QUALITY INN BAYSIDE

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Quality Inn Bayside has been a highly unprofitable hotel due to poor management. The Roya Group of Ankara Turkey made the decision to purchase the motel as they believed that with proper attention, management could turn this negative trend around and transform the hotel into a profitable entity.

The new owners were determined to turn the motel into a hotel and achieve a profitable status within two years. After discussion with the hotel's senior management, it was concluded the biggest problems causing their past poor performance, and subsequent financial losses, were summarized as follows: The Quality Inn Bayside had a lack of competent operational management, a non-existing human resource management plan, a missing HR department or even an HR manager; and lacked a marketing strategy, plan, or even a marketing manager.

This case was ideally suited to provide students a way to examine an actual business and to utilize tools to ascertain problems, come up with alternatives, recommendations, and an implementation plan.

INTRODUCTION

In 2011, the Quality Inn Bayside was losing nearly $500,000 annually for its owners, and was on the brink of bankruptcy. Then along came a group of foreign investors, the Roya Group, who had no previous experience in the U.S. and had little prior knowledge of the U.S. lodging industry. The Roya Group purchased the hotel valued at $12 million for $4 million in cash. The novice investors set a challenging goal of turning their purchase into a profitable business within 2 years. Their most pressing problems were: where to begin; and how to proceed.

LODGING INDUSTRY

To better appreciate the seriousness of the Quality Inn Bayside's situation, a quick look at the overall lodging industry and its challenges was necessary. The lodging industry provided short-term lodging in hotels, motor hotels, resort hotels and motels. The establishments in this industry might offer food and beverage services, recreational services, conference room and convention services, laundry services, parking and other services. (Samadi, 2013) Table 1 shows a snapshot of the overall lodging industry structure, and depicts the highly competitive nature of the industry.

TABLE 1
Lodging Industry Structure (Kwon, 2012)

Life Cycle Stage	Mature		Regulation Level	Medium
Revenue Volatility	Medium		Technology Change	Medium
Capital Intensity	Medium		Barriers to Entry	Medium
Industry Assistance	Low		Industry Globalization	Low
Concentration Level	Low		Competition Level	High

The American Hotel & Lodging Association estimated as of December 2011 that the U.S. lodging industry consisted of approximately 4.87 million rooms, at 51,214 properties, or about one hotel room for every 65 U.S. residents. U.S. lodging industry revenues totaled $127.5 billion in 2011, up from $127 billion in 2010. The U.S. lodging industry was the largest in the global hotel industry. (Kwon, 2012)

The lodging industry had experienced declining demand over the past several years due in large part to the recent recession. All forms of short-term accommodations had experienced decreased demands as consumers were more concerned about their financies, and have cut back on luxuries, such as travel. As the economy fell deeper into recession and unemployment continued to rise, consumers became more selective about how they spent their disposable income. Recreational activities like vacations, were some of the first expenditures consumers cut back. Even business travelers had cut back on non-essential travel due to slow business and low profitability. (Samadi, 2013)

QUALITY INN BRAND HISTORY

The Quality Inn brand began in 1939 as a marketing cooperative by a group of seven Southern motel owners. It was established as the Quality Courts United and thus became the first hotel chain in the United States. Its purpose was to refer customers to each other's hotels and to establish service standards to better meet the needs and expectations of their customers. As time passed, more and more hotels joined the Quality Courts system. It was renamed Choice Hotels International (NYSE: CHH) in 1990, and was one of the largest lodging companies in the world with approximately 6,200 franchised hotels in the United States and more than 30 countries and territories. As a result, it had become an influential force in the lodging industry today, and had established a reputation for providing value-driven, affordable lodging in convenient and popular locations. (Choice Hotels International, 2013)

"The company established a rich history of innovation, as it was the first in the industry to guarantee reservations; offer 24-hour desk service, in-room telephones and 24-hour-a-day, toll-free reservations; segment brands; develop a global marketing and reservations system; offer non-smoking rooms in every hotel; develop the first global hotel application for use with the iPhone; and the first massively-distributed, Internet-based property management system" (Choice Hotels International, 2013, p. 1).

HISTORY OF QUALITY INN BAYSIDE

Sabrina A. McCary, the General Manager of Quality Inn Bayside, had been working in the company for nine years. See Exhibit 1 for the overall Roya organizational chart. She oversaw the management of the entire hotel staff in order to meet financial goals and uphold customer satisfaction. She ensured all policies and procedures were followed in order to uphold company standards.

