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Gold Crest Hotel: Filling Room Vacancies

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At the end of May 2015, Sanjeev Paliath was in his office skimming over the growing list of weddings and business conventions booked at his hotel for the coming weekend. As general manager of the Gold Crest Hotel (Gold Crest) in Mwanza, Tanzania, Paliath had been pleased with the hotel’s steady revenue growth from conference room bookings over the past two years. However, the average yearly hotel occupancy was below management’s desired 80 per cent rate. The Gold Crest was considered Mwanza’s premier hotel for weddings and conferences, but it faced tremendous competition for guest room bookings from many local, lower-priced hotels. Now, halfway through the high season, Paliath had three days to prepare for his upcoming meeting with corporate executives to discuss which consumer market the Gold Crest should actively target. He pondered his available options to increase room occupancy and combat the hotel’s slow season, which would soon arrive in July.

**EXTERNAL ANALYSIS**

By the end of 2014, Tanzania’s population had reached over 50 million.[[1]](#footnote-1) The country’s agriculture industry employed approximately 75 per cent of the population and accounted for over one-quarter of the country’s gross domestic product;[[2]](#footnote-2) however, manufacturing, real estate, tourism, and business services were the fastest-growing sectors.[[3]](#footnote-3) In 2014, the average annual income per capita was US$930,[[4]](#footnote-4) but only 28.2 per cent of the population was living below the poverty line, a decrease of 5 per cent since 2007.[[5]](#footnote-5) The completion of the National ICT Broadband Backbone, the country’s national fibre-optic cable network in 2010, and the increased number of cell phone users had consequently increased the number of Internet users in Tanzania to 9 million.[[6]](#footnote-6) According to the 2013 National Household Budget Survey, Tanzania was well-positioned to reach middle-income status in the next decade.[[7]](#footnote-7)

As the second-largest city in Tanzania, Mwanza boasted one of the fastest growth rates of East African cities in 2014.[[8]](#footnote-8) Mwanza has historically served as Tanzania’s main port on Lake Victoria, establishing itself as a primary trade route between Tanzania, Uganda, and Kenya. Government efforts to attract foreign investment in Mwanza had also increased drastically over the past eight years due to political stability, growth in the business sector, and a rising middle class.[[9]](#footnote-9) Although drastic capital investments in infrastructure had begun to modernize the city, sporadic power shortages, unpaved roads, and poor sewage systems were areas for improvement. Mwanza was only a two-hour drive from the most visited park in Tanzania, the Serengeti National Park, which had attracted 336,177 tourists in 2013—almost double the number of tourists that had visited the second most-visited, Lake Manyara National Park.[[10]](#footnote-10)

**Competition**

In addition to the Gold Crest, a number of luxury hotels in Mwanza competed for the luxury tourist customer segment: the Malaka Beach Resort, La Cairo Hotel, Villa Park, New Mwanza Hotel, and the JB Belmont Hotel (see Exhibit 1). While these hotels provided luxurious guest rooms that catered to tourists, they lacked the space and resources to meet the needs of business and wedding guests who required large conference spaces. Additionally, the Gold Crest was one of the select few hotels to offer a swimming pool, an amenity highly valued by families and tourists.

Other direct competitors included over 50 privately-owned small discount hotels that competed on price. These hotels catered to tourists, locals with limited disposable income, and price-sensitive business professionals.

**INTERNAL ANALYSIS—THE GOLD CREST HOTEL**

The Gold Crest was located in the heart of downtown Mwanza only 10 minutes from Mwanza International Airport, and its construction was completed by the Public Provident Fund (PPF) in 2011. Managing Director Mathias Manga of the Gold Crest had invested $360,000 for the building’s interior furnishings, a sum later reimbursed by the PPF. According to the PPF contract, the Gold Crest was obligated to pay a monthly rent expense of $44,000. The rent expense represented the hotel’s largest fixed cost and the company’s greatest financial strain. With a modern design, spacious guest rooms, and a dedicated staff of 130 employees, the hotel aimed to become Mwanza’s preferred hotel. It offered 24-hour surveillance and always had two security guards on site, making guest safety a top priority.

The Gold Crest had four major sources of revenue: conference rooms; guest rooms; restaurants and bars; and Club Rock Bottom, a nightclub.

**Conference Rooms**

Conference room bookings were the hotel’s most reliable source of income. The hotel’s five air-conditioned conference rooms had varying prices based on the room size, the number of guests attending, and any additional service offerings (see Exhibit 2). The hotel’s core customer groups for conference rooms were business and wedding clients. Business clients valued the variety of room sizes, electrical outlets, and amenities; wedding clients valued the choice between bringing food into the venue or having food catered by the hotel. Currently, the hotel was experiencing great success with full occupancy for conferences on weekends, forcing Paliath to turn down business because the hotel had no additional conference space.

