

THE ROYAL VILLA RESORT: TAKING OVER DAD'S BUSINESS

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ABSTRACT

'The Royal Villa Resort: Taking over Dad's Business'- is a case which discusses the dilemma of a second generation entrepreneur Vipin Soni, who gets involved in the business due to the sudden death of his father. After taking a stock of the situation, he is exploring the different options to make the business profitable. The case is about analyzing the scenario and challenges of hotel industry in a two-tier city in India. It also explores the various strategic options in the hospitality industry to run a business successfully. The case will be useful for students of business administration, management and students specializing in the field of marketing, tourism marketing and hotel management. This case can be a useful tool in teaching the concepts like 7Ps of service marketing, franchising, marketing strategy, etc. while exposing the students to the competitive scenario in hotel and tourism industry. The methodology followed for writing the case is qualitative in nature. In-depth interviews have been conducted to get insights into the business. The various published reports by Indian Tourism Industry have been mapped with the context to make it useful for teaching the said concepts.

Introduction

July 22, 2013: Ms. Lucy, Executive Assistant to Managing Director of Royal Villa Resort handed over a courier to Vipin Soni, the new Managing Director of The Royal Villa Resort. Vipin was in no mood to go through it immediately. He was deeply thinking about something. The developments in the past one month had put in a lot of pressure on to him. Due to the sudden demise of his father he had to shoulder a lot of responsibilities. He was sensing some kind of burden on the environment. He knew that his actions and decisions would be impacting many lives. Suddenly he remembered; Ms. Lucy had handed over a courier to him saying it was important and confidential. He opened the courier and was surprised to see documents from the Pride Group of Hotels. The documents, brochures were related to different options explaining the

franchising options provided by the group. He opened his laptop and went through their website. He remembered reading about the massive expansion plans of the Pride Group with an objective to emerge as a National Hotel Chain. In two-tier cities they had started providing the franchising for different services. Vipin Soni was clueless as how to react. Documents were a proof that his Dad had some plans in his mind but when he checked with the board members they were unaware of any such issue.

Franchising Proposal from Pride

The proposal for franchising was for a term of minimum ten years and included Rs. Ten Lacs as the initial fees plus 3.5 percent of the resort's yearly sales. In turn the franchisee would be able to market itself by the name of the franchisor. The franchisor would provide the marketing and operational assistance to franchisee for efficient and effective management and would also help for bookings through their chain of hotels since it would be treated as groups' entity.

Indian Hotel Industry

The Indian hotel industry was fragmented with a large number of small and unorganized players accounting for a lion's share (see Exhibit 1). The Ministry of Tourism had formulated a voluntary scheme for classification of operational hotels into different categories, to provide contemporary standards of facilities and services at hotels. Hotels were classified based on the number of facilities and services provided by them. Hotels classified under the Ministry of Tourism enjoyed different kinds of benefits such as tax incentives, interest subsidies, and import benefits. Due to lengthy and complex processes for classification, a significant portion of the hotels in India remained unclassified. The Ministry of Tourism classified hotels as star category hotels, heritage hotels and licensed units.

India's luxury hospitality sector was growing at a rapid pace fueled by the hearty inflow of overseas tourists as well as increased tourist movement within the country. Soared real estate prices made it difficult and expensive to set up and maintain businesses and hotels in major metros, leading to search for other cities entailing lesser costs. Consequently, hotel markets had emerged in tier-2 cities. Many new luxury projects were in emerging markets, reflecting new demand for luxury in new places. With an upsurge in lifestyle spending, India was one of the fastest

growing luxury players in the world. The new species of aspirational customers were contributing a considerable share to luxury market revenues.

Tourism in India

During the past few years Indian tourism had experienced a rise in the arrival of international tourist (Exhibit:5). As per the Ministry of Tourism, Foreign Exchange Earnings (FEEs) from tourism rose by Rs. 551 Crore in Rupee terms in June, 2013 in comparison to June, 2012. Foreign Tourist Arrivals (FTAs) in June, 2013 was 4.44 Lakh while it was 4.33 Lakh in June, 2012 with a growth of 2.5% (travel and tour world, 2013).

According to the published reports of Ministry of Tourism, Foreign Tourist Arrivals during the month of June 2013 were 4.44 Lakh as compared to FTAs of 4.33 Lakh during the month of June 2012 and 4.05 Lakh in June 2011. The growth was 2.5% more than in June 2012. The growth of FEEs this year was 8.5% more as compared to FEEs of 2012 (Exhibit:6). Ministry of Tourism compiled monthly estimates of Foreign Tourist Arrivals (FTAs) on the basis of data received from major ports and Foreign Exchange Earnings (FEEs) from tourism on the basis of data received from Reserve Bank of India.

Rajasthan Government on Tourism

The fortunes of the hotel and hospitality industry had always been linked to the prospects of the tourism industry. Various policy measures undertaken by the Ministry of Tourism and tax incentives had aided the growth of the hospitality industry.

