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LUX\* RESORTS & HOTELS: optimal room mix marketing decisions

Nitesh Pandey and Professor Singfat Chu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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With a melodious “Good morning, dear friends,” Paul Jones, chief executive officer of LUX\* Resorts & Hotels, started the hotel group’s monthly senior management meeting at the end of January 2016.

The board of directors has asked me to pass its appreciation to you and your teams for the heartfelt guest feedback and the preliminary financial results for last year. The board believes that we will do even better this year, thanks to our marketing analytics team, which is bringing us ever more guests from all over the world, and our passionate staff who are continuously innovating our products and services to delight guests in our Celebrate Life concept. In order to reward our loyal stakeholders, and also to fund capital and renovation expenditures, the board has set for our standard rooms segment an EBITA[[1]](#footnote-1) target of €38 million,[[2]](#footnote-2) to be achieved from our foreign guests at our 10 hotels this calendar year.

The board has also noted the enthusiastic response from local residents when we offered them discounted rates for standard rooms at our five hotels in Mauritius throughout last year, except for the peak season when foreign demand for our rooms exceeds our supply. Local residents are generally not able to pay our full rates. By offering them discounted rates, we get some revenues from rooms that would otherwise be left empty. The board has decided that subject to satisfying the €38 million EBITA constraint, some standard rooms that are not occupied during the other four seasons (that is, high, shoulder, shoulder low, and low) in our five hotels in Mauritius will be made available to local residents this year. Based on the pattern seen last year, we forecast local demand for about 400, 900, 1,600 and 2,100 room nights in these four seasons respectively.

Our finance department has estimated that with the discounts to be offered, local guests will contribute net revenue per room about half as much as our foreign guests. The board is thinking of using this revenue stream from our local guests to finance our corporate social responsibility program in Mauritius. Therefore, dear friends, the first item on our agenda today is to figure out the room mix we need to market across the different seasons in our 10 hotels in order to meet the €38 million EBITA target from foreign guests. Secondly, we have to report to the board the net revenue that can be raised from local guests. The board needs this number in order to decide which corporate social responsibility programs to sponsor (for example, education, trade and life skills empowerment programs for socially vulnerable groups, assistance for health afflictions such as thalassemia, flora and fauna conservation, civic embellishment projects, and so on). We want to give back as much as possible to society.

THE REBRANDING JOURNEY

The LUX\* Resorts & Hotels company started as Naiade Hotels. In 1998, it opened a seafront luxury hotel called Beau Rivage on the east coast of Mauritius. As Beau Rivage became a quick success, Naiade Hotels started acquiring and building more hotels along the Mauritius coastline.

Fast expansion and a myriad of management problems led to deteriorating service, dissatisfied guests, and eventually, cash flow shortfalls. In 2011, Naiade Hotels almost went bankrupt. A new management team stepped in under the leadership of veteran Jones, whose experience in the Mauritius tourism industry dated back to its early days in the mid-1970s. As the team instilled new energy, rigour, and innovations in the operations, the company was rebranded as LUX\* Resorts & Hotels.

Innovations rested primarily with the staff, as their passion was critical to delighting the hotel guests. Staff were given incentives to offer suggestions on re-engineering the training programs and guest service offerings. Jones and his team believed that these were the fundamental drivers of the financial bottom line. Many creative suggestions were tested out, and those deemed successful were implemented under the unified “Celebrate Life” concept. This concept aimed at making every guest stay memorable, based on the premise that a stay was not only luxurious but also more hospitable, lighter, and brighter than at other hotels.

The “Celebrate Life” experience was delivered through simple, fresh, and sensory experiences guests indulged in throughout their stay. These experiences included customized health and spa sessions, a magical tree of wishes, junk art galleries, impromptu on-the-beach film screenings, pop-up surprises such as free ice cream carts, “call anywhere but the office” phone booths, treasure bottle hunting, fairly priced in-room mini-bar products to mitigate unpleasant surprises at billing time, and so on. Jones and his team attributed the effusive feedback and lofty rankings achieved by the group’s hotels on travel websites such as TripAdvisor and Booking.com to the memories guests treasured from their “Celebrate Life” experience.

As of 2016, LUX\* Resorts & Hotels managed 10 hotels across four countries. Additional management contracts were being planned. Cash flow problems diminished, but the company was still servicing huge loans from the past. Some hotels were also approaching their 10th year of existence and needed to be renovated.

HOTEL LOCATIONS AND SEASONALiTy

LUX\* Resorts & Hotels operated five hotels in Mauritius, labelled A to E. Hotels F and G were located in China. Hotels H and I were in Reunion Island, located about 30 minutes by plane from Mauritius. Hotel J was in the Maldives. The hotels were all rated four or five stars except for Hotel E, which was slated for a complete overhaul during the coming shoulder low and low seasons. After renovation, it would have fewer rooms but its rating would leap from three to five stars (see Exhibit 1).

The 10 hotels had between 22 and 190 standard rooms each. Room prices varied across the hotels and the five occupancy seasons specific to each country. In Mauritius, the peak season lasted about 29 days—from December 18 to January 15. It coincided with summer locally and the popular Christmas and New Year celebrations, when foreign guests flocked in to escape winter from countries such as France, the United Kingdom, and Germany. The high season occurred over several periods (around Easter, October to mid-December, and so on) and covered about 91 days. The shoulder (or average) season lasted about 117 days, while the shoulder low (below average) and low seasons lasted about 74 and 53 days respectively. The low season occurred in July and August, with low temperatures ranging from 15–20° Celsius, steady drizzle, and gusty winds. Room occupancy was generally high even in the low season, as new streams of guests came in from the emerging markets of India and China.