**Guest Rooms**

The Gold Crest had a maximum occupancy of 80 guest rooms of varying types (see Exhibit 3). Approximately two-thirds of guest room bookings were done through travel agents, repeat corporate clients, and partnership tourism companies. The remaining bookings were made through the hotel by returning guests. The Gold Crest valued its reoccurring customer base and relied heavily on its staff to recognize familiar guests and their preferences; however, no formal guest loyalty program was in place. Less than 10 per cent of Gold Crest guests were tourists.

**Restaurants and Nightclub**

The Gold Crest had three restaurants, which served breakfast, lunch, and dinner to hotel guests and local visitors. Although restaurant revenues were not directly correlated with room bookings, Paliath was pleased with the restaurants’ financial performance and anticipated revenues to grow with additional guests and visitors.

Club Rock Bottom was open Thursday to Sunday and provided the hotel with stable revenues on weekends. The nightclub’s profitability was negatively affected during the slow tourist season.

**CURRENT ISSUE**

Although conference rooms were in high demand on weekends, the hotel had difficulty reaching target occupancy with guest room bookings. In the high season (April to June), the hotel maintained an average room occupancy figure of 80 per cent but retained only 50 per cent occupancy in the remaining slow months. The pressure to turn a profit was heightened by the hotel’s seasonality and a high fixed rent expense. Moreover, with increasing competition from local hotels with discounted room rates, Paliath wondered how he could leverage the Gold Crest’s reputation as a luxury hotel brand to attract customers. Preparing for the upcoming slow season (July to March), he needed to decide if he should continue to target business professionals to fill room vacancies or if he should target the growing tourist segment.

**ALTERNATIVES**

The first alternative Paliath considered was to continue targeting business professionals. He knew that major businesses valued the conference facilities, and he believed business clients would value the luxurious atmosphere and the personalized care offered by Gold Crest staff. Moreover, business guests would greatly value staying close to the conference venues rather than commuting to the site. He wondered how he could leverage strategic partnerships with local and foreign businesses for corporate guest room bookings. Currently, conference rooms had fixed rates based on their size, but Paliath wondered if he should provide a discount for conference rooms if a certain number of hotel rooms were booked.

The second option was to target the growing tourist segment in Tanzania. International tourists travelling to Tanzania would have disposable income and would value the safe and relaxed environment the Gold Crest provided. With Mwanza’s proximity to the Serengeti and other national parks, the Gold Crest was in an ideal location to accommodate incoming tourists. Multiple safari companies had approached Paliath about offering safari packages to customers. For instance, upon landing in Mwanza, customers could stay for one or more nights at the Gold Crest and then leave from there for their safari.[[11]](#footnote-11) Paliath considered the effectiveness of online advertising campaigns to attract tourists overseas. He wondered if shifting his target customer segment would hurt the hotel’s brand perception as Mwanza’s premier business hotel and if there would be enough tourist traffic to increase occupancy during the low season.

His final consideration was whether to renovate the hotel’s ninth floor, which had been left unfinished due to budget constraints. In order to cater to his chosen consumer segment, Paliath could either add 10 guest rooms (five lake view rooms and five deluxe rooms) or add three additional conference rooms. To add the new conference rooms, the necessary investment would be $60,600, while the 10 additional guest rooms would cost $110,500. With conference rooms making up the majority of the hotel’s current income, Paliath thought additional conference spaces would further strengthen the hotel’s current competitive advantage and allow for additional clients in the high season. Paliath wondered how much monthly profit the hotel would generate by adding three conference rooms with a capacity of 80 people each.[[12]](#footnote-12) Assuming 70 per cent occupancy for the 10 additional guest rooms, Paliath forecasted additional room profits of $15,068 per month—a figure he believed to be optimistic. He wondered how long it would take to pay back his initial investment for both options, especially if actual demand was lower than his forecast. He also worried about how he could convince corporate executives to invest a large sum in renovations, given the hotel was only in its fourth year of operations.

**CONCLUSION**

Paliath knew he needed to combat the slow season by choosing a segment to actively target in order to increase hotel occupancy. Depending on which consumer segment he chose, he also wondered how the hotel could make use of the vacant ninth floor to combat seasonality. With much to consider, Paliath gathered his thoughts to make a decision. How would the corporate executives react to additional renovations, especially as a young company? Whichever options he chose, he knew he would have to present a compelling marketing plan and strategy to the executive team at the upcoming meeting.