Rajasthan was one of the leading tourist destinations in India. The Rajasthan government was also working on innovating new products in the sector such as salt tourism and promoted them as unique destinations. **23 April 2013: Rakesh Srivastava**, principal secretary, tourism, Rajasthan government, on the sidelines of the Great Indian Travel Bazaar (GITB) in Jaipur, an initiative of the tourism ministry, department of tourism (Rajasthan) and FICCI said that –

The Rajasthan government expects a growth of about 8 per cent in foreign tourists in 2013. The state attracted nearly 30 million tourists, of whom 1.5 million were foreign nationals. The year-on-year growth of inbound tourists in Rajasthan

in 2012 was 8 per cent. Domestic inbound growth stood at about 6.75 per cent and the overall inflows rise was about 5.74 per cent. The state tourism department is focusing on improving infrastructure at major tourism destinations in the state to attract tourists. We are developing new circuits like the Jaisalmer-Jodhpur desert circuit and Jaipur-Ajmer circuit. First we will upgrade the infrastructure, and then we will put it on the website. Our Tourism Budget for 2013-14 is INR 40 crore and we are also getting support from the ministry of tourism, Government of India. We are trying to make a congenial atmosphere for tourists, a home away from home. We will provide them hygienic facilities apart from security.

Ajmer-Tourist Destination

Ajmer was the fifth largest city of the Indian State of Rajasthan. It was surrounded by Aravalli Mountains. It was a pilgrimage center for the shrine of the Sufi Saint Khwaja Moinuddin Chishti and was the base for visiting Pushkar (11 km), an ancient Hindu pilgrimage city, famous for the temple of Brahma. The government had been able to promote Ajmer on various grounds including cultural and pilgrimage tourism, eco-friendly vacationing and commercial destination. The growing physical infrastructure of the city was acting as a catalyst in the scenario.

Ajmer's strategic location had also facilitated increased footfalls to the city on account of the leisure tour route – the Golden Triangle. The city had a lot on offer for hoteliers to experiment with the hotel accommodation format. The array of products in the city ranged from royal palaces to five-star, four-star and budget hotels, to guest houses, lodges and havelis. The city had both branded and un-branded segments which were operated by owners and global hotel companies. The presence of more than one nature of the clientele had allowed the existence of multiple hotel brands by the same brand affiliation without fearing cannibalization of demand. Many hotels had started to offer various kinds of product mix which include large areas allocated for conventions and also additional service offerings.

While growth was obvious, it would take earnest efforts of key stakeholders in the private and public sector to change the city's hospitality landscape in the future.

Understanding Dad's Business

Vipin Soni remembered how passionate his father, Jignesh Soni was about his venture in the hotel industry. The Royal Villa Resort at Ajmer, a hobbyhorse of his father was slowly becoming a popular tourist destination in Ajmer, a two-tier city in Indian State of Rajasthan. The passion of his father was taking it to a new high by adding different value added services like Spa, Gymnasium, Swimming Pool etc. for the customers. To compete with the bigger brands he had planned to construct new rooms. He was monitoring the work personally. He wanted The Royal Villa to be the best in the city. But the way he had exhausted him taken a toll on his health and he suffered a sudden heart attack at the age of fifty-five. Twenty seven years old Vipin had to take up the responsibility of the business. Vipin's throat got choked with the memories of his father. But he knew he had to live up to the dream of his father and take some concrete decisions to make him proud.

The Royal Villa Resort

The Royal Villa Resort was a luxury resort located in the outskirts of Ajmer, the city in the Indian state of Rajasthan. The resort was the brain child of Jignesh Soni, a multi-faceted businessman with wide ranging interests and major investments in large properties distributed across Ajmer and nearby areas. The hotel was spread across a 15-acre plot.

Accommodation

The Royal Villa Resort consisted of 40 plush air-conditioned guestrooms which featured mini-bars, coffee/tea makers, premium bedding, bathtubs, showers with handheld showerheads and rainfall showerheads, makeup/shaving mirrors, slippers, complimentary toiletries, complimentary bottled water, safes and offered garden views. Wired high-speed and wireless Internet access, direct-dial phones, LCD TVs with satellite channels was available in addition to desks and complimentary newspapers. Recreational amenities included an outdoor pool, a spa tub, a sauna, a fitness facility, and a steam room.

The hotel had several different rooms for accommodations: Deluxe, Superior and Haveli. They also had room facilities like rooms for disabled people, non-smoking rooms. Prices vary from each other depending on the room sizes and facilities.

Dining

The Royal Villa Resort provided delicious meals for local and international tourists and it was available in two areas of the resort depending on the customer's choice or selection. The names of those areas were 'Ehsaas' and 'Aroma'. 'Ehsaas' was the place where traditional meals were made and served in Rajasthani-style. Whereas 'Aroma'- the Multi-cuisine Restaurant offered Rajasthani specialty and continental food for enjoyment and relaxation. Other places like the pool bar, pastry shop, the snack's corner - Chai-Pakaudi shop – where tea and snacks were served the typical Rajasthani way; for enjoyment and to the individual's satisfaction.

Facility

The Royal Villa Resort had a system for their customers to drop and pick their guest from the airport or railway station to the resort. It proved to be useful for security purposes for a new guest who had come to the resort for the first time. Additional facilities at the resort included valet parking, concierge services, tour/ticket assistance, laundry facilities and currency exchange.

Facilities for Corporate

The Royal Villa Resort had facilities for arranging meetings and events for both corporate and government, with a wide range of facilities. For businesses, the resort had a business center and offered small meeting rooms and audio-visual equipments. It had event space consisting of a conference center, banquet facilities, and conference / meeting rooms. Also they accommodated any style event from an informal to a business event. Depending on the event and various meetings, the hotel provided the room sizes with individually controlled air conditioning and flexibility.