She reported: "Quality Inn Bayside was formally a Howard Johnson Motel until it was purchased in 2002 by Valparaiso Realty Company. Prior to its purchase, and subsequent renovations, it was considered a motel until it was transformed into an interior corridor property and converted to a Quality Inn. The hotel was again purchased in November 2012 by the Roya Investment Group, of Ankara Turkey, the hotel's current owners" (McCary, 2013).

Sabrina stated with pride the mission as follows: "The Quality Inn Bayside's mission is to deliver a quality product with outstanding service that Choice [hotels] represents to all guests and customers. We will exceed our customer's expectations by providing excellent customer service and offering a facility that will ensure the highest quality of the Choice Brand standards. We will hold true to the management philosophy of Quality Inn Bayside by balancing the three key stakeholders: Our guests, our associates, and our investors" (McCary, 2013). She further stated "We believe that great things are possible when people work toward common goals with a shared set of values and principles" (McCary, 2013).

The Quality Inn Bayside consisted of 100 large guest rooms featuring high speed internet, microwaves, refrigerators, coffeemakers, data ports, hairdryers, irons, alarm clocks, and cable TVs. The Inn's amenities included a fitness room, outdoor swimming pool, laundry facilities and complimentary continental breakfast. The hotel also offered free local calls, weekday newspapers, and outdoor parking. This waterfront hotel was located on Okaloosa bay and featured a boat dock with slips and boat launch, large pool, and courtyard area. (Choice Hotels International, 2013)

QUALITY INN BAYSIDE PERFORMANCE

Earnings before interest and taxes (EBIT) was a profit measure for the industry. Usually, profit varied among players depending upon the size of the hotel, hotel network, or parent company, with larger operators generally benefiting from economies of scale. The room rate was a major factor of competition for establishments in the same star rating classification and operating in the same geographic location (Samadi, 2012). The overall industry performance from 2004 to mid-2008 is depicted in table 2. During this period, the industry experienced a significant increase in EBIT due to an increase in domestic travel and demand for accommodations. This revival in tourism helped profit growth return, with continued increases expected through 2012 (Samadi, 2012).

TABLE 2
U.S. Lodging Industry Key Statistics

YEAR	Number of Properties	Number of Rooms (in millions)	Average Occupancy Rate	Average Room Rate	Rev Par	Sales (in billions)	EBIT (in billions)
2008	49,505	4.6	60.4%	$106.84	$64.37	$140.60	$25.80
2007	48,062	4.5	63.1%	$103.87	$65.52	$139.40	$28.00
2006	47,135	4.4	63.3%	$97.78	$61.93	$133.40	$26.60
2005	47,590	4.4	63.1%	$90.88	$57.36	$122.70	$22.60
2004	47,598	4.4	61.3%	$86.24	$52.90	$113.70	$16.70

(Hotel Management, 2009)

Beach driven tourism was a multibillion dollar market segment that supported hundreds of thousands of jobs in the area. Despite impressive industry growth, Quality Inn Bayside had been losing a significant amount of money for years. See Exhibit 2 for the Quality Inn Bayside Income Statement. Sabrina, the hotel's general manager, identified four major reasons behind this:

- The Gulf Coast oil spill decreased demand for tourism in this area. People were less eager to travel to the affected beaches during the oil spill, and as a result, the Inn lost a large number of customers.

- Despite a good location and a perfect view of the bay, the hotel and its facilities were outdated. Non-working equipment (including air conditioners, bathroom drainage, etc.) and room odor were major complaints of customers.
- New hotels were being built close to Quality Inn Bayside, which created additional pressures on performance. Travelers usually preferred modern facilities, as they believed they offered better value for their money.
- Poor customer service and insignificant advertising to attract new customers Management was stuck in old ways of operating, thereby, losing profit every month.

PURCHASING THE HOTEL

The Roya Group, the Turkish company, which had experience in hotel management, asset management, and construction, owned various businesses around the world. Metin Kebir, the Director of Business Development, had several years of experience working in the lodging industry. He was the person who suggested considering the U.S. hotel as a growth opportunity for the company. Kebir was also the Executive Manager for the Quality Inn Bayside. In addition, the Roya Group already owned a condominium complex in Niceville for a year, so it made sense for them to expand into the short-term lodging industry in the same vicinity.

