancy	Double Occupancy	Suite Occupancy
2012	**59%**	**58%**	**59%**
2013	**68%**	**68%**	**68%**
2014	**70%**	**70%**	**70%**
2015	**61%**	**61%**	**62%**
2016	**62%**	**62%**	**62%**
2017	**70%**	**70%**	**69%**

To demonstrate how advertising affects the occupancy rates of the hotel, we decided to include table 1.3. This table is showing Magical Fun Motels Occupancy rate average for each year. As you can see the table has 4 highlighted rows, all having the highest average occupancy rates for the three different kinds of rooms provided by the motel. The primary factor for each of the years highlighted above is that some type of advertising was done, or contracted out to a separate company. 2017 being the most recent year for the company shows the average occupancy for any given style room is right at about 70% which matches with the company's best year and is causing the forecast for 2017 to seem like the highest year for revenue the company has seen. As you can see the year 2015 was a decrease from a steady 70% occupancy across each type of room. To note, there was no use of advertising in the year 2015 and the company's revenue also took a hit. To sum up, this information suggests that Magical fun Motels should be utilizing some advertising service to keep the occupancy rates as high as possible.

Descriptive Statistics

Based on Table 1.3, descriptive statistics are provided for three sets of data (single, double, and suite) which links to a potential cause. Looking at the data the mean occupancy % for single, double, and suite are almost identical. This shows that occupancy rates are not increasing and unable to distinguish with room to focus on. Based on the standard deviation, the occupancy % are ordinary at about 7%, no outliers. Looking at the data, there is a fluctuation between median room nights and different room types. However, there is a very standard pattern throughout the data provided. The only time the company's standard deviation jumps more than 7% is when there is some form of advertising service used.

Table 1.4:

	Single		Double		Suite	
	Occupancy %	**Room Nights**	**Occupancy %**	**Room Nights**	**Occupancy %**	**Room Nights**
Mean	66%	87.24	66%	73.39	65%	54.98
Mode	55%	73.5357	66%	74.256	69.37%	58.26912
Median	66%	87.31	65%	72.80	66%	55.15
Standard Deviation	6.90%	9.179	7.02%	7.866	6.87%	5.769
Sample Variance	47.63%	84.246	49.33%	61.878	47.17%	33.284

<u>Correlation and Regression</u>

During our analysis, the correlation and regression showed the most robust positive relationship (R-squared) = 88.9% amongst the occupancy and rates. The independent variable being occupancy and the dependent variable being the rates.This simple linear regression has allowed Group 5 Consulting to diagnose that the single and double rooms account for an indistinguishable amount of revenue. Without the insight of the regression, one would assume that the double rooms would account for most of the revenue due to the higher price point. However since there are 50 more room nights per week given to the single rooms, this illustrates the underlying need of what a customer wants. Furthermore, if the customer's needs are met, Magical Fun Motel will receive motivated customers that will fall into the loyalty loop.

The advantage of running this regression analysis is to isolate factors that will connect to the continuous problem of decreasing revenue. Lower sales in the double rooms equate to a more moderate operating profit. As Group 5 Consulting, we do not suggest that Magical Fun Motel focuses on increasing overhead expenses. We do recommend to track overhead costs each month as a percentage of sales to ensure the occupancy is correlated with the rates.

Solution

Group 5 Consulting Firm performed a business analysis for Magical Fun Motel using data provided by the owners Mrs. and Mr. Chen. After analyzing information including all side of business operation, we drew steps for implementing a strategy that can help to cut variable cost, decrease employee turnover, and increase revenue.

In today's competitive market, more and more businesses in the hospitality industry, go above and beyond to create unforgettable authentic experiences for their guests, as well as offering complementary and innovative services.

Our suggestion is to emphasize the labor structure, to decrease employee turnover, and create better work environment. The data shown in table 1.2, shows the cost of labor is an average of 9% of business revenue. As it follows from our analysis, the housekeeping department needs 3 employees with up to 29.5 working hours weekly, with the $10 per hour rate. The front desk needs only 4 members to staff it, with the average of 29.5 working hours weekly, and $11 per hour wages. These various implementations will still keep labor cost under 10% but will provide employees with the more substantial paycheck, improve employees morale, and lower employee turnover. As we mentioned above, the satisfied employees provide a strong business foundation. By analyzing the data provided to us, we discovered an incline occupancy rates when the business uses social media, traveler's sites, and advertising through Groupon. During those time periods, the occupancy increased on average about 12%. Our suggestion to the Magic Fun Motel is to continue work with booking.com, and other travel websites to enhance hotel visibility.

To stay more competitive in the local hospitality business market, the company should consider providing its guests with cable/internet services, including Wifi. This service could be cover as the motel's surcharge of $3 - $3.50 per room. Based on a business rate from spectrum.com(local cable & internet provider), the average cost of the bundle is $150 per month /47 rooms = $3.19 per room. This is the necessary innovative upgrade for Magic Fun Motel will bring more budget oriented travelers.

One more complementary service that we would suggest is the continental breakfast, which can include coffee/tea/juices, bagels/pastries, and fruits, based on the season. The place for breakfast can be arranged in the lobby, by setting up buffet table and one - two tables with chairs during the morning hours. This additional service will help the Magical Fun Motel provide about the same amenities as other hospitality businesses in the area. The cost of the breakfast will vary, depends on motel occupancy, but it won't substantially increase the variable cost. Based on our basic research, the hotels which offer continental breakfast have up to 10% higher booking occupancy than hotels that do not provide complementary services.