Functionality

The Royal Villa Resort had a capacity of arranging events or occasions such as banquets for corporate or private persons, political clubs, parties, educational, religious groups, government, labor unions and medical groups. Furthermore the resort had a practice of assuring that the arrangement for meeting space and other equipment needed for the meeting was properly before the meetings commenced. Meanwhile they helped the meeting planner to arrange accommodation for the customer

with the reassurance for customer satisfaction. If the meeting planner had a problem in using any of the equipment or services rendered, the hotel would make sure they solve the problem.

Vipin Soni called up Sameer Gupta, General Manager, The Royal Villa Resort for a meeting to understand more about the operations. Sameer Gupta informed:

The operational staff is competent enough. Last month without any help from outside chef or caterer we could successfully handle a banquet of 3500 packs in-house. But we need to do something about the cross bookings by different sales people. They need to check the availability before promising anything to customers. Otherwise we end up paying more for their mistakes. The new rooms which we are building would help to sort out the issues but exploring the technology options for collaboration is very important.

Revenue Model

Most of the time the resort made sure that the rates were specified clearly for accommodation and events rooms, furthermore if a rate was agreed by the customers the resort always stated the price clearly (Exhibit 4). While going through the listed prices of rooms and banquet halls, Vipin Soni found it comparable with other four star and five star hotels in the city. But the documents on his desk were showing that competition and off-season circumstances had forced them to offer discounts up to 60 per cent.

Vipin Soni found that the dining department could not give accurate prices for meals in advance when making a negotiation with the customer for an event budget. This could be a big problem for the event planner when making the budget for events.

Vipin Soni was surprised when he saw the prices offered at restaurant, swimming pool, Spa and Massage services since they were comparatively lower than competitors and moreover listed prices had not been revised from last five years. He was clueless that despite of inflation and increase in the cost of maintenance of the facility which came out to be around 20 less per month how come the prices were not changed. Moreover the low pricing so far had also not been able to fetch the crowd in the restaurant. The resort accepted e-payment method and cash transfer depending on the customers. The resort provided an accommodation price list for their customer to make a decision while booking the room. Also they

made complimentary arrangements for their loyal customers. When the company or individual bookings were made the hotel had a practice to keep the information on their computer till the appointed time with some extra hours and if the customer didn't turn up the resort releases the room.

Tariff Strategies

The Royal Villa Resort usually considered high tariff structure during the peak periods of demand for accommodation. The supplementary services offered during this period were also priced at a premium. The resort regarded marketing penetration price to be those valley periods in times as value season. At low periods the hotel management usually advised the employees to receive an event or accommodation booking at reduced price. Nevertheless the sales and marketing department usually send some of their staff to visit offices by asking them if they would be having any formal or informal event.

Payment

The Royal Villa Resort accepted every kind of payment from their customers, including credit, and debit cards which they confirm from the card verification company after the guest payment was done through credit card or debit. Furthermore the resort arranged master account folio for events and accommodation bookings. This was done when an organization or company had an event in the hotel keeping their billing because it was usually hard for the hotel to post bills to a company or organization without having an account. However the masters' account helped the hotel to arrange the bills easily and send them to the organization. Also the individual account folio changes were sent to the guest direct within the period of his or her stay in the hotel.

Flexibility

The Royal Villa Resort had price flexibility depending on the customer profile or the company; furthermore they offered this pricing to their potential customers like the government, religious groups.

Price Discrimination

The Royal Villa Resort offered a different pricing to foreign tourists, compared to Indian citizens, the reason for this differential pricing was because the hotel considered the exchange rate and they collect foreign

currency from the tourist which is more favorable to them when making the exchange transaction.

Location

The Royal Villa Resort was located in beautiful landscaped grounds in the outskirts of Ajmer, the city in the Indian state of Rajasthan. For peace and enjoyment one could find solace since the place was away from the main city and still well connected by means of different modes of transportation. It was a fifteen minute drive by own vehicle for local folks.

Individuals could make phone calls to the resort for bookings and inquiries. These telephone calls were made the hotel discover what kind of information was needed by the customers and how they could satisfy the need of the customers on the phone without any further delay. Nevertheless, the hotel usually received an email booking, and they quickly responded back to the customers for any inquiries that was requested for within 24-hours. The resort has created a fax system for message from overseas for accommodation booking. They might follow up on a voice mail recorded voice with the customers' phone number.

Marketing Coverage

The Royal Villa Resort used to send the sales and marketing personnel out to some companies for marketing communication. The personnel would visit the companies and speak with them about their services.

Processing

When a group booking was made the reservation manager of the hotel would quickly check to find out what the organization was requesting. Nevertheless the request might take a long time for the manager to be sure with the payment but the hotel would still keep the date of the events in their records. Furthermore, the manager would always send a reminder to the event planner about the date of the event and the payment method.

Attracting Customers

The Royal Villa Resort arranged incentive trips; these trips were usually done for their potential customers which were deluxe traveling packages for motivating the customers to develop more interest in using the resort

services. They often arranged the best accommodation and services for these incentive travelers during the period of their stay. Besides, the hotel often gave discounts for special months like April to July when tourist inflow was low because of the dry and hot weather conditions in northern parts of India. Meanwhile on weekends 50% discounts were offered to their customers. Nevertheless the special offer included breakfast for the customers.

The Royal Villa Resort practiced the pull promotion strategy for their business by welcoming the guest in from the main entrance of the resort traditionally with 'kumkum tilak' and 'nagada'. Also they followed a practice to collect the guest luggage and bags, check the guests booking and direct the guest to his or her rooms.