The company took advantage of the poor economic conditions in the U.S. and purchased the existing hotel (at that time known as Howard Johnson) for only $4 million, when the real value of this 7.5 acres property in 2008 was $12 million. “Normally, the land is about $3.5-$4 million, so all the buildings became free – bonus!” Kebir said jokingly (Kebir, 2013). The reason for such an “advantageous” investment was the cash purchase, which brought the price of the hotel down significantly, since the previous owners were trying to sell off their assets. “This is a good start for us,” said Kebir (Kebir, 2013). The company planned to purchase more hotels in the near future, which would allow them to leverage the management, marketing, and sales staffs. (Kebir, 2013)

The next task for the company was to select “the flag” (meaning the franchise) for this hotel. The company conducted a study of the short-term hotels available in the area. Roya Group placed a bid on two hotel chains: Choice Quality Inn and Wyndham Baymont Inn & Suites. The Choice Quality Inn chain was preferred by the Roya Group, because they had more years of experience, stronger brand recognition, and superior customer loyalty.

The short-term objective for the purchased property was to renovate it and make it profitable. "Our goal is to generate $2 million in sales in 2013" said Kebir. This was a very ambitious goal, considering the fact Quality Inn Bayside only generated $1 million in sales in 2012. The company invested heavily in marketing, operations, redecorating, and management in order to turn around the existing hotel. The Roya Group's long-term objective was to take advantage of this multi-purpose land where 12-story building could be built by demolishing the existing hotel and building a shopping mall with multiple shopping areas, restaurants, movie theatre, etc.

CURRENT PROBLEMS

On a sunny but cold January day, Kebir stood at the parking lot with the consultant he just hired. "Tell me what you see as a problem here" asked the consultant. "Well, the sign is not big enough and the parking lot is not properly lighted" replied Kebir. "The problem is there are only three cars on this parking lot: one is mine, one is yours, and the third one is the car for your general manager. That is the problem!" pointed out the consultant to Kebir.

"The three evaluating factors of the performance of the short-term hotel are the occupancy rate, the daily average rate, and the revenue per available room" said the newly hired Sales Manager, Lawrence Nobles. (Nobles, 2013) During his first day on the job, he retrieved this information and analyzed the numbers. The occupancy rate had dropped by 3.8% in December 2012, and by 10% in January 2013, when compared to the previous year's performance. An increase in the average daily room rate by 10%, coupled with other factors, resulted in the decrease in the revenue per available room by 55% in January 2013. Table 3 (following page) contained the overall lodging industry financial fundamentals.

Problems were revealed in every department. The website was outdated. It did not emphasize Quality Inn Bayside as a waterfront hotel, and did not contain information on the nearby Red Lobster restaurant. "I noticed the system had a special rate for government employees, which was never activated" said Nobles. "When I asked the General Manager, who has been with the hotel for nine years, she said she never noticed the special rate was inactive on the website." (Nobles, 2013)

In addition, previous customers were leaving negative comments on websites such as Expedia.com, Travelocity.com, and Priceline.com. Customers complained that the rooms were "dark and dingy," equipment was not working properly, and the staff was not very friendly or helpful. These negative comments had been going on for years without being addressed by the previous hotel management. See Exhibit 3 for pictures of the hotel. It was one thing to not know negative things about your hotel, but it was another thing to know about them and do nothing.

At the same time, the housekeeping department was not prepared for the Spring Break rush, the first busy season in the lodging industry. The new owners of the property, and the General Manager, Sabrina Shore, could not agree on the policy for cleaning linen and towels. "They would not allow us to outsource the linen service, but then they would let us run the washers and dryers only three times per week" said Shore, screaming for help. "When we tried to wash the towels, stains would not come out, so we had to throw them away and buy new ones." (McCary, 2013) Clearly, the new owners were trying to cut operating costs by washing linens and towels only three times per week; however, it resulted in new costs associated with the purchasing of new towels and linens.

