

HiLite' hotels (HiLite) is a listed hotel chain, located in the country of Deeland. Deeland has a developed economy, which has experienced strong growth in the last 15 years. Deeland also has a highly-developed tourism industry.

HiLite's competitive advantage is built on its highly competitive pricing strategy, and this has been a significant factor in its current position as the leading hotel brand in Deeland. HiLite normally attracts those travellers seeking 'no frills' accommodation, at a reasonable price and as such, is referred to as a 'budget' hotel chain. Every HiLite hotel room provides an en-suite bathroom, TV and free Wi-Fi internet access and each hotel offers a complimentary breakfast service. However, HiLite hotels do not provide additional services such as bars, restaurants or leisure facilities. Every HiLite hotel has a similar layout and design, and are mostly located at airports, city centre locations and close to major transport routes, such as Deeland's main road networks and train stations.

HiLite was founded about 40 years ago beginning with two hotels in the capital city of Deeland. Since then it has grown significantly, operating 510 hotels (approximately 46,000 rooms) by the end of the 20X7/20X8 financial year (Note: HiLite's financial year end is 30 June). It is now the largest hotel chain (in terms of number of hotels) in Deeland. Since it was founded, all of HiLite's growth has been achieved organically within Deeland, with investment being gradually made in new 'HiLite' branded hotels each year throughout Deeland. Although it is currently the leading hotel brand in Deeland (in terms of market share), HiLite faces fierce competition from several home-based and international hotel chains.

In the last 10 years, HiLite has made significant investment in web-based technology, which has resulted in over 75% of room bookings in the 20X7/20X8 financial year being completed through the HiLite website. HiLite operates with low numbers of staff in each hotel but the staff in these hotels is highly trained to provide excellent customer service. HiLite values its staff highly, and is strongly committed to staff development and retention. HiLite pays above the Deeland national minimum wage in order to encourage staff commitment and loyalty.

You are a senior business analyst working within the business analysis department of HiLite. You report to the chief business analyst, who reports directly to the finance director on a wide range of business and strategic issues.

The following exhibits should be used to undertake the tasks asked of you by the chief business analyst and the finance director:

Exhibit 1: Chief Executive's Statement: Report on Performance for year ending 30 June 20X8

Exhibit 2: Deeland Hotel Industry Report 20X8

Exhibit 3: Factsheet relating to HiLite's proposed acquisition target

Exhibit 4: *Deeland Daily News* article

Exhibit 5: Extract of a senior management team briefing

Exhibit 6: Board meeting minutes November 20X8

The case requirements are included in the tasks shown below:

The case requirements are as follows and you will be told which role you are taking in each task.

Task 1

Summarize the case study and its exhibits and develop a conceptual map.

Task 2

Prepare five presentation slides for the following task:

The board of HiLite is currently looking to develop the HiLite business model in Veelandia, a developing country with good growth potential. However, as operating in a different country would be a new strategic direction for HiLite, the finance director has stated that before any such strategy is considered, it is important to understand the key factors in its home country of Deeland, which have driven HiLite's success.

Required:

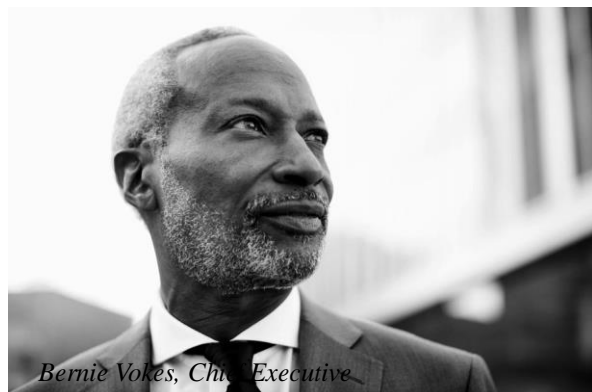
(a) Discuss the key factors which have enabled HiLite to be successful in its home country of Deeland.

Following a subsequent decision by the HiLite board, the proposed acquisition of the Comfi Stay hotel chain has recently been announced to the Deeland stock market and, generally, the market has reacted positively to the announcement. However, there have been some negative press reports in the Deeland Daily News about the proposed acquisition, criticising HiLite. The chief executive of HiLite is very concerned about these reports and has asked the business analysis team to consider HiLite's response.