The Royal Villa Resort offered a membership card to their potential customers. These cards gave the customer the rights to have discounts in the resort facilities. Also it helped the customers to enter into the hotel without standing in the line with other people. Nevertheless the hotel offered weekend rates, seasonal prices and incentive trip plan for their customers as a part of their promotional strategy.

Reaching to the Customers

Vipin Soni picked up one of the brochures from the stack printed recently. He remembered how enthusiastic his father was while deciding about the creation of the same. It was really wonderful and came out quite well. Good landscapes and photographs made it lively and informative. He knew that there was only one big hoarding at the main gate of the Royal Villa Resort highlighting the facilities offered by them. Moreover the Royal Villa Resort had advertised about their services only during special occasions using limited print media. Restaurants, Spa, Gymnasium, and Swimming Pool etc. where the services offered to the customers staying at the resort, but were also available for local customers with a membership fee; which mostly they were unaware of.

He called up Virendra Gautam, Sales Manager, The Royal Villa Resort for a meeting to know more about promotion and advertising activities. Discussion with Virendra Gautam helped Vipin Soni to get a fairer idea about the scenario of the activities related to online presence which otherwise was not clear through documents. They had tie ups with some leading online travel agents like Make-MyTrip. The personal website was under construction and taking a better shape. The presence on social networking site like facebook was there but for name sake, they had to follow the posts actively.

Personal Selling and Sales Force

The Royal Villa Resort was involved in sales calls for selling their accommodations and event rooms. Furthermore they sent their sales manager for direct selling when they discovered that potential customers were planning an event like an educational seminar, conference meeting and wedding. The hotel always wanted to be involved themselves in arranging meeting rooms that were suitable for their customers. The pilgrims were also targeted by sales manager by providing attractive packages and additional travel facilities.

Referral and Feedback

The main business for the Royal Villa Resort was coming from its existing customers and their recommendations. Hospitality industry was all about the customer's feedback. While going through the feedback forms of customers, Vipin Soni was astonished to find out that the majority of the customers had given the excellent rating on almost all parameters whereas the analytics on the famous travel sites had rated their services three on a five-point scale. He wondered about the difference in ratings.

Managing Workforce

Without any professional education Vipin Soni's father had managed his people quite well. The Resort management was quite punctual in terms of the timely release of salary to its employees. Besides, the employees were rarely penalized for their minor defaults up to rupees Ten thousand. The compensation ranges were at par with the industry standards. An expenditure of rupees Twenty Lakhs was made towards the maintenance of the resort each month. A family get-together; once a year was usually hosted by his father either on Christmas or on New Year day. The staff was also given some discount coupons for the family and friends. Facilities like provident fund (PF) and Employee State Insurance (ESI) existed for the staff. The employees were allowed to leave the organization on a one month's prior notice period. In case anybody left abruptly, the salary was retained by the company. The company employed some 150 staff of which the annual turnover was in the range of 5 to 7 percent.

Dilemma of Vipin

Despite of having a good staff and cordial relations between staff and resort management, the sales figures of past one month were not promising. Vipin Soni could sense some goof-ups and disturbances. It

was clear that in last one month's time everyone was clueless about what had to be done at work place. Jignesh Soni alone was the decision maker. The sales manager didn't know to whom to approach in turbulent times. Because of this confusion and situation in the past one month they missed many good opportunities and bids to host the corporate meets and functions.

Vipin Soni had understood that the days ahead would be challenging. Workforce support and trust on leadership would be playing a great role. He cautioned himself:

For better execution I need to conduct business activities differently without cutting down on services which are delivering values. I need to examine the ways. Though we have incurred losses in the past few months, need to ensure all the staff members should get paid not later but in the first week of every month.

Vipin Soni instructed Ms. Lucy to arrange for one urgent meeting with Board of Directors at 3.00 pm.

Meeting with Board of Directors at 3.00 pm

Vipin Soni started discussions about the current scenario of the industry followed by the standing of the Royal Villa in the market. Members discussed many issues in length and breadth. Vipin was happy with the deliberations. He also shared his belief and understanding about the business. At the end of the session, with a brief pause he said:

I appreciate your involvement. You are the pillars of the business and have worked with Dad for quite a long time. I would like to know your sincere opinion on one business matter. Looking at the facilities provided by us and knowing our present market standing, what do you think? Can we continue with our present business model or look for franchisee options?