TABLE 3
Lodging Fundamentals (selected performance measures)

Year	Room Supply Yr to Yr	Room Demand % Chg.	Occupancy Rate (%)	Average Daily Room Rate ($)	Average Daily Room Rate % Chg.	Revenue per Available Room ($)	Revenue per Room % Chg.	Industry Revenue (bil. $)	Net Income (bil. $)
2011	0.6	5.0	60.1	101.64	4.4	61.06	3.7	153.3	32.8
2010	2.0	7.7	57.5	98.06	(0.1)	56.43	5.5	142.0	28.4
2009	3.2	(5.9)	54.5	98.17	(8.8)	53.50	(16.7)	133.3	24.9
2008	2.7	(1.6)	60.3	106.96	2.8	64.49	(1.9)	155.6	37.7
2007	1.4	1.2	63.2	103.64	5.9	65.50	5.7	156.4	40.2
2006	0.3	0.7	63.3	97.89	7.2	61.96	7.7	147.2	37.5
2005	0.4	3.3	63.1	90.91	5.4	57.37	8.5	135.5	31.7
2004	0.9	4.5	61.3	86.23	4.0	52.88	7.8	124.5	27.2
2003	1.2	1.7	59.2	83.12	0.1	49.18	0.6	117.8	23.7
2002	1.6	0.3	58.9	83.01	(1.4)	48.91	(2.6)	115.0	26.8
2001	2.4	(3.4)	60.0	84.92	(1.3)	50.96	(6.9)	115.6	29.7

(Kwon, 2012)

The front desk staff did not receive a proper training. When the consultants first entered the hotel, a guy full of tattoos wearing a t-shirt with skulls on it, greeted us and asked us to take a seat. When the consultants asked to take a look at some rooms, a girl wearing a Quality Inn shirt gave us two keys and said: "Woman is 115, and buildings is 121." The consultants tried to ask her what did that mean, but she was off to other things. After roaming around for 20 minutes trying to locate those two rooms, the consultants decided to come back and ask her again. After waiting at the front desk for almost five minutes, she told us these rooms were in an adjacent building. What customer service!

CONCLUSION

After purchasing the Quality Inn Bayside in 2011, the new owners, the Roya Group, had an uphill battle to turn a hotel on the brink of bankruptcy into a profitable business within 2 years. The challenges were many, but the rewards were many too. The new owners faced many marketing, human resource, and management challenges. Perhaps the biggest challenge facing the new owners was their inexperience in the U.S. hotel industry, and determining where to begin to turn the hotel around. Sure, they purchased the property at a bargain price, but would they really be able to turn the property from a loser into a profitable hotel?

