Case 15: Hotel Franchisor (I of II)
BCG, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request[1]

You have been hired by the CEO of a Hotel Franchise. Yearly revenues have been stagnant at $600MM while the competition has been growing. The CEO wants to know why this is and what can be done.
 	
NOTE: finding the solution to this case is very much like looking for a needle in haystack.
	• As a franchise, the client licenses its brand to franchisees which own and operate the individual hotels
	• The client earns revenue by charging the franchisees a royalty charge equal to 10% of each of hotel's revenues
	• The client has 10 franchise brands that it acquired through acquisitions. All brands are economy level hotels (e.g., Motel 6).
	• Hotels in this segment experience tough price competition. Pricing has been stable.
	• Occupancy rate has been stable at 65%
	• The client has seen a decrease in the number of hotel properties. The client used to have 6,000 hotels, now it has 5000 hotels.
	• Competitive research shows that the client's "revenue per available room night" is 80% of the largest competitors.
	  • Revenue per available room night = Firm Revenue/Total Available Rooms
	  • Each hotel has 100 rooms that can be booked 300 days/year

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Addition Questions	Solution guide
1. What is the upside of increasing the revenue per available room night to the level of the competitor: • Current Revenue/Room-Night = $40: $\frac{\$600MM\ Rev}{(100\ rms/hotel \times 300\ nights \times 5000\ hotels)}$ • Competitor Revenue Per = $50 ($40/80%) • Upside Hotel Revenue = $1.5B $10 x 100 rooms/hotel x 300 nights x 500 hotels • Upside for hotel franchisor = 10% x $1.5B = $150MM 2. Why has the client's franchisees been leaving the client's franchise? 3. Bonus: What about the methodology would cause franchisees to leave?	1. Candidate should recognize that the decrease in the number of hotel properties has led to the stagnating revenues. This is because franchisees have been leaving and going to other hotel franchises. 2. Candidate should discuss the value that franchisors provide to franchisees: advertising/brand, supplier leverage, overhead services, methodology for running the business. Push the candidate to develop this list. Methodology is the answer. Bonus points if the candidate can determine what about the methodology was the problem 3. Answer: hotels use yield manage management techniques similar to airlines to make sure the rooms are filled. The client does not actively promote its yield management tools to its franchisees. This problem can be solved by investing in more sales people to train franchisees on yield management techniques