References

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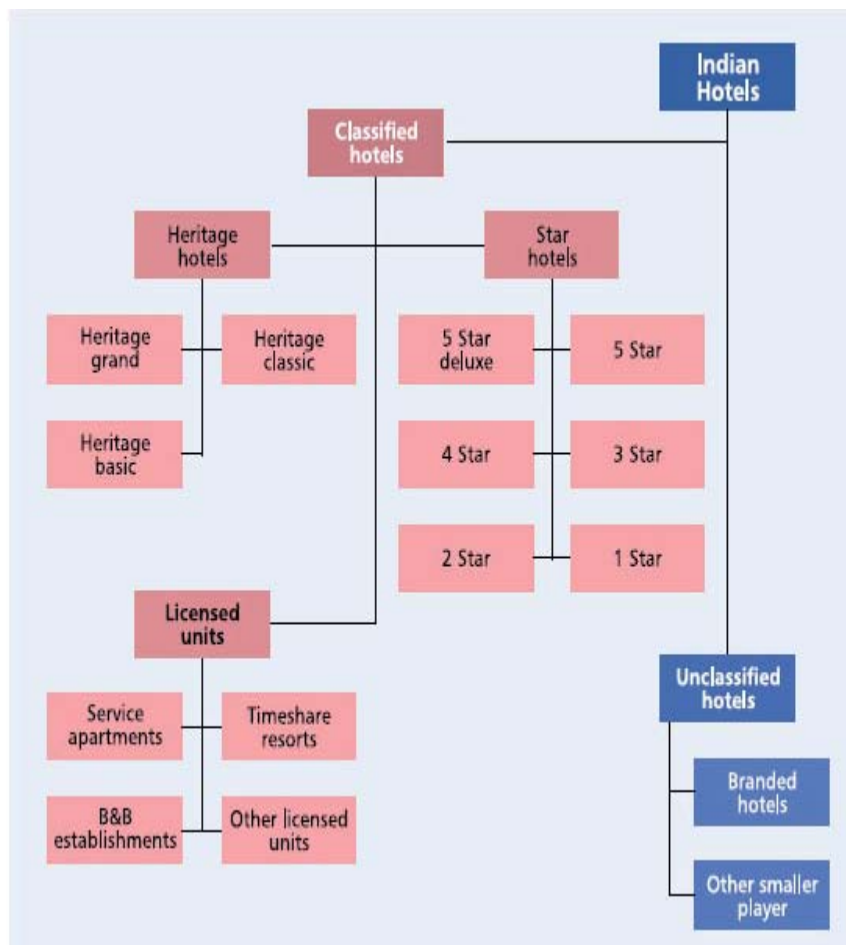
NOTE

PAX was a commonly used term in the Indian hospitality industry to indicate the 'number of people' traveling or coming to get accommodation in a hotel. The definition of PAX relates to "persons at table".

Exhibit – 1

Structure of the hotel industry

Exhibit 1.1 Structure of the hotel industry



Source: D&B Research

(Link: http://www.dnb.co.in/Travel_Tourism/Indian_Hospitality_Industry.asp, accessed on Aug 1, 2013)

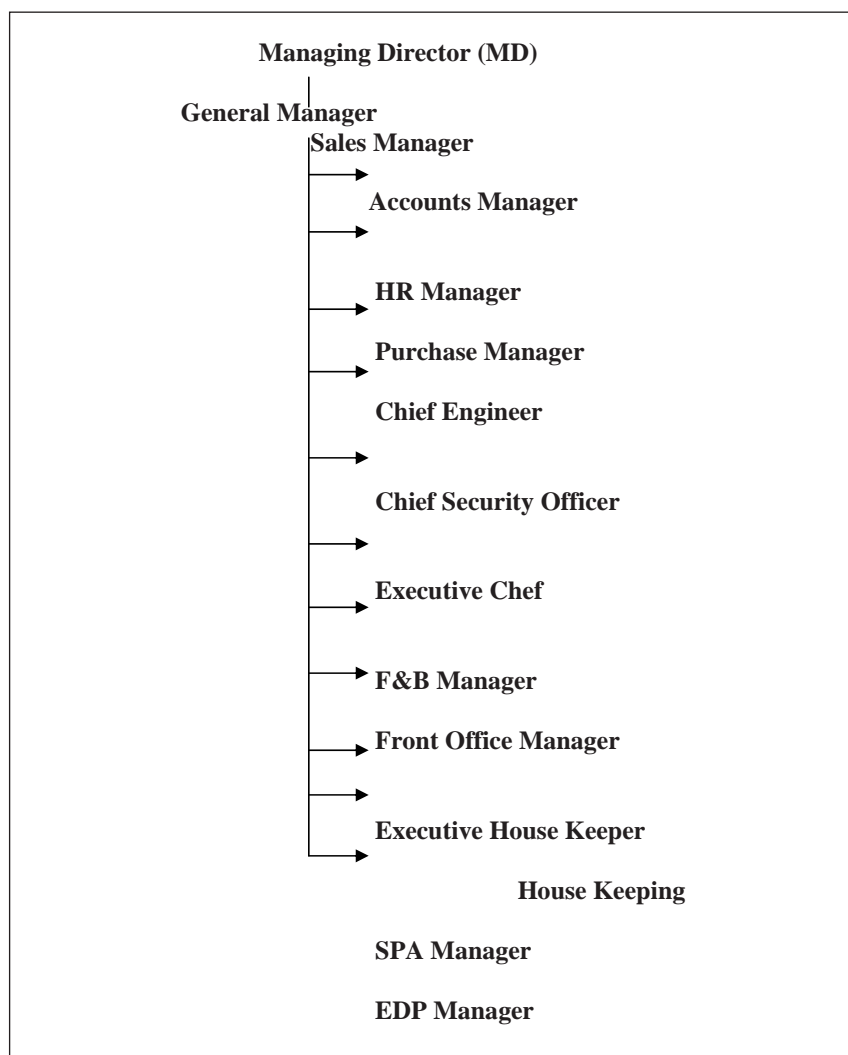
Exhibit - 2

List of Mega Destinations/Circuits Identified/Sanctioned

List of Mega Destinations/Circuits Identified/Sanctioned (Rs. in Lac.)				
State / UTs	Name of the Mega Project/Circuits	Year of Sanction	Sanctioned Amt.	Released Amt.
Rajasthan	Ajmer- Pushkar Destination	2008-09	1069.68	319.84
	Desert Circuit (Jodhpur-Bikaner-Jaisalmer)	2010-11	Identified	
<i>Source : Annual Report 2011-12, Ministry of Tourism, Govt. of India (link:http://tourism.gov.in/writereaddata/Uploaded/Tender/051720121254577.pdf, accessed on Aug 1, 2013)</i>				

