# Hbr regal carnation hotel, guam

The case revolves around the Regal Carnation Hotel, located in Guam. Partly narrated by Steve McKenzie, he described his experience with the Regal Carnation Hotel. In his description of the situation, the “ me too” approach to hotel management led to poor service, false representation, and a pricing plan that does not match the value of the hotel. The hotel industry in Guam has important statistical information that will lead to an effective analysis. Over a period of years, Guam has experienced a boost to its tourism industry. The year 1967 was the beginning of that upward trend.

that includes support from the United States. However, the decline of the Japanese economy in the 1900’s and onward severely damaged the economy of Guam. How many of us can attest to looking up a product or service online, seeing its respective pictures, only to find out that the actual product is dissimilar to the original picture? The excess room inventory in the hotel industry paired with the decline in the general tourism of Guam could only lead to failure. In other words, supply greatly outnumbered demand. Additionally, applying a “ Me-too” approach to hotel operations in such conditions can have limited success.

Research has shown that piggy backing on others in the industry can often lead to failure, because companies employing this tactic rarely see the need to differentiate with a product or service. It can be assumed that a “ me too” company’s sole intention is to capitalize on the success of another company and the upward trend of a fad. McKenzie clearly observed and often commented on the issues he saw, like the unkempt meeting room and aged furniture. This brings out another aspect of a “ me too” company in that usually those who employ this tactic place reinvestment in a lower priority.

Could the Regal Carnation benefit from a shift in focus? We find that the use of our gut when making decisions can have a positive effect. In contrast, the McKenzie’s failed to follow their gut instincts when they decided on the Regal Carnation Hotel. We believe when the McKenzie’s decided to choose a hotel, they did not do a thorough research and follow-up. The situation becomes more complicated by the fact that the vacation choice was practically located in a foreign despite Guam being a United States territory.

In the beginning process of making their arrangements, there were several situations where the McKenzie’s failed to use their gut instincts. The McKenzie’s relied too much on the hotel’s website and failed to follow through to verify the validity of the information on the website. When considering one’s gut intuition, there are certain cues that can be picked up on to hint at if there is a problem. For the sake of this analysis we equate cues with “ red flags”. One such red flag is related to how it took too long to confirm the price and room availability. Mr.

McKenzie’s uncomfortable reaction illustrates that he recognized a red flag. The hotel’s mixed reviews can be seen as a second red flag that supported his gut instincts to not do business with the hotel. Last but certainly not least is the fact that the Regal Carnation required a one hundred percent non-refundable reservation fee. Taking into account some of the practices of the Regal Carnation Hotel we thought certain questions could clarify the situation. One question that stood out was “ Why would a hotel ask for such a fee if the value of the hotel matched the value depicted on their website?”

When a hotel wants all monies up front with no possibility of a refund; as is the case with the Regal Carnation hotel, aren’t they sending a symbolic message to the potential customer that would carry on the appearance of bait-and-switch? In this situation the potential customer generally would have no way to verify if the price is worth the value of the hotel. At the point of purchase, the customer is locked in to stay so once they arrive at the hotel, whether they choose to stay at another hotel or not, Regal Carnation has made the sale.

The second question we posed is what successful hotel would require a one hundred percent non-refundable fee? Mr. McKenzie was immediately uncomfortable with the policy of the hotel. In his line of business, he knew that a successful company would not follow this procedure, when booking a customer’s reservation. Our second question was “ Did the Regal Carnation always misrepresent itself on the website and was this intentional. ” Looking at the case, it states that the tourism industry was in its maturity state by 2007.

During this time hotels were running elaborate campaigns to make their hotels and business stand out. But with the declining pool of tourists, there was less profit to be made and as a result less money to reinvest into the hotel. It is no surprise then; that given time and diminished incentive to reinvest, that the website told a different story than reality. If the McKenzie’s would have researched a little more, followed-up on their gut intuitions about the Regal Carnation, and considered how it fits in with Guam’s overall economy and history perhaps they would have realized the fallacy of deciding upon value based solely on a website. It is commonly believed that each product in business goes through what is called a product life cycle.

It can typically be divided into four distinctive categories. Simply put, Introduction, Growth, Maturity and Decline are the four names that describe the different sections. Guam’s tourism industry is currently going through the Decline stage of the product life cycle. Guam’s hotel industry peaked at sometime around the year 1997. During this period, Guam’s hotel industry had the highest number of rooms’ available (1. 38 million) with a 76 % occupancy rate at an industry high room rate of $124.