Required:

(b) Prepare a draft press release responding to the criticisms assessing the social and environmental impact of HiLite's proposed investment in Veelandia, with a view to reassuring its stakeholders of HiLite's intentions to maintain its high principles and standards in acquiring the Comfi Stay hotel chain.

Exhibit 1: Chief Executive Statement: Report on Performance (year ended 30 June 20X8)



In HiLite we have created Deeland's most popular hotel brand. It is the strength of our brand, along with our superb hotel staff who deliver great service every day, which underpins our success and is a key driver of our future growth. We continue to deliver a market-leading customer experience by focusing on the quality of our service, the best choice of locations and great value for money. Through our network of 510 hotels (almost 46,000 rooms), we offer customers the widest choice of locations (20% more than our nearest competitor). This means our guests are able to stay closer to their destination, which is important to both our business and leisure customers.

Another year of strong sales and profit growth

This has been another successful year for HiLite, with record levels of customer satisfaction. This has helped to achieve sales growth, leading to a rise in profits and strong returns for our shareholders. We now employ almost 11,000 people, working across our 510 hotels and Head Office. In the financial year to June 20X8, total sales grew by 9.1% on the previous year to \$1,072 million. We achieved a 9.5% growth in our underlying pre-tax profit to \$236 million and this growth in profit has produced a strong operating cash flow, which has supported capital investment in the business. Total hotel room occupancy remained high, as we finished the year with an average room occupancy rate of 79.5%.¹

A continued commitment to invest



There is continuing growth of the budget hotel market as the luxury and mid-price sectors continue to decline. We offer the widest choice of locations in Deeland, the best value for money and, through investment in our sites and hotel staff, a great product in the marketplace. This year we invested over \$80 million on refurbishments as well as upgrading the customers' digital experience. Our website, HILITE-Hotels.com, welcomes 80% of our customers who choose to book directly with us, giving us a significant competitive advantage.

However, the environment in which we operate is evolving. Competitor dynamics are changing, through both traditional and disruptive channels; customers are demanding more value and greater quality. Technology is developing quickly, especially digitally and, with cost structures under pressure, there is a growing need to focus on productivity and efficiency. In order to continue to be successful in the future, we will need to invest to extend our current capabilities and also build new ones.

¹ Room occupancy rate is an industry standard KPI which shows the percentage of available rooms or beds being sold for a certain period of time. The standard formula used is rooms sold/rooms available

Key Performance Indicators (Year ended June 20X8)

<p style="text-align: center;">Commitment to shareholders</p> <p>Revenue Growth 9·1% (Target 8%)</p> <p>Pre-tax Profit growth 9·5% (Target 9%)</p>	<p style="text-align: center;">Commitment to staff</p> <p>Staff retention rate 52% (Target 55%)</p> <p>6·2 training days per employee (Target 5·5 days)</p>
<p style="text-align: center;">Commitment to customers</p> <p>Customer satisfaction 91·6% (Target 90%)</p> <p>Customer return visits 47% (Target 45%)</p>	<p style="text-align: center;">Commitment to the environment</p> <p>2·4% reduction in CO₂ emissions (Target 3%)</p> <p>Re-cycling of 85% of waste (Target 83%)</p>

Focus for the Future

We have identified four key strategic themes to ensure the continued success of our brand.

1 Focus on growth and innovation in our core HiLite business

We must continue to develop our market-leading customer focus with further product innovation and consistent delivery of quality service and value. Innovation is vital to our future success. We must improve our digital capabilities to ensure we stay ahead in this rapidly changing environment.

2 Focus on our strengths to grow internationally

There are exciting market opportunities for establishing the HiLite brand outside Deeland. As international growth is a new area of development for HiLite, we will need to focus our resources on the best opportunities which will produce the highest returns and match our high expectations of quality, value for money and commitment to staff and sustainability.

