

ROKO HOTEL

Type: Interviewer-led | Difficulty: Low | Function: Profitability | Sector: Leisure & tourism | Stretch area: Math | Author: ex-Arthur D. Little

Your client is Roko Hotel, a family-owned, independent hotel in suburban Paris. Until last year, the hotel maintained strong profitability, but they are now facing declining profitability and don't understand why.

The hotel is located in the suburbs with the city center a 20-minute tram ride away. The hotel is independent and not owned by a chain.

The owners have asked you to help them identify reasons for the decline in profitability and recommend how to turn the situation around.

ADDITIONAL INFORMATION

The hotel has 30 rooms

INTERVIEWER GUIDANCE

A good structure will use a revenue / cost framework tailored to the situation. It's unnecessary to include a driver for solutions, as they will naturally be arrived at by analyzing the root causes.

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ROKO HOTEL – QUESTION 1

Dimension: Structuring

How would you structure your approach to the question?

PROPOSED
SOLUTION

1. What revenue factors are driving the profitability decline?
 - [Number of rooms] x [average utilization (%)] x [price / room] x [operating days]
 - Other revenues:
 - Food & beverages
 - Additional services
2. What cost factors are driving the profitability decline?
 - Fixed costs:
 - Salaries
 - Building maintenance
 - Insurance & Taxes
 - Variable costs:
 - Utility costs
 - Food & beverages
 - Booking fees

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ROKO HOTEL – QUESTION 2

Dimension: Math

Share Exhibit 1. Based on this exhibit, what's the annual revenue for this hotel?

PROPOSED SOLUTION

- Standard rooms filled per week = (# Std rooms filled on weekdays) + (# Std rooms filled on weekends)
 = (25 rooms x 60% x 5 nights) + (25 rooms x 60% x 2 nights)
 = 75 standard rooms on weekdays + 30 standard rooms on weekends
 = 105 standard rooms per week
- Premium rooms filled per week = (# premium rooms filled on weekdays) + (# premium rooms filled on weekends)
 = (5 rooms x 100% x 5 nights) + (5 rooms x 40% x 2 nights)
 = 25 premium rooms on weekdays + 4 premium rooms on weekends
 = 29 premium rooms per week
- Weekly Revenue = (# Std rooms filled per week x Std room price) + (# premium rooms filled per week x premium room price)
 = (105 Std rooms per week x \$100) + (29 premium rooms per week x \$140)
 = \$10,500 + \$4,060
 = \$14,560
- Annual Revenue: \$14,560 x 50 weeks = \$728,000
- Premium rooms are at capacity during the week; there could be an opportunity to increase the prices or number of these rooms. There is a lack of demand for standard rooms, and premium rooms on weekends.
- As next steps, I would like to compare this with the annual revenue from last year to understand if the declining profitability has been driven by declining room revenue.

ROKO HOTEL – EXHIBIT 1

PRICES AND UTILIZATION FROM THIS YEAR

Room data

	# rooms	Price
Standard	25	\$100
Premium	5	\$140

Average utilization rates of rooms

	Weekdays	Weekends
Standard	60%	60%
Premium	100%	40%

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ROKO HOTEL – QUESTION 3

Dimension: Judgement and insights

Based on the additional data in Exhibit 2 on last year's performance, what insights can you draw about recent changes in annual revenue?

ADDITIONAL INFORMATION

Prices have not changed year to year.

INTERVIEWER GUIDANCE

- Strong candidates will identify shortcuts for the calculations and adjust their previous calculation for the weekend room utilization.
- Push candidates to suggest reasons for the change in utilization.

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ROKO HOTEL – EXHIBIT 2

UTILIZATION LAST YEAR

Average utilization rates of rooms

	Weekdays	Weekends
Standard	60%	100%
Premium	100%	80%

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ROKO HOTEL – QUESTION 3

Dimension: Judgement and insights

PROPOSED SOLUTION

- The weekday occupancy has remained constant, but the hotel has seen a big drop in weekend utilization.
- Last year, weekend utilization for standard rooms was 100% rather than 60%, meaning 125 standard rooms were filled per week. **Weekly revenue last year** = Revenue this year x (rooms filled last year / rooms filled this year) = \$10,500 x (125/105) = ~ \$12,500
- Weekend utilization for premium rooms was 80% rather than 40%, meaning 33 rooms were filled per week. **Weekly revenue last year** = \$4,060 x (33/29) = ~ \$4,600
- Annual revenue = \$17,100 x ~ 50 weeks = ~ \$850,000
 - Roko Hotel is generating roughly \$120,000 less revenue this year compared to last year.
 - Looking at the data it appears this is being driven by a decrease in utilization at the weekends by nearly half.
- Potential reasons:
 - Increased competition/supply
 - New hotel openings nearby
 - Increase in alternatives such as Airbnb
 - Decrease in prices of other hotels drawing customers away from Roko
 - Change in customer demand
 - Fewer weekend tourists visiting Paris, e.g. due to competing tourism destinations, closure of local attractions
 - Fewer weekend holidays taken per year within France – extended long-haul holidays favored
 - Increase in customer loyalty towards hotel chains among weekend tourists who are more price-sensitive
 - Change in our marketing and distribution to tourists

ROKO HOTEL – QUESTION 4

Dimension: Creativity

Besides rooms, food, and drinks, what revenue streams could the hotel seek to introduce or grow?

PROPOSED SOLUTION

- For hotel guests
 - Airport pick-up
 - Commission on entertainment sales, e.g. city tours, shows
 - Dry cleaning
 - Premium internet access
 - Spa treatments
- For non-guests
 - Meeting rooms
 - Events, e.g. weddings, conferences
 - Restaurant
 - Gym (payable for non-guests)
 - Business working space (payable per day/week)

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ROKO HOTEL – QUESTION 5

Dimension: Synthesis

What recommendation would you put forward to Roko Hotel to increase profitability?

PROPOSED SOLUTION

We were asked to diagnose the reasons behind Roko Hotel's profit challenge and suggest options to turn the situation around.

A decrease in weekend utilization of both the premium and standard rooms has driven the decline in profitability:

- This year's revenue was ~\$730,000, compared with ~\$850,000 last year
- This could be driven by increased competition, lower customer demand, or change in our distribution or marketing

To solve the profit issue, I propose both short-term and long-term actions:

- Maximize revenue from weekday business travelers by increasing the premium room price
- Get weekend utilization back on track, for example by offering weekend package deals or events such as weddings
- Explore other revenue streams for guests and non-guests

As next steps, we should analyze costs to see if these have also contributed to the declining profitability.

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