**Exhibit 1: Competitor breakdown**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Companies** | **Competitive Advantages** | **Target Market** | **Location** | **Amenities** |
| Malaka Beach Resort, La Cairo Hotel, Villa Park, New Mwanza Hotel, and JB Belmont Hotel | Service  Aesthetics  Amenity offerings | 1) Tourists  2) Local travellers  3) Business guests | Within a 20-minute drive of Mwanza | On-site restaurants; some have swimming pools |
| 50 privately-owned small discount hotels | Low price | 1) Budget travellers  2) Budget locals | In and outside of Mwanza City | Limited amenities such as pools and restaurants |

Source: Created by the case authors.

**Exhibit 2: Conference room capacities and prices (in US$)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Room** | **Maximum Capacity** | **Full Weekend Rate** | **Variable Costs** | **Average Price per Person** |
| 1 | 800 | $9,600 | $1,920 | $12 |
| 2 | 400 | $6,000 | $1,200 | $15 |
| 3 | 80 | $1,200 | $240 | $15 |
| 4 | 35 | $630 | $126 | $18 |
| 5 | 20 | $400 | $80 | $20 |

Source: Company files.

**Exhibit 3: Room types and prices (in US$)**

|  |  |  |
| --- | --- | --- |
| **Room Type (and Quantity)** | **Meal Plan** | **Nightly Rate** |
| **Deluxe Rooms (32)** | | |
| Single Occupancy | BB | 95 |
| Double Occupancy | BB | 125 |
| **Lake View Rooms (33)** | | |
| Single Occupancy | BB | 110 |
| Double Occupancy | BB | 140 |
| **Executive Suite (5)** | | |
| Single Occupancy | BB | 140 |
| Double Occupancy | BB | 180 |
| **Presidential Suite (2)** | | |
| Single Occupancy | BB | 900 |
| Double Occupancy | BB | 1,000 |
| **Business Suite (2)** | | |
| Single Occupancy | BB | 900 |
| Double Occupancy | BB | 1,000 |
| **Family Room (6)** | BB | 280 |

All rooms were on a bed-and-breakfast basis.

* Lunch only (buffet) US$15 (this rate did not include beverages)
* Dinner only (buffet) US$15 (this rate did not include beverages)

Note: BB = bed and breakfast

Source: Company files.

1. “Population, Total,” The World Bank: Data, accessed May 20, 2015, http://data.worldbank.org/indicator/SP.POP.TOTL. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. “Tanzanian Economy,” United Republic of Tanzania: Government Portal, last updated October 2, 2015, accessed May 19, 2015, www.tanzania.go.tz/home/pages/29; “Tourism,” United Republic of Tanzania: Government Portal, last updated October 7, 2015, accessed May 10, 2015, www.tanzania.go.tz/home/pages/210.  [↑](#footnote-ref-3)
4. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-4)
5. “Tourism,” op. cit. [↑](#footnote-ref-5)
6. Sturmius Mtweve, “Tanzania’s Internet Users Hit 9m,” *The Citizen*, March 23, 2014, accessed May 29, 2015, www.thecitizen.co.tz/Business/Tanzania-s-Internet-users-hit-9m/-/1840414/2254676/-/dgt0ps/-/index.html.  [↑](#footnote-ref-6)
7. “The World Bank in Tanzania: Overview,” The World Bank: Where We Work, accessed June 5, 2015, www.worldbank.org/en/country/tanzania/overview. [↑](#footnote-ref-7)
8. Interview with the company conducted May 13, 2015. [↑](#footnote-ref-8)
9. The United Republic of Tanzania, Prime Minister’s Office, Mwanza Investment Profile 2013, 4, October 2013, accessed June 10, 2015, <http://esrf.or.tz/docs/MwanzaRegionInvestementGuide.pdf>1. [↑](#footnote-ref-9)
10. “About TANAPA”, Tanzania National Parks: Sustainable Conservation for Development, accessed May 23, 2015, www.tanzaniaparks.go.tz/index.php/2016-02-03-12-30-54/2016-02-03-12-31-41. [↑](#footnote-ref-10)
11. There were over 256 tour operators from both mainland Tanzania and Zanzibar; “About Us,” Tanzania Association of Tour Operators, accessed May 12, 2015, www.tatotz.org. [↑](#footnote-ref-11)
12. This amount assumed four weekends in a month. [↑](#footnote-ref-12)