

teaching note

Examining the Beachside Oasis: A Competitive Analysis and Market Share Case Study

By Emily Reaves and Donald G. Schoffstall

Case Study Summary

The case study places the reader into a typical asset manager role within the Beachside Oasis Resort to examine the hotel financial and operational performances. Objectives of the case allow for students to build upon their understanding of key financial business indicators, competitive advantage, and market growth, as well as to examine each as a manager in a real-world simulated scenario. The case is geared more to an undergraduate audience, though some additions for advanced study or further examination at the graduate level have been included. Some of the specifics include a comprehensive dive into specific local markets and additional comparisons using the 2020 competitive set from STR for COVID-Pandemic analysis.

Learning Objectives

Students completing this case study will be able to:

1. Evaluate the hotel performance against the competitive set from the perspective of an asset manager working on behalf of a hotel owner.
2. Delineate key revenue centers in a hotel from an income statement to provide recommendations for change.
3. Review key performance indicators (KPIs) to judge a hotel's current performance.
4. Analyze financial statements by calculating financial ratios and operational metrics for both the hotel and the competitive set.
5. Determine the appropriate metric for each line item for comparison within an analysis.
6. Describe potential areas within hotel operations to improve/further investigate based on analysis.

Target Audience

This case is intended for upper-level hospitality students who already have background knowledge and experience in hospitality or more specifically hotel operations. Prior knowledge of full-service hotel operations, revenue management, finance and accounting would be necessary to conduct the analysis. This case is ideal for a hotel asset management course, an undergraduate capstone course, or any upper-level hospitality analysis course. Optional additional activities could be added to the case study for use in a graduate-level hospitality course (see optional activities section for more information).

Using the Case

Prior to Class

Prior to introducing the case study to the classroom, students should read the case study and any additional textbook or reading materials the instructor makes available on topics such as hotel financial analysis, financial ratios, operational metrics, comparative analysis, competitive analysis, hotel asset management operational analysis. For an upper-level or graduate class, the students should be provided with additional information, including market analysis, STR 2020 report, or other material as the instructor deems appropriate.

Instructor Note on Income Statement

Instructors should thoroughly review case study table 4 (income statement) prior to any review with students. Depending on the desire or needs of the class, table 4 could be created as an Excel file allowing the instructor to hide any categories of non-focus. Then, if sharing the financial statements in Excel, students may work with the metrics and ratios within Excel without having to re-write the data.

Questions from Case Study

1. Where are three (3) areas that your hotel is strong compared to the competition? Be sure to provide a detailed description of the specific areas, including the % difference between them.
2. Where are three (3) areas that your competition is outperforming or doing better than you? Be sure to provide a detailed description of the specific areas, including the % difference between them.
3. What would be two (2) recommendations you could make to the hotel owners, specifically utilizing the existing outlets and features of the resort, where they could make changes/improvements? Be specific.
Note: your answers to Q1-Q3 must be unrelated to project decisions in Q4 below.
4. The owner is trying to decide between the following projects:
 - a) Expanding the seating capacity for the casual bar/lounge and adding a VIP area.
 - b) Expanding the spa to add three extra treatment rooms and a new private outdoor relaxation space with soaking tubs.
 - c) Adding a coffee shop into the existing giftshop to expand the beverage offerings and drive more traffic to the gift shop.

Which would you recommend they move forward with and why? Give recommendations to the owner, noting the current performance and competition comparison from the included reports.

Class Instruction

The main class instruction is established based on two, 50-75-minute class sessions. However, depending on the level and student knowledge, it is possible to combine class one and class two into one class session, especially if some of the foundational questions (see below) are provided as an out-of-class assignment. Instructors will want to ensure their students have been provided with the case study and read the case prior to class when it will be utilized. This case can be worked on by students individually or in small groups.

Class 1 – Introduction of Important Concepts and Review of Prior Knowledge

During the first class session working on the case study after the prior reading has been completed, the instructor should review the critical concepts that students will need to be familiar with to work through the case. Each section has foundational knowledge questions provided which may be open class discussion, independent work, or a small group learning opportunity.

1. Asset Manager's Duties

As a reminder, this case study is ideal for a hospitality financial analysis course, hotel asset management course, or senior level managerial capstone course. Within these courses, the student should either have prior knowledge of hotel asset management or learn about hotel asset management within the course. If asset management is not within the course that the case study is deployed in, a review of the major duties of an asset manager would be advised. A discussion of the relationship between the asset manager, the hotel owner, and the hotel management company would re-engage students in the importance of the asset manager role. Ensure that students understand the work that asset managers do to maximize the revenue earning potential of the property as a physical asset.

- What are the primary roles of an asset manager?
- How does the asset manager role change when the ownership and management of the property are through the same company and when they are two separate organizations?