3 Focus on supporting future growth through investment in technology and staff

To deliver long-term sustainable returns we must invest for the long term to ensure we have the skills to become more agile in digital capabilities and build efficient and sustainable infrastructure. We are committed to creating a great place to work, with a strong commitment to equality and diversity. We will continue to commit to staff development opportunities which will help them realise their potential, investing around \$10 million annually in skills and development programmes. We welcome the introduction of the new Deeland National Living Wage, which we implemented six months in advance of the Government's launch date.

4 Focus on sustainability

We will continue to build on our focus and reputation of operating as a sustainable and environmentally friendly business. We are committed to continued development and investment in sustainability and environment management systems to reduce our levels of wastage, decrease our CO₂ emissions and work towards becoming a carbon neutral business. Over the next three to four years we will need to upgrade our systems and infrastructure to improve our sustainable position. All of our staff will continue to be trained in environmental management and sustainability awareness and targets will continue to be set for every hotel to encourage sustainable behaviour.

Bernie Vokes

BERNIE VOKES – Chief Executive

20X8 – A challenging year for Deeland’s Hotel Industry

by Professor R.J. STEEP, Chief Analyst of the Deeland Travel and Hospitality Institute

As 20X8 draws to a close, it looks like it will be a largely positive year for many hotels in Deeland, but that does not mean businesses can become complacent.

Tourism has continued to thrive in Deeland, despite the continued global effects of the recession, with hotels seeing an average rise in visitors by over 8% on 20X7. Deeland has a highly-developed hotel and travel industry. Both online travel agents (OTAs) and traditional high street travel companies are thriving in Deeland. Online hotel booking websites and price comparison sites are driving businesses to be more competitive and offer better and more flexible pricing options.

Continued investment

This has to a significant extent been assisted by the Deeland government’s continued investment in national infrastructure, particularly the new airport recently opened in Boria, Deeland’s second largest city. This generated an additional 2.5 million international visitors last year, approximately 80% of them visiting Deeland for leisure. In addition, both at national and regional level, investment has been high in road and rail network development.

This has also led to a growth in business activity in the economy, which in turn has created more opportunities and created a highly competitive environment. In 20X8, two new national branded chains of hotels have opened in the main tourist centres of Deeland. National competition remains intense and both Waterbay Leisure and ZeezeeHols Group, two of Deeland’s most long-established luxury hotel chains, have both gone out of business this year. This is a stark warning for those Deeland hotels which do not remain competitive and customer-focused.

It is clear that innovation is critical to the survival of hotel businesses, and technology continues to be a key driver in the market place. Most of Deeland’s hotel chains are now offering online booking facilities and as a minimum are developing online apps for multiple platforms to enable guests to communicate and manage bookings more effectively.

Impact of stakeholders

Deeland’s travellers continue to be highly demanding leisure and business customers, expecting high standards but also good value for money. A recent survey of online hotel customers clearly indicated that 70% would shop around for the best deal in the best location. The hotel and travel industry was hit hard in many countries by the recession and a number of hotel and travel companies went out of business. However, those which survived did so by focusing on customer needs and operating efficiently.

The government also continues to value the hotel and travel industry. Nearly half of the universities in Deeland offer travel and tourism qualifications which are highly regarded throughout the region. The government has recently announced further investment and tax breaks for employers offering job creation schemes in a wide range of industries, including travel and tourism.

Challenges in the hotel industry for 20X9 and beyond

Customers want an outstanding, personalised experience

If the hotel industry in Deeland wants to deliver an outstanding, individualised customer experience, it must understand customers’ needs. This will be a challenge because customers’ needs are continually evolving and they are increasingly demanding personalised communications (via multiple electronic platforms), excellence in delivery as well as a demand for value for money.

Recruiting and retaining the right people

Many of Deeland’s hotels are finding it increasingly difficult to recruit and retain individuals with the right blend of interpersonal and technical skills. Developing and implementing an effective recruitment strategy and retaining skilled employees are difficult. Recent research shows that the hotel sector has some of the highest staff turnover rates of any industry (average staff turnover rate per hotel in 20X8 is likely to be as high as 60% per annum).