Exhibit – 3

Organizational Structure of Pride Amber Vilas and Vatika
Managing Director (MD)



(Source: Prepared by author summarizing the information)

Exhibit - 4

Tariff Card of Royal Villa

Accommodation	Single*	Double*
Deluxe	7000.00	7500.00
Superior	9000.00	9500.00
Haveli	15000.00	15000.00
Extra Bed	1000.00	1000.00

* Rates inclusive of buffet breakfast. * VAT (as applicable) on food & beverages which stands extra.
 * Rates are subject to change without prior notice. * Luxury tax on room extra.

EXHIBIT - 5

India Tourism-2012

Important Facts About Tourism, 2012		
(i) India		
■ No. of Foreign Tourist Arrivals in India		6.58 Million
Annual Growth Rate		4.3%
■ No. of Indian Nationals departures from India		14.92 Million
Annual Growth Rate		6.7%
■ No. of Domestic Tourist Visits to all States/UTs		1036 Million
Annual Growth Rate		19.9%
∫ Foreign Exchange Earnings from Tourism		
i) In INR terms		₹ 94487Crore (#)
Annual Growth Rate		21.8%
ii) In US\$ terms		US\$ 17.74 Billion(#)
Annual Growth Rate		7.1%

Source: <http://tourism.gov.in/writereaddata/CMSPagePicture/file/marketresearch/Ministry%20of%20tourism%20English%202013.pdf>

Exhibit - 6

Foreign Tourist Arrivals (FTAs) 1997-2013

Year	FTAs in India (in million)	Percentage (%) change over the previous year
1997	2.37	3.8
1998	2.36	-0.7
1999	2.48	5.2
2000	2.65	6.7
2001	2.54	-4.2
2002	2.38	-6.0
2003	2.73	14.3
2004	3.46	26.8
2005	3.92	13.3
2006	4.45	13.5
2007	5.08	14.3
2008	5.28	4.0
2009	5.17	-2.2
2010	5.78	11.8
2011	6.31	9.2
2012	6.58	4.3
2013 (Jan-June) (P)	3.31	2.6@

(P): Provisional, @ Growth rate over Jan-June, 2012.

Source: (i) Bureau of Immigration, Govt of India, for 1997-2012.

(ii) Ministry of Tourism, Govt. of India, for 2013

Teaching Notes

The Royal Villa Resort: Taking Over Dad's Business Context

Vipin was a fresh graduate of IIM-Ahmadabad, a premier institute in India. After working in the hospitality industry for around one and half years he chose to take up professional education and then had plans to join his dad's business under his guidance. But the plans remained non-executed because of the sudden death of his father, Jignesh Soni who was an entrepreneur and owned the Royal Villa Resort at Ajmer, a popular tourist destination in Indian State of Rajasthan. Sudden death of a father forced Vipin, the only son of Jignesh Soni, to take care of his business. The scenario in hospitality industry of Ajmer was quite promising but the investment in the venture was not returning the expected profit. The units had been able to earn just to compensate the expenses. Vipin had to take corrective actions and decide about the fate of the resort. He took a stock of the situation before exploring the options to make the business profitable. The case is about analyzing the scenario of hotel industry in a two-tiered city along with exploring various options in the hospitality industry to run a business successfully.

Teaching Objective and Target Audience

The teaching objective of the case is

1. To expose the students to the competitive scenario in hotel and tourism industry.
2. To make students aware of marketing issues in running a luxury resort in tier-2 cities.
3. To explain 7Ps of service marketing.
4. To teach concepts like a marketing strategy and franchising.
5. To make students understand the challenges in front of the second generation entrepreneurs.

It can be useful for the students of business administration, management and students specializing in the field of marketing, tourism marketing and hotel management.

Teaching Approach and Strategy

Analysis of the case can be done at the micro and macro level. A student should analyze the case at the individual level and subsequent group of 3-4 students can be formed for final analysis and preparation of the solution. Different groups can be asked to make the presentation to discuss the underlying concepts.

The instructor can initiate the discussion by posing relevant questions and target few students to answer the same.

Key Issues and Analysis

The key issues discussed in this case are promotion, pricing, franchising, compensation and operational issues. Students should be aware of SWOT analysis, concepts of the 7Ps of services marketing (Annexure 1), customer value and marketing strategy (Annexure 2).

Suggested Assignment and Questions

1. Conduct a SWOT analysis of 'The Royal Villa Resort'.
2. Explain the concept of franchising. Elaborate the pros and cons of franchising.
3. What is the current advertising strategy of 'The Royal Villa Resort'? In addition to advertising how Integrated Marketing Communication (IMC) can help the resort to extend the horizon?
4. If you would have been in Vipin Soni's position, what will be your decision and why?
5. If you have to start a new luxury hotel with two-tier city like Ajmer, which factors will you consider and why?

