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| Case #3 |
| Amber Inn & Suites, Inc. |
| BUAD 6300  University of Toledo  Dr. Michael L. Mallin |
| Meagan Frances  Spring 2011 |

**Strategic Issue**

Amber Inn & Suites, Inc. must make three decisions for the company: (1) How will advertising money be allocated between the pleasure/vacation travelers and the business travels market for fiscal year 2006? (2) Should the 2005 strategies continue through 2006? (3) What, if any, promotions should be offered during fiscal year 2006?

**Analysis and Evaluation**

U.S. Hotel Industry

The US hotel industry is highly fragmented which means that no one company or brand controls a majority of the industry. Two thirds are affiliated with a brand and the remaining third is independently owned. Hotels in the industry compete based on price, amenities, and service. The different hotel segments can range from economy, midscale, upscale, upper upscale, and to luxury. They can also be positioned by location such as next to airports, suburban areas, urban areas, highways, resorts, or in small towns. The average occupancy rate across all segments in 2004 was 61.3%, the average daily rate was $86, and the average revenue per available room was $53.

By year end 2004 (beginning of 2005), the U.S. hotel industry recorded revenue of $113.7 billion and grossed $16.7 billion in profits. In the past however, the industry has significantly suffered a decline and 2003 was the beginning of an increase in occupancy, average daily rate, and revenue per available room. 2004 marked another year of improvement and 2005 was projected to provide yet another improved year in all the above categories for the hotel industry as a whole; each brand or company varies each year with regards to individual performance measures.

Half of all guests within this industry stay at hotels for business purposes and the remaining half stay for leisure or vacation purposes. For the typical business stay, the sale was generated by one male adult (67%), age 35-54 (52%), and employed in a professional or managerial position (50%) and 39% stayed only 1 night, 24% for 2 nights, 27% for 3 nights, and about 10% stayed 4 or more nights. For the typical leisure stay, the sale as generated by two adults (51%) ages 35-54 (52%) and 45% stayed only 1 night, 28% for 2 nights, 20% for 3 nights, and about 7% stayed 4 or more nights.

Amber Inn & Suites, Inc.

Amber Inn & Suites, Inc. owns 250 property hotel chains with locations in 10 western and Rocky Mountain States. They currently operate 200 Amber Inn properties and 50 Amber Inn & Suites properties. Their mission is “to provide principally business travelers with clean and comfortable guest accommodations in convenient locations at reasonable prices”.

The Amber Inn offers complimentary continental breakfasts, soft drink vending machines, ice makers on each floor, free local calls, voicemail, a well-lit desk, cable television, and a coffee maker (and more). The Amber Inn Suites offer the same as Amber Inn but they also provide two-room suites with a sleeping room, a sitting room, two televisions, a small refrigerator, self-service laundry rooms, and an outdoor pool and spa or sauna.

The company is currently positioned as a *limited service hotel* between economy hotels and full-service hotels (Midscale with food and beverage). Neither branch includes a restaurant, lounge, meeting rooms and concierge, luggage, or room service on property. The company locates its properties on premium sites off of major highways close to suburban industrial and office complexes, airports, and large regional shopping centers and avoids urban, downtown locations.

Operational and Financial Performance

At fiscal year-end 2005, senior executives noticed that the company was on course to record its third consecutive fiscal year of rising revenue following revenue declines since 2001 and 2002. The company’s projected annual lodging revenue growth of 7.4% for 2005 was slightly below the industry average as a whole of 7.6%, but higher than the limited-service segment growth rate of 5.8%.

The projected lodging revenues for 2005 were $422.6 million and a net loss of $15.7 million; which is still an improvement from the previous year. However, this noted the third consecutive annual net loss while the industry as a whole and the limited-services segment reported profitable operations over the past three years. During 2005, two underperforming Amber Inn properties were shut down and one Amber Inn & Suites property opened. Overall since 2003, twelve underperforming Amber Inn properties have been closed while two Amber Inn properties and three Amber Inn & Suites properties have been opened.

The projected revenue for 2005 per available room was $38.60 which is lower than the segments projected average of $44 for 2005 and yet the average daily rate was expected to be lower in 2005 than 2004. This is partially due to a “free-night stay” promotion during the summer of 2005.

2005 Initiatives

During 2005, expenses for sales, general, and administrative costs was projected to be $44.9 million; this is a $5.9 million increase from 2004 due to increases in compensation, health care, information technology, and sales and marketing costs. Sales and marketing costs alone increased by $1.14 million due to added marketing research and media advertising. During this year, the company outlined three objectives: 1) increase overall occupancy in both guest rooms and suites, 2) attract first-time guests, and 3) increase the length of stay per visit. This was sought out to be achieved by implementing a few initiatives for 2005:

* *Additional Representatives* - Two new national sales representatives were added to the payroll whose primary functions were to increase guest room sales via inclusion of the company’s hotels on approved lodging lists of corporate travel manager’ and travel agencies as well as organizations. They are with the company to develop relationships with companies and organizations in Midwestern states (including Texas and Oklahoma).
* *The Frontier Strategy* – To attract first time guests, the scope of ad media placement was broadened to Texas and Oklahoma. This was done to emphasize brand awareness and acceptance. This new strategy accounted for a 10% increase in media expenditures.
* *Summer Promotion* – A 50% discount on a third night stay in guest suites and a 25% discount on a third night stay in guest room accommodations was given for June, July, and August.
* *Budget* – 35% of the media budget was targeted to pleasure/vacation customers and 65% was targeted at business travelers.