2. Host Report by STR

Many hospitality students have exposure to STR reports in various courses such as operations or revenue management. Review specifically the HOST Report by STR (case study table 3), what data is shown, how it is created, and how it can be used as a comparative tool. Reminder for students, HOST (Hotel Operating Statistics) reports are an Ad-Hoc report that can be generated by STR as a tool for hotels to be able to compare their property's profit and loss performance to a selected group of hotels (STR, n. d.). It should also be noted the non-US version of this report is called the Profitability Report. Typically, in asset management the HOST report is a key tool for comparing especially since asset managers are utilizing income statements to make financial decisions, exactly like the students will be asked to make in the case study. For further information on STR college partnerships and certification opportunities for your students, please see the additional resources section below.

- What are the key aspects of the HOST Report by STR?
- What are some common industry ranges for key hotel indicators?

3. Income Statements

At the point of case study deployment, hospitality students should be familiar with financial documents like an income statement. Review the major line items within a hotel's income statement (case study table 4). Additional explanation or review may be required to explain specific income statement numbers in the form of ratio to sales, amount per available room, and amount per occupied room night.

- Why is it important to understand the ratio to sales?
- How can dollars per available room allow for an overall operational understanding?
- Compare the amount per available room to the amount per occupied room, noting differences.

Class 2 – Comparative Analysis

During the second class session working on the case study after the prior reading has been completed, the instructor should now take a deeper dive into more comprehensive aspects of the presented information and hotel financial operations. Each section has foundational knowledge questions provided which may be open class discussion, independent work, or a small group learning opportunity. This session may be combined with the above (class one) in an upper-level course or when the instructor has recently worked with students on many of these concepts.

1. Revenue

Discuss the revenue line items and which metric they should be compared on (Musgrove et al., 2018).

- Items that are a function of guest use should be compared by the per-occupied room night ratios.
- Items that are affected by the size of the hotel should be compared by the per available room ratios.
- Variable items like management fees should be compared on the ratio to sales.

Have students analyze the revenue line items and utilize their operational knowledge to brainstorm why revenues could be high or low. Questions that could arise within the brainstorming for issues with revenue levels could include:

- Is the hotel busy or slow?
- Are rates high or low comparatively?
- Is there a reason you can charge more than competitors?
- Is there outside traffic to outlets?
- Is this a year of lots of groups and events?
- Can you not charge as much as competitors?
- Are you missing out on outside traffic?
- Did you miss out on groups and events?
- Is there anything your competition has that you do not?

2. Expenses

Examine expense line items, which metric they should be compared on, and what the cost percentage is for line item expenses when compared to revenues.

- Room Cost Percentage should be calculated and discussed. Refer to the details within the case to further discuss this relationship and compare the hotel's performance to the competitive set.
- Food Cost Percentage should be calculated and discussed. Refer to the details within the case when discussing the hotel's performance and the competitive set.

Have students analyze the expense line items and utilize their operational knowledge to brainstorm why expenses could be high or low.

- Reasons within the brainstorming for issues with expense levels could include: overstaffing, over-ordering, inaccurate inventories, poor ordering processes, over producing food, food waste/spillage, beverage breakage/spillage, and overserving. keeping too little inventory on hand, skeleton crew/ understaffed, poor ordering processes, and more efficient inventory/purchasing (Musgrove et al., 2018).
- The Beachside Oasis Resort has 35,000 square feet of event and meeting space, a much larger space than the competition, which should positively impact food sales.

3. Index

Explain or review penetration indexes and how they are calculated. Based on RevPAR, ADR, and Occupancy numbers for the case study hotel and the competitive set, have students calculate penetration indexes for the hotel. Discuss how the penetration indexes relate to the comparative performances within the income statement for the hotel.

- Penetration indexes show your property's performance in comparison to the competitive set (Musgrove et al., 2018), which in the case of the Beachside Oasis Resort, ADR is \$199. The competition within the HOST report has an ADR of \$161.62. If we are calculating the penetration index for our property compared to this competition, our ADR penetration index would be 123%. This means our hotel is outperforming the competition when it comes to ADR.

4. Percent Difference

Instructors should demonstrate how to calculate the percent difference between the hotel's performance and the competitive set's performance.

- Percent difference can be calculated with the simple calculation of a new number subtracting original number (or your property's performance minus your competition's performance) divided by the original number (or competitor's performance) multiplied by 100 (Musgrove et al., 2018). In this example, The Beachside Oasis Resort's revenue per available room is 24.5% higher than the competition.

Students Complete the Case

Students can write up their memo in small groups or individually as a take-home assignment to be completed outside of the classroom after time was spent reviewing all details of the case in class. Instructors could modify the assignment to also ask students to present their findings and recommendations in-class to practice professional presentations and speaking from a hotel asset manager stance to hotel ownership.