EXHIBIT 1 THE ROYA GROUP ORGANIZATIONAL CHART

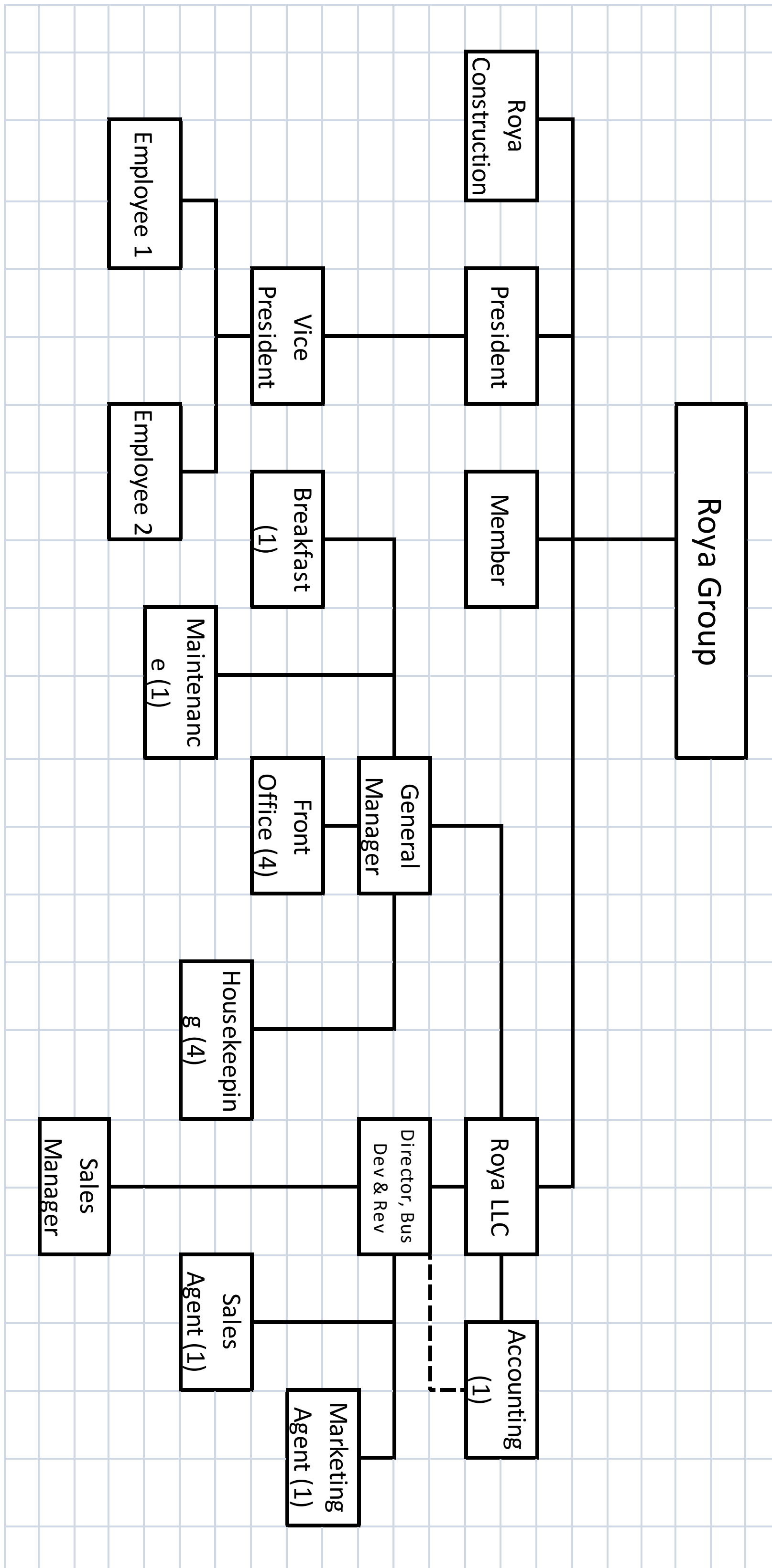

EXHIBIT 2
Quality Inn Bayside Income Statement

	Jan - Dec 09	Jan - Dec 10	Jan - Dec 11	Jan - Nov 12	TOTAL
Ordinary Income/Expense					
Income					
Total 600 · ROOM REVENUE	1,610,647.65	793,215.09	845,419.69	983,919.38	4,233,201.81
Total 605 · TELEPHONE DEPT - Revenue	(1,347.16)	68.34	198.97	107.32	(972.53)
Total 620 · OTHER DEPARTMENT	13,867.88	8,956.94	10,266.27	5,771.60	38,862.69
Total Income	1,623,168.37	802,240.37	855,884.93	989,798.30	4,271,091.97
Gross Profit	1,623,168.37	802,240.37	855,884.93	989,798.30	4,271,091.97
Expense					
Total 700 · PAYROLL EXP	0.00	0.00	74,258.58	294,574.11	368,832.69
Total 720 · ROOMS DEPT EXP	344,791.22	268,657.78	207,967.99	24,320.94	845,737.93
Total 750 · COMMUNICATIONS	66,005.52	64,142.63	63,057.92	36,276.56	229,482.63
Total 760 · ADMIN DEPT	176,009.93	125,321.68	87,673.94	35,447.65	424,453.20
Total 810 · ADV/PROMOTIONS	40,660.05	38,735.26	59,672.07	49,514.21	188,581.59
Total 830 · FRANCHISE	155,895.54	84,176.26	98,600.80	116,918.89	455,591.49
Total 840 · REPAIR & MAINT	112,413.64	106,569.44	99,048.24	49,214.16	367,245.48
Total 890 · UTILITIES	222,609.92	227,655.96	195,079.83	157,123.22	802,468.93
Total Expense	1,118,385.82	915,259.01	889,855.08	765,067.81	3,688,567.72
Net Ordinary Income	504,782.55	(113,018.64)	(33,970.15)	224,730.49	582,524.25
Other Income/Expense					
Total Other Income	19,898.10	350,122.00	31,383.46	127,174.42	528,577.98
Total Other Expense	812,342.61	739,742.32	857,216.06	921,440.47	3,330,741.46
Net Other Income	(792,444.51)	(389,620.32)	(825,832.60)	(794,266.05)	(2,802,163.48)
Net Income	**(287,661.96)**	**(502,638.96)**	**(859,802.75)**	**(569,535.56)**	**(2,219,639.23)**

Exhibit 3 Quality Inn Bayside pictures

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