At no point prior to this point or since does the industry ever reach that milestone. This is why we feel the industry has passed its maturity stage and is currently experiencing a decline. From 1990 to 1997, the industry experienced a 72. 2 % occupancy rate. In contrast, the next eight years failed experience the same kind of success. From 2000 to 2007 the industry experienced a 59. 4 % occupancy rate. This shows that the industry is in decline.

In fact, if the data is broken down into three year periods, the decline started in 1996. 1996 to 1999, 2000 to 2002 and 2003 to 2005 showed a 64, 59. 3 and 56 percent room occupancy rates respectfully. Some of the data appears to show that the industry is following an upward trend, albeit not a drastic positive change. Exhibit 4 points out that occupancy rates in 2007 are hirer than those in 2006 and 2007. Similarly exhibit 2’s “ Guam Visitor per Year 1996-1997” supports the assumption of a recovery. This information is misleading however.

We feel that the data provides too much information and does not allow viewers to truly see the big picture. In this case we make the assumption that more visitors and higher occupancy rates should equate to the Regal

Carnation doing better. But as we have come to learn by the various materials in the class we read and discussed, underlying assumptions can be wrong. In the Invisible Gorilla, a student who decided to receive weekly or monthly information on funds A and B earned less money when compared to students who decided to receive information on the funds every five years.

“ The Subject who received feedback every year or every five years saw that the stock fund outperformed the bond fund, but they did not see the difference in variability. ” In both cases from the Invisible Gorilla, the underlying assumptions based on the frequency of data determined whether the outcome was positive or not. When looking at the trend line in hotel occupancy rates, one could get a clearer picture like that of a weather forecaster, by looking at the overall trend and not the yearly fluctuations. The case pointed out that Guam’s hotel industry is suffering from a low retention rate.

Repeat Japanese tourists only account for a third of the year’s tourists. They make up such a large portion of the market; any change in the Japanese tourist trend would have a dramatic effect on the outlook of the industry. Unfortunately the Japanese people are not likely to go on vacation. It is commonly believed that Japanese citizens are workaholics. Their strong work habits leave very little time for vacation. According to an Expedia. com – 2009 International Vacation Deprivation Survey, Japanese citizens tend to take only eight days out of their average 15 days of vacation.

That is less than any other country in the survey. Adding 92% of Japanese who do not taking all of their vacation time (compared to 22% of the French and 34% of Americans) with relatively low repeat customers, and a continuing expanding hotel business, Guam’s high occupancy rate during the late 1990’s could not be maintained. On top of all this, the Japanese economy has been in a steady decline since the 1990’s. Benjamin Powell, author of “ Explaining Japan's Recession”, points out that the Japanese economy has been in a decline since the late 1980’s.

Property value fell by 80% between 1991 and 1998 and unemployment rose from 2. 1 percent in 1991 to 4. 7 percent in the year 2000. This may explain the spike in tourism during the late 1990’s. The Japanese may have felt that the recession and high unemployment (relatively) were a short term problem. Despite the reason, the Japanese people could not sustain the tourism industry in Guam. Their new local economic problems may have forced them to abandon any hope of going on vacation. They may have felt that saving their money would have been the best thing to do. This would explain why the conditions in the Regal were so poor.

The pictures the Mckenzie’s seen on the Regal Carnation’s web site may have been accurate. The furniture in the lobby could have been replaced piece by piece after the initial pictures were taken. The decline in occupancy would explain why management would decide not to purchase compete furniture sets, why the Regal employee was using his own car and why the meeting room furniture had layers of dust and grim on it. When there is a decline in revenue, hotel staff may have been the first thing to be cut. Most of the hotels in Guam are located within 2 mile of each other (Google map Search).

This makes it difficult for customers to choose which hotel best fits their needs. The Mckenzie’s are a prime example. The Regal is close to the city and close to the beach. This is basically the same for most of the hotels. They decide to purchase a lower rate hotel because it is has access to other hotel amenities like beachfront access. There doesn't appear to be any distinctive qualities that separate them. Most are located on or close to the beach, has a gym, meeting room and a restaurant on the property and are current priced between $120 and $180 dollars (Hotel. com, Three stars and above).