Revenues were generated from room rentals, which included half-board meals, extra food and beverage consumption, mini-bar charges, and spa and activity fees (for such activities as wellness treatments, scuba diving, deep sea fishing, and parasailing). For 2016, the finance department estimated that after cost deductions, the net average revenue per room (ARR) per night from foreign guests would be about €106 in the shoulder (average) season at Hotel A. Historically, the nightly ARR varied according to the season because of the different demand patterns and the economic profile of the foreign guests. Thus, the nightly ARR typically increased by about 20 per cent in the peak season (for example, €106.0 × 1.2 = €127.2 for Hotel A, and so on) and 10 per cent in the high season (for example, €116.6 for Hotel A, and so on) but decreased by 5 per cent and 10 per cent in the shoulder low and low seasons (to €100.7 and €95.4, respectively, for Hotel A, and so on). The seasonal ARRs from local guests in Mauritius hotels would be half of those from foreign guests (for example, €116.6 × 0.5 = €58.3 in the high season at Hotel A, and so on).

Not all rooms at a hotel could be sold on a given day, as some needed to be freshened up, while others were offered free to travel agents and media writers on familiarization and publicity trips. Thus, Hotel A was expected to have, at most, 95 per cent of its standard rooms available during the peak season lasting 29 days. With its 186 rooms, this translated into a total of 5,124.3 (0.95 × 186 × 29) room nights available during the peak season. Foreign guests still came to hotels even in the worst economic climate. The 2008–2010 global financial crisis was an appropriate benchmark for the minimum number of standard rooms that would be occupied seasonally by foreign guests at each hotel. In those three “slow” years, Hotel A sold an average of about 4,315 room nights during the peak season. Similar statistics were available for the five seasons at each hotel (see Exhibit 1).

Hotel E, located in Mauritius, was aging. Its three-star status did not fit the branding of LUX\* Resorts & Hotels, which focused on four- and five-star properties. The current (or pre-renovation) hotel would close down during the upcoming shoulder low and low seasons (from June to September) for a complete overhaul (see Exhibit 1). Prior to the renovation, it would operate in part of the peak season (the first 15 days in January) and part of the high and shoulder seasons until the end of May. After renovation, from around October 1, it would reopen as a five-star hotel, with a higher ARR during parts of the forthcoming shoulder, high, and peak (the last 15 days of December) seasons.

Exhibit 1: Hotel Location, Shoulder Season Average Revenue per Room, Maximum and minimum rooms by season

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Maximum # of Rooms Available by Hotel by Season** | | | |  | **Minimum # of Rooms Expected to Be Sold to Foreign Guests** | | | |  |
| Location | Hotel | Shoulder  Season  Net ARR (in €) | Peak | High | Shoulder | Shoulder  Low | Low | Peak | High | Shoulder | Shoulder Low | Low |
| Mauritius | A | 106 | 5,124.30 | 15,233.40 | 18,497.70 | 11,011.20 | 7,030.80 | 4,315.20 | 12,694.50 | 15,233.40 | 8,946.60 | 6,026.40 |
| Mauritius | B | 111 | 3,994.75 | 11,875.50 | 14,420.25 | 8,584.00 | 5,481.00 | 3,364.00 | 9,896.25 | 11,875.50 | 6,974.50 | 4,698.00 |
| Mauritius | C | 97 | 5,179.40 | 15,397.20 | 18,696.60 | 11,129.60 | 7,106.40 | 4,361.60 | 12,831.00 | 15,397.20 | 9,042.80 | 6,091.20 |
| Mauritius | D | 85 | 6,061.00 | 18,018.00 | 21,879.00 | 13,024.00 | 8,316.00 | 5,104.00 | 15,015.00 | 18,018.00 | 10,582.00 | 7,128.00 |
| Mauritius | E pre-renovation | 63 | 1,995.00 | 2,898,00 | 12,733.00 | 0 | 0 | 1,680.00 | 2,415.00 | 10,486.00 | 0 | 0 |
| Mauritius | E post-renovation | 121 | 1,463.00 | 6,732.00 | 935.00 | 0 | 0 | 1,232.00 | 5,610.00 | 770.00 | 0 | 0 |
| China | F | 73 | 414.72 | 2,737.92 | 1,900.80 | 1,382.40 | 1,098.00 | 362.88 | 2,321.28 | 1,598.40 | 1,175.04 | 878.40 |
| China | G | 77 | 380.16 | 2,509.76 | 1,742.40 | 1,267.20 | 1,006.50 | 332.64 | 2,127.84 | 1,465.20 | 1,077.12 | 805.20 |
| Reunion | H | 38 | 3,401.70 | 10,046.40 | 12,270.96 | 7,148.40 | 4,843.80 | 3,121.56 | 9,418.50 | 11,302.20 | 6,637.80 | 4,471.20 |
| Reunion | I | 113 | 3,204.50 | 9,464.00 | 11,559.60 | 6,734.00 | 4,563.00 | 2,940.60 | 8,872.50 | 10,647.00 | 6,253.00 | 4,212.00 |
| Maldives | J | 125 | 5,179.40 | 15,215.20 | 18,673.20 | 11,248.00 | 6,976.80 | 4,408.00 | 12,967.50 | 15,561.00 | 9,139.00 | 6,156.00 |

Note: ARR = average revenue per room

Source: Data and table prepared by the authors using company information.

1. Earnings before interest, tax, and amortization. [↑](#footnote-ref-1)
2. € = EUR = euros; all currency amounts are in € unless stated otherwise; €1 = US$1.08 on December 8, 2016. [↑](#footnote-ref-2)