

# Good night motel case

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When making his decision, McGregor should consider seriously the negative consequences that his business will experience if he refuses Alward's offer to fill the motel for the two weekend nights in October, at half the room rate. If McGregor refuses, during that weekend his motel will be at his usual capacity of less than quarter full. With the church group there, paying half the rate, it will be as if the motel were half-full! In addition, if he refuses, McGregor's reputation in the community will suffer, and he will also lose all future business from Alward's group and other church groups, at regular price.

Consequently, Justin McGregor should accept Alward's offer but under the following two conditions: one, guest service will be limited so that McGregor can lower his costs; two, this is a special one-time deal that will never happen again for Alward or anyone else. The quantitative factors involved dictate that McGregor should accept Alward's offer for accommodations for his church group, at half the room rate, for Friday and Saturday, October 26 and 27.

According to the facts of the case, pre-2008, from October 16 to May 14, the motel was rarely more than a quarter full at any time while post-2008, the motel's occupancy rates fell 7 to 15 percent year round. In other words, if McGregor refuses Alward's offer, during that weekend, the motel will be at its usual capacity of less than quarter full. However, with the church group there, paying half the rate, it will be as if the motel were half-full! Half-full is better than less than a quarter full, so logic dictates that McGregor must accept Alward's offer.

There will be more guests occupying all rooms at half the rate than if there were regular guests paying the regular price and filling fewer than a quarter of the motel's rooms. However, this fact means that service costs and maintenance cost will be higher with Alward's group than with regular customers. In other words, with the motel being at full capacity, McGregor's maintenance and cleaning staff will be a lot busier than usual, servicing a motel at full capacity.

Paying for the maintenance and cleaning of all rooms at the motel will further decrease the amount of money that McGregor will make from Alward's group. In other words, in strict quantitative terms, Alward's offer is a bad idea for McGregor. However, in the small resort community where the motel is located, quantitative factors are not everything. McGregor will suffer all sorts of negative consequences from church groups and other members of the community if he refuses Alward's offer. Therefore, the prudent thing to do is to accept Alward's offer with two conditions. The opportunity cost

In fact, McGregor should accept Alward's offer but under the following two conditions: one, guest service will be limited so that McGregor can lower his costs; two, this is a special one-time deal that will never happen again for Alward or anyone else. Considering that McGregor and his wife run the motel, which is their source of livelihood, these two conditions are reasonable. In addition, McGregor should make sure to ask Alward to impress upon his church group that the fact they are paying half the regular motel price means that the church group will receive half the regular service!

This means that the church group guests must be clean and tidy, and they must not depend on the motel's maintenance people. In theory, none of this

should be a problem, especially with a group of church people, who are supposed to be kind, understanding, cooperative, and so on. In any case, the fact that the church group will stay for only two days means that they most likely won't make huge messes, so McGregor will not have to pay his cleaning crew to repair. In addition, the church group guests will probably spend most of their time during the day at the church and go to the motel mostly to sleep.

All these facts are only fair to McGregor, whose livelihood depends on that motel, at a time of a weak national economy. Being "a good man" (p. 3), Alward must surely understand all these facts. As a result, if I were McGregor, I would respectfully explain all these facts to Alward, appeal to his sense of fairness, and ask for his cooperation. The qualitative factors that McGregor should consider have to do with Grand Bend, which is a small resort community. Refusing to accommodate a church group would bring negative publicity to the Good Night Motel.

As a result, McGregor will lose all future business (at regular prices) from Alward's church group and most likely from other church groups, too. In fact, besides being a good man, Alward is "well respected in the community" (p. 3). This fact means that McGregor should do all he can to develop a good working relationship with Alward, who will bring more church groups in the future. If Alward asks for the half-price rate again in the future, McGregor will be in a much better position to refuse.

The community people will not be as critical then (in the future, if Alward asks for the half-price deal again) as if they will be if McGregor refuses Alward's first request. In other words, the resort community is too small for

McGregor to decide solely based on the numbers. Reputation is very important in such communities, especially when church people are concerned. They tend to travel and spread the news about which businesses are customer-centered and which are money-centered, to put the matter simply.

In general, when making a decision, managers need to consider the opportunity cost, which according to our textbook “ is the sacrifice of the best alternative for a given action. An (accounting) expense is a cost incurred to generate a revenue” (p. 24). Since this is a small town, and the church group will stay for only two days, the opportunity cost will bring more customers for the future. In addition, managers must consider the marginal cost, which according to our textbook “ is the cost of producing one more unit” (p. 28).

In terms of cleaning the pool, it will not have an effect since most of the time people will spend in the church, and the only time they will spend in the Good Night Motel is night time only for sleeping purposes. As a result, the only additional cost to accommodate the guess is the cleaning service of the rooms. In addition, McGregor must consider his fixed cost, which is a cost that does not change with an increase or decrease in the amount of goods or services produced.

In the final analysis, the fact that Alward is a good man who enjoys the community's respect and the fact that he works with churches (a central institution in small communities) mean that McGregor can't afford to refuse to work with Alward. Even if McGregor breaks even, he should still accommodate the church group. If he doesn't accommodate it, he will suffer

all sorts of negative consequences: loss of future business from church groups at regular price, bad publicity in a small resort community, and so on. In other words, the big picture (quantitative factors) is more important in this case.