The only definite difference between them is their name. I would have been difficult for the Mckenzie's to choose between the different hotels. With a fairly balanced world a fall in the Japanese economy must mean that another countries economy is rising. China could replace Japan in the short term as Guam's number one customer. The Chinese economy is on the rise. According to the World Bank, the Chinese economy has been on a steady rise since the mid 1980's. Their GDP went form close to 0. 5 trillion in 1985 to 4. 9 trillion in 2010. This strong economy will yield citizens eager to rest and relax.

Because Guam is relatively close to China when compared to Europe, Guam could be the best destination for those looking to vacation outside of Asia or trying to escape Asian culture. The shift to Chinese customers will not be easy because of visa restrictions placed on Chinese people leaving China and entering a US territory but the potential for wealth and growth is there. Not all of Guam's tourist attractions are located in the middle of the country near the cluster of hotels.

The Northern Region of Guam contains the Ritidian Beach which is considered one of Guam's most beautiful beaches. According to

Guamportal. com, “ The beach itself is a long stretch of white, powdery sand beach that offers tourists a chance to swim in the crystal clear waters or sunbathe in the warmth of the tropical sun. ” The beach is largely unseen by tourist because it is mostly surrounded by the US military. In the process of analyzing the case, we were able to decide upon a problem and discuss some of the root causes. By transitioning between what we saw as the problem to analyzing the problem, we felt it appropriate to explore alternate ways of thinking. We asked ourselves if an alternate viewpoint could be taken and if so what kind of new assumptions could be made.

Was the McKenzie’s experience with the Regal Carnation the only problem? At first glance it would appear so. The narrative has a way of drawing one in because it is a believable situation and can be seen universally as a problem. By looking over the supporting data and taking another position we believe that the McKenzies’ experience and series of “ problems” could be symptoms of a bigger problem. Using exhibit 8 on the methodology of analysis, one can connect the top of the pyramid to the experiences the McKenzies had with the hotel. The area above the “ Line of Visibility” represents what we can see and consider.

But taking another look at the diagram, one could point out that the symptoms sit upon a foundation of root causes, company strategy, and the product life cycle. By using the diagram we asked the question; is the Regal Carnation Hotel a success story? In regards to the Regal Carnation and this alternate line of thought we defined success as providing a vital service resulting in gaining new customers and retaining the current customers.

Additionally, gaining new customers and boosting customer retention would theoretically provide greater profits.

Following this line of thinking, we believe another problem relates to the fact that the Regal Carnation fails in the present to be a success. The failure of success is related to certain mitigating circumstances. The current lack of success of the Regal Carnation can be mainly attributed to the overall stagnant tourism industry in Guam. According to exhibit 2 the amount of tourists visiting Guam has fluctuated from year to year. Around the time the Regal opened its doors, tourism saw a boost in Guam. Going forward along the timeline the trend line seems to reach a plateau in the latter years of the chart.

Our interpretation of the data is that despite earlier successes with a large amount of tourists visiting Guam, the situation has morphed into the same amount of hotels competing for a smaller pool of customers. In contrast to the data in exhibit 2, exhibit 4 and 5 generally convey a different trend. Despite a boost in tourism in comparable years (according to exhibit 2), occupancy rates have fallen and room inventory has increased in Guam. Looking at the data, we asked ourselves why a boost in tourism would not necessarily mean higher occupancy rates and lower room inventory.

Where is the disconnect happening here? Without any other explanation or data the situation painted by exhibits 2, 4, and 5 not only point to an underlying problem but paints a grim picture for the hotel industry in Guam. But digging a little deeper, we surmised that the stagnant tourism industry, lower occupancy rates, and higher room inventory negatively impacted the Regal Carnation more than its competitors. With all else equal and with the underlying issues hurting the hotel industry in general, the Regal Carnation is not positioned to properly withstand the shift in trends.

The case points out that the Regal Carnation was opened based on the recognition that the region would see a boost in the tourism industry. The Regal Carnation opened after the initial boost in tourism. With this knowledge, the adage “ The early bird catches the worm” comes to mind. Prime real estate is located along Guam’s beachfront. This is where Hotels first to market were built. All other hotels that entered the market late, including the Regal Carnation; could not take advantage of prime access to the beaches.

McKenzie made a comment about how the Regal was a “ me too” hotel. I thought of how other “ me too” companies operate. For a given product or service, if a company enters into the market late, there is usually fewer options to differentiate because of late entrance and the demands of the market. Then again “ me too’s” generally don’t enter the market to innovate or bring anything substantially new (a quick consideration of product offerings or features would point this out), but to follow a trend and siphon off profits from those companies that have entered the market earlier.