Answer Key

1. **Conduct a SWOT analysis of 'The Royal Villa Resort'.**

The facilitator should explain the concept and expectations behind the tool used. The strategic importance of SWOT analysis and how it can be useful to understand the situation and plan strategies in any business organization. Originally the term comes from the term SWORT Analysis where 'R' stands for risks. The facilitator can make use of the following points.

Strengths: The resort is located at a strategic location where the demand for the service exists. The investment in fixed assets is already done. The processes and overall functionality are promising. The 'people' associated with business are proficient and their relations with management are cordial. The businesses can offer the service with the help of people associated with the organization.

Weakness: The promotional strategy is not proper. Advertising skills are poor. The centralized management existed which has not empowered the employees. Low involvement of stakeholders in decision making.

Opportunities: The demand for service exists, the market conditions are promising.

Risks: New style of leadership, change management issues.

Threat: The established brands are eyeing the market in tier-2 cities. The deep pocket brands, their specialized services and aggressive marketing can be deciding factor.

2. **Explain the concept of franchising. Elaborate the pros and cons of franchising.**

Concepts of Franchising

Franchising is a business model in which many different owners share a single brand name. A parent company allows entrepreneurs to use the company's strategies and trademarks; in exchange, the franchisee pays an initial fee and royalties based on revenues. The parent company also provides the franchisee with support, including advertising and training, as part of the franchising agreement. Franchising is a faster, cheaper form of expansion than adding company-owned stores, because it costs the parent company much less when new stores are owned and operated by a third party. On the flip side, potential for revenue growth is more limited because the parent company will only earn a percentage of the earnings from each new store. 70 different industries use the franchising business model, and according to the International Franchising Association the sector earns more than \$1.5 trillion in revenues each year.

The facilitator can explain the students the working of various franchising options with relevant examples:-

The franchising business model consists of two operating partners: the franchisor, or parent company, and the franchisee, the proprietor

that operates one or multiple store locations. Franchising agreements usually require the franchisee to pay an initial fee plus royalties equal to a certain percentage of the store's monthly or yearly sales. Initial fees vary significantly across each industry, ranging from \$35,000 for an Applebee's restaurant to over \$85,000 to open a Hilton hotel. Royalty fees are also variable - for example, Intercontinental Hotel Group franchisees are required to pay the company 5% of their yearly sales, while Applebee's franchisees pay 4% of monthly sales and IHOP franchisees pay a 4.5% royalty fee of weekly sales. The franchisee also covers the costs of actually starting and operating the store, including legal fees, occupancy or construction costs, inventory costs, and labor. Franchise agreements usually have a term of between 10 and 20 years, depending on the company.

The parent company authorizes the franchisee's use of the company's trademarks (for example, selling Big Mac's at McDonald's) as part of the franchising agreement. Additionally, the franchisor provides training and support as well as regional and/or national advertising.

Advantages of the Franchising Model

- Franchisees require less initial capital than independently starting a company and can use proven successful strategies and trademarks.
- Franchisees are provided with significant amounts of training, not common to most entrepreneurs.
- The franchisor benefits because it can expand rapidly without having to increase its labor force and operating costs, using much less capital.
- Franchised stores have a higher margin for the parent company than company-owned stores because of minimal operating expenses in maintaining franchised stores.

Drawbacks of the Franchising Model

- Franchising stores reduce the amount of control that the parent company has over its products and service, which may lead store quality to vary greatly from store to store.
- Franchisees must pay a percentage of their revenues to the parent company, reducing their overall earnings.

3. **What is the current advertising strategy of 'The Royal Villa Resort'? In addition to advertising how Integrated Marketing Communication (IMC) can help the resort to extend the horizon?**

After reading the case students should be in a position to comment on the Royal Villa Resort's advertising strategy. The Royal Villa Resort does not follow the aggressive advertising strategy at all. The facilitator should highlight a few points like they had advertised about their services only during special occasions using limited print media. They have only one big hoarding at the main gate of the Royal Villa Resort highlighting the facilities offered by them. Because of poor advertising, local customers are unaware of the facilities offered at the villa with a membership fee. It seems that they have spent time in making the service quality better but hardly paid attention to this important aspect of business.

Here facilitator should throw light on the concepts marketing communications. Through communications, marketers explain and promote the value proposition their firm is offering. Communication is the most visible or audible or intrusive of marketing activities, but its value is limited unless it is used intelligently in conjunction with other marketing efforts. A well-researched and planned marketing strategy (Annexure-2) is likely to fail if prospects don't learn of a service firm's existence. Communications must be viewed more broadly than as just media advertising, public relations, and professional salespeople. There are many other ways for a service business to communicate with current and prospective customers. The location and atmosphere of a service delivery facility, corporate design features such as the consistent use of colors and graphic elements, the appearance and behavior of employees, the design of website-all contribute to an impression in the customer's mind that reinforces or contradicts the specific content of formal communication messages. The past few years have seen the emergence of new and exciting opportunities for reaching prospects through the Internet, with degrees of targeting and message specificity previously unimaginable. All these media must be effectively synchronized to attract new customers and to reconfirm the choice of existing customers while educating them on how to proceed through a service process.

Considering the facts the Resort should

- Position and differentiate the service
- Promote the contribution of service personnel and backstage operations
- Add value through communication contents

- Stimulate or dampen demand to match capacity since hotel industry has a high fixed costs
- Aggressive Digital Marketing can help the resort to reach the target audience and track them online.
- Additional online facilities would help to attract the foreign tourists.

The facilitator can motivate the students to explore the pros and cons of digital media marketing in the hotel industry.