**2006 Initiatives/Recommendations**

Via a 2004 survey, it has been determined that 79.8% of customers stay with Amber Inn & Suites, Inc. for business purposes while only 14.2% stay for Vacation/Pleasure purposes. 39% of our customers stay once a week or more, 65.7% have their trip paid for by their company, 68.9% stay alone, 73% were repeat customers, and 36.6% stayed based on price and 40.9% stayed with us because they have been here before.

For the 2006 year, 3 questions must be answered:

1. *How will advertising money be allocated between the pleasure/vacation travelers and the business travelers market for fiscal year 2006?*

The findings above are extremely important in determining what segments of customers are providing the company with the highest amount of revenue. Since the company is currently generating negative profits, it is important to keep your current customers happy first and then generate new customers second. It seem odd that while roughly 80% of customers were staying for business purposes, only 65% of the media budget was targeted to his segment and while only 14% if customers were staying for vacation purposes, 35% of the media budget was targeted to this segment. While gaining new customers is a good way to grow your business, this initiative does not follow the company’s mission which is to take care of the business customers.

Therefore, the media initiative should follow the company’ mission and since Amber Inn & Suites, Inc.’s mission is to better serve their business customers with reasonable prices and convenient locations, their 2006 marketing strategy should follow the same path. It is recommended that for 2006, the divided **budget** follow more closely with our customer base. Since 80% of our markets are business travelers, closer to 80% of the advertising money should be allocated to targeting this segment while the remaining 20% is allocated to targeting those who are pleasure/vacation travelers.

1. *Should the 2005 strategies continue through 2006?*

**Frontier Strategy** – The frontier strategy was based on finding new customers within a different region of the country. New representatives were hired to promote our hotels to businesses within other regions. It was noted that new guest rates rose over the 2005 year and our revenue growth was higher than the segment average. This is great information. However, there is no supporting evidence that this was based on the Frontier Initiative versus any of our other new initiatives throughout the 2005 year. More research must be done to determine if this strategy is working or if our resources are just being wasted.

Regardless of what triggered the increase in new guests, the effort to obtain new customers should not discontinue. While there is no supporting evidence to show that we are gaining new customers from other regions, we should direct a few of our national representatives to market more heavily in closer regions. One good idea to determine where to market is to conduct a survey of where customers are originating from and then advertising accordingly. For example: if there is not market opportunity in Texas, then marketing there would be a waste of resources.

**New Strategy** - The survey of 2004 determined that 66% of our customers’ trips are paid for by their company. With this being the case, a marketing initiative to drive more business stays should take place. With inflation costs, the price of a one night stay should increase by a few dollars. However, we can increase the cost per one night stay for our business customers twice as much as we are planning (which is normally higher than the rates for our vacation customers) but then provide a discount for the additional amount to our business customers so it does not require them to pay any more than they normally would for a night, but since it shows a discount on their rate, they will feel like we are taking care of our business customers and living our mission; at no extra cost to them or us.

Overall room rate must increase regardless because while our average competitors’ daily rate within our segment was $76 and revenue per room was $44, our average daily rate was only $57.52 (almost $20 less) and our revenue per room was only $38.60 (about $3 less). Therefore, we are underselling ourselves and rates must be increased.

1. *What, if any, promotions should be offered during fiscal year 2006?*

It is important to consider the 2004 survey to determine whom we should be marketing to heavily in 2006 and also to determine what kinds of promotions should be used and yet still provide us with profits. It has been determined that 73% of our customers are repeat customers and 36.6% stay because of the price. This could be a very important piece of information to use since it tells quite a lot about our customers bases’ motives behind choosing to stay with us versus a competitor.

Instead of the summer promotion, **promotions** for the year 2006 should be based on rewarding repeat customers and the reward should be monetary since that is a motivating reward for those customers. This could provide us with the opportunity to offer some sort of loyalty program. We can provide an incentive for our customers to stay with us every time they need a hotel and we are an available option. Something along the lines of a punch card (which should also be tracked electronically in our system and available to our customers online) could be a great idea to get customers to keep coming back. After so many stays, say 5 nights (consecutively or non-consecutively), you either get a free night stay or a significant discount (maybe 75%) off of the sixth stay.

This idea should be assessed financially to determine what we can afford to offer customers without losing money and still generating profits. The advantage of such an offer is that customers will have a motive to come back again and again. There will also be technological requirements but since the company has funding for the IT department, we should utilize this source.