Changing competitive dynamics

There is little doubt that the competitive landscape is changing. One evident trend is increasing consolidation, especially among hotels. Much of the merger and acquisition activity stems from companies' objectives to gain market share and vertically integrate their product offerings (i.e. businesses operating in the budget segment want to buy into the mid-range or luxury hotel segment and vice-versa).

The nature of competition itself is also changing. New business models are emerging to meet the evolving consumer needs, as mentioned earlier, posing significant challenges to traditional hospitality businesses. For instance, the world's largest accommodation provider, 'Rent-a-Room', does not own a single hotel room or any of the lodgings it advertises. Instead it operates as an online marketplace, enabling travellers to lease or rent short-term lodging including holiday rentals, homestays, or hotel rooms.

So, for many of Deeland's hotel operators these are exciting but challenging times and those who survive will be those that keep up with the pace of change in the industry.

Comfi Stay Hotel Chain

KEY BUSINESS/INDUSTRY DATA

- Comfi Stay is a family-run business, which has lacked investment in the last 10 years.
- All 20 hotels in the chain have been in operation for over 18 years and are located in main coastal resorts of Veelandia. These are in premium locations but with out-dated facilities.
- Mid-range hotels, some with additional leisure facilities such as gyms and pools. Not classed as budget hotels.
- Veelandia is 5,000 miles from Deeland. It has a developing economy, but low wage rates and there is some evidence of poor employment practices in the country. Some evidence of use of under-age labour (minors) in the hotel industry has been found.
- Veelandia has a thriving tourism industry.

KEY INVESTMENT DATA: (based on a 6-year investment plan)

NOTE: All figures used have been converted into Deeland's home currency (\$)

		Year					
	0	1	2	3	4	5	6
Revenues		48,180,000	48,180,000	53,961,600	53,961,600	53,961,600	53,961,600
Initial Investment	80,000,000						
Refurbishment	10,000,000	5,000,000					
Environmental Investment		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Training Costs		3,000,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Operating costs		21,681,000	21,681,000	24,282,720	24,282,720	24,282,720	24,282,720
Total Costs	90,000,000	30,681,000	24,181,000	26,782,720	26,782,720	26,782,720	26,782,720
Cash Flow	- 90,000,000	17,499,000	23,999,000	27,178,880	27,178,880	27,178,880	27,178,880
Discount Factor 12%	1.00	0.89	0.80	0.71	0.64	0.57	0.51
Present Value	- 90,000,000	15,624,107	19,131,856	19,345,390	17,272,670	15,422,026	13,769,666
Net Present Value	10,565,715						

Additional Information:

- It is expected that some of Deeland's hotel managers would need to relocate to Veelandia (for approximately 3–12 months, on a temporary basis) to assist in training and staff development in the first year of operations and will be required to carry out on-going mentoring activities for the next two years.
- Finance for this investment would be available through a combination of equity and debt finance.

Deeland Daily News

Has HiLite hit a low?

Business Briefing: Hotel News

Senior Business Reporter, A.J Talling questions the motivations of HiLite's latest business venture.

HiLite hotels recently announced it was making an approach to buy the struggling Comfi Stay hotel chain in Veelandia. Comfi Stay's owners, the DeWalt family, announced their intention to sell the business three months ago, having seen revenues decline steadily in the last three years. Its Chief Executive and founder Anders DeWalt admitted in an interview last month that the family has failed to recognise and keep up with the investment demands of a modern hotel, but was confident that a new owner could revitalise the business. But is its potential acquisition by HiLite a positive move for the Deeland-based budget hotel business?

Reading its recently published Chief Executive's Statement, HiLite is a business which clearly prides itself on the value it places on its staff and maintaining strong employment rights. However, staff in Comfi Stay hotels are currently paid well below the rate of pay earned by their equivalent staff in Deeland. They also work longer hours per week with few employment rights, such as holiday or sick pay. Most of Comfi Stay's staff are women, who are offered few opportunities for training or staff development. In addition, Comfi Stay's policy of only employing men as hotel managers and senior staff in its hotels would seem to be in stark contrast to the strong focus on equality within HiLite's employment practices.

