Case: Zenith Hotel

Bain, Round 1

Problem statement narrative

Zenith Hotel is a global hotel chain with 50 hotels in 20 countries. The company is evaluating the construction of a new hotel in the Bahamas. Zenith has come to us asking whether it should and can move forward with the project.

Overview for interviewer

This case is extremely straightforward and open ended. The interviewer read the problem statement and waited for the candidate to drive the rest of the case. No exhibits were introduced.

This was primarily a case about feasibility, so the discussion should focus on an internal / external analysis of the company's plans with two math problems to solve.

Case Type: Market Entry

Information to be provided upon request

The hotel will have 400 rooms

Potential Issue Tree & Approach to Solving the Case

Key elements of analysis to solve the case

Internal	External	Feasibility
• Capabilities • Start-up costs • Expected profits, driven by revenues (volume * price) and costs (broken down by fixed and variable)	• Competition • Consumer demand • Regulatory/other issues	See mathematical detail on following pages
Possible follow-up and guidance to interviewer	**Possible follow-up and guidance to interviewer**	**Possible follow-up and guidance to interviewer**
• Ask the candidate to walk through the costs that the hotel would occur on an on-going basis • Make sure that insurance and marketing costs are included	• Regulatory/country-specific issues are not a concern	See mathematical detail on following pages

Question 1 – Breakeven

Math Question

How much would Zenith need to charge on average per room to break even?

Overall approach, good shortcuts & solution

- Costs over 5 years = $500M + 10*20M = $700M
- 400 rooms * 350 days/year * 10 years = 1.4M room days
- $700M/1.4M = $500 per night

Information to provide up front

- Start-up costs are $500M
- The hotel would cost $20M a year to operate
- Assume that we are evaluating a ten year horizon

Provide information if asked

- Assume 350 days in a year at constant rates

Question 2 – Market Share

Math Question

What is Zenith's implied market share?

Overall approach, good shortcuts & solution

- 400 rooms * 75% occupancy = 300 rooms
- 300 rooms * 3 people = 900 people at any given time
- 900 people per week * 4 weeks/month = 3,600 people/month
- 3,600 people per month/50,000 people per month = 7.2% market share

Information to provide up front

- Average occupancy is 75%
- Bahamas receives 50,000 visitors per month

Provide information if asked

- Assume 3 people per room
- Assume 7 day average stay

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Sample Recommendation

Recommendation	Zenith should proceed with the construction of the hotel. As a global hotel chain, gaining a 7% market share in the Bahamas seems like a reasonable goal.
Risks	It seems overly aggressive to assume that hotel rooms will be occupied 350 days a year for the breakeven calculation.
Next Steps	Examine consumers' willingness to pay $500/night for a Zenith hotel room in the Bahamas.