4. **If you would have been in Vipin Soni's position, what will be your decision and why?**

The facilitator should start the discussion to understand the best practices in the hotel industry. The innovative ways followed by other well known organizations in attracting customers should be discussed. With a background of the challenges in running own business, challenges in competing with deep pocket brands and knowledge of franchising concepts, students should be encouraged to come up with different solutions. They should be made aware of the risks associated with every decision.

5. **If you have to start a new luxury hotel with a two-tier city like Ajmer, which factors will you consider and why?**

The facilitator should discuss the important factors considered before starting a new venture. Then the discussion should be about the factors required for a luxury hotel. Porter's Five Forces Model can be used to answer the question. The infrastructure support, facilities available in the two-tier city, the probable tourist attractions, strategy to attract the customers, competitors and their strengths should be analyzed and students should be motivated to come up with a solution. The answers may vary depending upon the individual's analysis power and risk taking ability.

Web References

Business Fundas (2013). Online Document: URL: <http://business-fundas.com/2010/the-7-ps-of-services-marketing/> (retrieved on September 2nd 2013).

Continuum Learning (2013). Online Document: URL: http://www.continuumlearning.com/Customer%20Services_7Ps%20of%20Services.pdf (retrieved on August 2nd 2013).

Online Document: URL: <http://www.stanford.edu/class/ee353/marketing%20strategy.htm> (retrieved on September 2nd 2013).

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Annexure – 4

7Ps of Services Marketing

Companies are competing strategically through service quality for greater differentiation in today's competitive marketplace. Successful companies focus on the services-dominant paradigm with investment in people, technology, human resources policies, and compensation linked to service performance of employees. This is important because contact employees' attitudes and behaviors significantly influence the quality of service. They present the "face and voice" of their organizations to customers.

Extension of the 4Ps - 7Ps Services Marketing Framework by Booms and Bitner

The 4Ps marketing mix which represents Product, Place, Pricing and Promotion, have been most widely employed as a model for product marketing. It shows the company preparing an offer mix of the product and price, with an integrated promotion mix to reach the target consumers through the selected distribution channels. The 4Ps of marketing have been the key areas where marketing managers allocate scarce corporate resources to achieve the business objectives. Services have unique characteristics: intangibility, heterogeneity, inseparability and perishability. To discern the differences between services and physical products, Booms and Bitner suggested the extension of the 4Ps framework to include three additional factors: People, Physical evidence and Process as marketing mix variables of services marketing:

- (i) People refer to all people directly or indirectly involved in the consumption of a service, example employees or other consumers,

- (ii) Physical evidence, that related to the environment in which the service is delivered, and the tangibles that help to communicate and perform the service, and
- (iii) The process is the delivery and operating systems of procedures, mechanisms and flow of activities by which services are consumed.

Annexure 5

Marketing Strategy

Marketing strategy lies at the heart of any business strategy. It is composed of several interrelated components called the marketing mix. The Marketing mix consists of answers to a series of product/customer related questions.

The Marketing Mix includes -

- 1. Market selection**
 - a. Who is the customers or subset (segment) of customers you are targeting?
- a) Product planning**
 - a. What products are the companies going to design or OEM for the selected customers?
 - b. What are the product's features uniquely targeting this market?
 - c. How will the product be packaged?
- 2. Pricing**
 - a. Pricing is a quantitative expression of the value of the product to the customer.
 - b. Pricing should be designed like a feature consistent with the use of the product.
 - c. What will you charge for and How much?
 - d. How will the customer pay and when?
 - e. Refer the Price/Feature matrix
- 3. Place**
 - a. Which channel, direct, wholesale or retail channels best moves and delivers the product and its benefits to the selected market?

4. Promotion

- a. **Positioning:** What is the message that states the purpose and benefits of the product in the market and how it competes?
- b. **Selling:** Direct or indirect through others?
- c. **Communications:**
 - How will people be informed about your product, showing them how it can be useful, and persuading them to buy it?
 - What role should branding play?
- d. **Support and Service**
 - How does the customer get help if needed to make the product work and replacing or repairing it when it's broken?

Decision Making Unit and the Decision Making Process

The actual selling process breaks down into two components called the decision making unit (DMU) and the decision making process (DMP).

The (DMU) decision making unit

The (DMU) consists of all of the people who will play a role in the decision to purchase a product. The marketing mix program must understand the needs of each of these individuals and find a way to communicate the marketing message to each of them. These people are typically identified as:

- Buyer – the person who actually issues the check. (For example the purchasing agent, or the individual consumer).
- Decider – the person or group that actually says this is the product we want, i.e. the MIS manager.
- Influencer – who helps the decider decide, i.e. the press, analysts, peers, evaluation groups.
- User – the individual or group who actually uses the product and derives benefit from it.

The decision making process (DMP)

The people included in the decision making unit (DMU) interact to make the purchasing decision. The (DMP) is a description of this interaction. By understanding this process a salesperson can better understand who, how, and when to work; on getting the customer order.

Additional Readings

Zeithaml, V. A, Bitner M J, Gremler D D, Pandit A. (2013). *Services Marketing: Integrating Customer Focus Across the Firm*, 6/e. New Delhi, McGraw Hill Education.

Slavoj Medlik, H. I. (2006). *The Business of Hotels*. Eastbound: Elsevier.

Lovelock, C. (2011). *Services Marketing*, 7/e. New Delhi: Pearson Education