Staff pay and conditions may not be the only concern for HiLite. Comfi Stay was fined by the government of Veelandia less than two years ago for polluting the local waterway in its main coastal tourist town, with an outflow of untreated effluent. The cause was outdated waste and toilet facilities which it said would be addressed, but limited recent investment in the Comfi Stay hotel chain suggests otherwise. HiLite will have to invest significant sums of money to make the hotel chain a viable and sustainable part of its business, if it wishes to adhere to its high expectations for environmental sustainability.

Although Veelandia has a thriving tourist economy, which has in fact grown since the global economic recession, it is a country of limited environmental awareness. National recycling levels are 50% less than other countries in the region and its reported CO₂ emissions are the worst in the region.

So why is the Comfi Stay hotel chain of interest to HiLite? Seemingly, foreign companies like HiLite wish to exploit this low wage economy, where a poorly educated population is happy to be in employment at whatever the rate of pay and where profits can be maximised by exploiting locals and tourists alike, with scant regard for the impact on its people or its environment. For an organisation like HiLite, this must be a questionable, and some may suggest, an unethical direction of development for HiLite to follow.

Exhibit 5: Extracts of HiLite senior management team briefing after an article was published in the Deeland newspaper following the announcement of the proposed acquisition of the Comfi Stay Hotel chain.

Attendants:

Bernie Vokes – Chief Executive

Jay Brown – Sales and Marketing Director

Tomas Myer – Operations Director

Elizabeth Fox – Finance Director

Jay Brown: I think we need to consider how we communicate such major strategic decisions, such as our proposed investment in Comfi Stay hotels, more effectively to our wider stakeholders.

Tomas Myer: I'm not sure there is any need for this. We don't want to over react to the recent article in the *Daily News*. Let's be realistic. Our shareholders are only interested in the bottom line. So, as long as the Comfi Stay hotels make them a profit, they won't care much about anything else. Our hotel customers, likewise, are really only interested in their own personal experience for the duration of their stay in one of our hotels. And do our hotel staff really care about more than how much they get paid and when their next day off is?

Bernie Vokes: I disagree with you Tomas. We must consider all of our stakeholders and how we should communicate our activities to them. Both shareholders and customers are changing in their attitudes and expectations of us. Not only in the products and services we offer, but also in how we communicate with them.

Jay Brown: Yes, I agree Bernie. In particular, we should seriously consider how we report our social and environmental activities to our stakeholders. I believe it could be a strategic advantage for us to do so.

Tomas Myer: Strategic advantage? How? I just don't see what information would interest our stakeholders, other than we are profitable and our prices are the most competitive in the market! We are a budget hotel and our strategic advantage is based on our price, not on communication of useless information to our stakeholders.

Elizabeth Fox: Actually Tomas, we have a wide range of stakeholders, who are interested in a wide range of aspects of our business. Effective communication with them is critically important to us and them. My own opinion is that introducing integrated reporting would offer us the best solution in communicating and building relationships with our stakeholders.

Tomas Myer: But surely, the press statement that we are going to release in response to the accusations in the *Deeland Daily News* is satisfactory for all our stakeholders, isn't it?

Tomas Myer: Not all of our stakeholders will see our press statement or have any idea about our proposed acquisition.

Bernie Vokes: So why bother telling them what they don't need to know?

Tomas Myer: OK everyone. I think we need some further consideration of this. Elizabeth, could you ask one of the business analysis team to provide us with some more information on the importance of communication with our key stakeholders and the role that integrated reporting could play in assisting this communication?

Bernie Vokes:

Exhibit 6: Board meeting minutes – November 20X8

Board members:

Present: Chairman, Chief Executive, Finance Director, Operations Director, Sales and Marketing Director

Proceedings:

Meeting called to order at 2:00 p.m by Mr L Crane, Chairman

Opening statement

The Chairman opened the meeting, stating that the meeting had been scheduled to discuss the challenges faced by HiLite in managing and developing its information systems. He noted that he personally found the rapid development in information technologies difficult to keep pace with, but was confident that HiLite would develop appropriate responses to these developments.

Agenda item 1: Disruptive technologies

The first agenda item was introduced by Jay Brown, the Sales and Marketing Director.

Miss Brown expressed her concern that the 'hotel' concept is under threat, as there have never been more alternatives for customers to staying in a traditional hotel. In particular, she explained the emergence of 'Rent-a-Room'. She had emailed the handout below to the board in advance to help their understanding of a new threat.

Explanation of Rent-a-Room

'Rent-a-Room' is a totally online marketplace which offers 'flexible hospitality', enabling guests to quickly and conveniently book short-term room lodgings with third party 'hosts'. These include apartment rentals, homestays, hostels and hotel rooms.

Rent-a-Room receives a percentage service fee from both the guests and the hosts for every booking made. It has over 2 million accommodation listings in 60,000 towns and cities across the world.

Notably, it doesn't own any of the lodgings it advertises.

Many of the hosts listed with Rent-a-Room offer high speed internet and Wi-Fi facilities plus extras such as web-movies and the prices charged are often far lower than our hotel room prices.

Mr Tomas Myer, HiLite's Operations Director stated his belief that the Rent-a-Room concept is a limited threat to HiLite's established business model. His opinion was that 'It's just people sleeping on the floor of a friend's house and raiding their fridge in the morning. It's hardly what we offer. Customers want far more than that.' He also expressed his belief that this would be a short-lived phenomenon: 'The threat from Rent-a-Room is clearly more of an 'if' rather than a 'when'. I think we should not over react and just let this blow over.'

Mrs Elizabeth Fox, HiLite's Finance Director, commented that technology was likely to be a key disruptive influence on the future of the hotel industry. She explained that modern travellers and primarily the 'millennials' (those people born approximately 20–40 years ago) are looking for value for money, flexibility and the ability to manage their whole stay, from booking through to flexible check-out, all via their smartphones. She also noted that smartphone apps are now being developed to enable smartphones to be used as an alternative to a key for door entry systems to hotel rooms.

Other technological developments in the hotel industry were discussed, including the emergence of online travel agencies (OTAs) and hotel comparison and booking sites, and the development of personalised technologies, such as smartphone apps which provide guests with personalised services such as customised local offers from business partners, including booking facilities at local restaurants and cheap tickets for local attractions. Elizabeth Fox concluded the discussion with the statement that 'Hotels can no longer simply rent rooms – we need to give the traveller more reasons to book with us directly.'

The Chief Executive, Bernie Vokes, summarised by stating that HiLite could not ignore disruptive technologies and that before any decision is made on how to react to these, HiLite must assess the extent of this strategic threat, before identifying relevant responses.

Agenda item 2: Information systems risks and controls

The Finance Director opened the discussion on information systems risks and controls with the statement that, although HiLite has invested significant amounts of money in its website in the last few years, it has not developed a clear information systems strategy. Also, she expressed her concern that control and management of the risks to its IT/IS environment have not been adequately addressed.

The Chairman commented that HiLite has not experienced any breaches of its information systems and that therefore, 'we must be doing something right'. The Finance Director presented to the Board what she considered to be the three key information systems risk considerations in the slide (Appendix 1) below. The Finance Director recommended that these risks should be prioritised and that HiLite must take appropriate action to control these risks.


The Finance Director presented Appendix 1 to the Board.

ACTIONS TO BE ADDRESSED BEFORE THE NEXT BOARD MEETING:

1. Identify the challenges posed by disruptive technologies and recommend applications for disruptive technologies by HiLite.
2. Identify appropriate actions to control HiLite's information systems environment.
3. Investigate the possibility of recruiting an IT Director.

Meeting was concluded at 3.30pm.

APPENDIX 1:

 INFORMATION SYSTEMS RISKS : KEY CONSIDERATIONS	
RISK	CAUSES OF RISK
1. Lack of focus on IT/ IS Strategy	Weak focus on IT/ IS strategy and weak strategic leadership of our IT/IS development. Limited support for IT/ IS strategy at Board level.
2. Cyber and data security breaches	Failure to update our information systems in line with latest cyber security threats. Lack of appropriate internal physical and access controls
3. Business continuity threat	Insufficient planning for business continuity. Lack of awareness at Board level of the importance of critical information systems.

End of Question Paper