After an initial review of the important concepts and a line-by-line examination of the hotel's performance compared to the competition, the student/s should write up a professional memo with an analysis of the hotel and recommendations to the hotel owner. Within the written memo, student/s should highlight specific areas the hotel overperforms, underperforms, and could improve upon. Student/s should support their specific recommendations with data. Finally, they should also focus on the other operating departments' data, since the other revenue-generating departments could be areas of opportunity, and specifically address these areas within question four.

Question Four Options

For question four there is an automatically built-in option an instructor may select for more advanced review either in an upper-level course or graduate course.

- Undergraduate Course Simple Option** justify one of the three projects to the owner by comparing existing revenues, expenses, and profits for the property.
- Upper-Level Option** conduct a more detailed asset management analysis where students examine the decisions table (see Table 5) to project costs and potential revenues earned by each project.
- Graduate Level Option** conduct a comprehensive review of the decision table information and work through how many years it would take the property to achieve a desirable return on investment (ROI) for each project.

Table 5. Expenses and Revenue Estimations

Project	<i>Expanding the seating capacity for the casual bar/lounge and adding a VIP area.</i>	<i>Expanding the spa to add three extra treatment rooms and a new private outdoor relaxation space with soaking tubs.</i>	<i>Adding a coffee shop into the existing giftshop to expand the beverage offerings and drive more traffic to the giftshop.</i>
Estimated Costs (Including estimates for construction, professional fees, contingency, operating supplies, equipment, freight, sales tax, etc.)	\$249,723.00	\$199,887.75	\$46,220.85
Total Potential Revenue	\$1,300,000 additional revenue annually	\$331,572 additional revenue annually	\$60,000 additional revenue annually
Total Potential Profit	\$383,500 additional net profit annually	\$151,859.98 additional net profit annually	\$27,480 additional net profit annually
Estimated timetable for project	3-4 months	4-5 months	6-8 weeks

Note: Partial information from BNG, 2021; Clough & Mackman, 2019; NEHMER & HVS, 2021

Optional Additional Activities

1. Market Analysis

Instructors could also use this case as a market analysis with a focus solely on having students research seasonal beach markets from a revenue management perspective. If the instructor wishes to examine the markets that hotels like this exist in, instructors may choose to not share the full financial statements for the hotel and competitive set but could choose to only share the KPIs and work from a macro market perspective.

2. ADR/REVPAR/TREVPAR/GOPPAR

Students in revenue management courses or more introductory hospitality level courses could utilize this case study to calculate ADR, RevPAR, TRevPAR, and GOPPAR for the property and the competitive set. Data within the HOST report and the income statement could be provided to students for calculations. For the Beachside Oasis Resort 2019 income statement (see case study table 4) the following represent these key indicators: \$199.00 (ADR), \$135.32 (RevPAR), \$206.78 (TRevPAR), and \$63.86 (GOPPAR).

3. Further Analysis Via STR

An additional option, or perhaps for a graduate class, would be a deeper dive or continued forecasting looking at comparing pre-covid, covid years, and projecting into the future. Question for analysis: How would you alter the plans you just created for the owner once 2020 hit?

Table 6 Below:

Table 6
STR Excerpt Custom HOST Report 2020

2022 Custom HOST Report
Summary

Currency: USD

2020	Props:	4
	Rooms:	653
	Occupancy:	47.1%
	ADR:	\$184.03
	RevPAR:	\$86.63
	TrevPAR:	\$193.67
	GOPPAR:	\$56.72

	2020		
	Ratio to Sales ¹	Amount Per Available Room	Amount Per Occupied Room Night
	%	\$	\$
REVENUE			
Rooms	44.7 %	\$ 31,749	\$ 184.03
Food	11.4	8,061	46.73
Beverage	7.0	4,961	28.76
Other Food & Beverage	1.8	1,253	7.26
Other Operated Departments	31.0	22,017	127.62
Miscellaneous Income	4.1	2,940	17.00
TOTAL REVENUE	100.0 %	\$ 70,982	\$ 411.43
DEPARTMENTAL EXPENSES			
Rooms	32.8 %	\$ 10,428	\$ 60.44
Food & Beverage	73.0	10,417	60.38
Other Operated Departments	47.4	10,427	60.44
TOTAL DEPARTMENTAL EXPENSES	44.1 %	\$ 31,272	\$ 181.26
DEPARTMENTAL PROFITS			
Rooms	67.2 %	\$ 21,321	\$ 123.58
Food & Beverage	27.0	3,858	22.36
Other Operated Departments	52.6	11,590	67.18
TOTAL DEPARTMENTAL PROFITS	55.9 %	\$ 39,710	\$ 230.17
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	8.9 %	6,306	36.55
Information & Telecommunications Systems	1.4	998	5.79
Marketing <i>(excluding Franchise Fees)</i>	5.8	4,097	23.75
Franchise Fees <i>(royalty and marketing)</i>	0.4	292	1.69
Utility Costs	3.8	2,712	15.72
Property Operation & Maintenance	6.4	4,517	26.18
TOTAL UNDISTRIBUTED OPERATING EXPENSES	26.7	\$ 18,922	\$ 109.68
GROSS OPERATING PROFIT	29.3 %	\$ 20,788	\$ 120.49
Base Management Fees	2.5	\$ 1,809	\$ 10.49
Incentive Management Fees	-	-	-
INCOME BEFORE FIXED CHARGES	26.7 %	\$ 18,979	\$ 110.01
SELECTED FIXED CHARGES			
Non-Operating Income	1.6 %	\$ 1,139	\$ 6.60
Rent	11.2	\$ 7,925	\$ 45.94
Property Taxes	1.5	1,080	6.26
Insurance	1.8	1,279	7.42
EBITDA	10.6 %	\$ 7,555	\$ 43.79
Reserve For Capital Replacement	0.4	280	1.62
SUPPLEMENTAL PAYROLL ANALYSIS ³			
Rooms	22.9 %	\$ 7,263	\$ 42.10
Food and Beverage	41.0	8,707	51.94
Other Operated Departments			
Administrative & General	4.9	3,472	20.12
Information & Telecommunications			
Marketing	2.6	1,819	10.54
Property Operations & Maintenance	2.7	1,938	11.23
TOTAL LABOR COSTS	38.1 %	\$ 27,074	\$ 156.93
SUPPLEMENTAL FOOD & BEVERAGE INFORMATION ³			
Cost of Food Sales	45.3 %	\$ 4,268	\$ 25.59
Cost of Beverage Sales	17.6	18	0.10
Total Cost of F&B Sales	25.7 %	\$ 4,276	\$ 25.64
Food & Beverage Labor	41.0 %	\$ 8,707	\$ 51.94
Food & Beverage Other Expenses	6.5 %	\$ 930	\$ 5.39

¹ Ratio to Sales for departmental expenses and profits are based on their respective departmental revenues. All other expense ratios are based on total revenue.

² EBITDA does not include Depreciation and Amortization, Interest, nor Income Taxes

³ Labor and Costs of Sales are included in expenses. Amounts shown here are for additional detail only. Not all participants provide detailed data on payroll and F&B costs; therefore, the following supplemental analyses provide the ratios for only these hotels in the samples that reported detailed information. Consequently, the amounts may not tie to the departmental figures provided.

Please note for summary tab:

Totals may not add due to rounding

Ratio to sales based on Total Revenue, except Departmental Expenses

Per Available Room based on total total number of hotel rooms

Per Occupied Room Night based on total number of occupied rooms

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Example Student Answers

Some potential answers from students could include:

Our room revenue per occupied room is 23% higher than our competition and our beverage revenue per occupied room is 96% higher than our competition. Our room related expenses per occupied room are 15% lower than our competition and our food & beverage expenses per occupied room are 4% higher than our competition's. With revenues being higher than the competition and room expenses being lower per occupied room, one could conclude that overall, our property is in a strong position and outperforming the competition. A further review of food & beverage expenses based on the numbers should be explored.

Our room cost is at 20% and our food & beverage cost is 75% per occupied room while our competition costs are at 29% rooms cost and 70.5% food cost. Our food & beverage cost is higher than our competition's per occupied rooms. This is a difference, especially in this market, that could pose further questions. Why are our costs so high in food & beverage? What are we doing differently?

The competition's revenue for other operating departments is 192% higher than ours per available room. This includes other revenue-producing outlets in the hotel and should be an important point of consideration. This is one of the major areas of opportunity for our property where they should be more competitive and where students can provide recommendations.

Analysis of Concepts and Summary

The case study of the Beachside Oasis Resort provided student readers at the undergraduate or graduate level the opportunity to examine the inner workings of a functional hotel. More specifically, the role of the asset manager focused on a critical review of key performance indicators, competitive analysis considerations, and market share review to successfully achieve the six identified learning objectives. Finally, students made recommendations based on their comprehensive review and were able to specifically choose some options best for their opinions of the case analysis. The asset manager focuses on many of the non-direct operating functions and critically examines the operation in key performance and financial aspects (Jackson, 2012; Musgrove et al. 2018). The context and contracts of operating hotels have changed over the years (deRoos, 2010), though it can be vital for future managers to understand the critical aspects affecting operating procedures. Whether it might be sustainability (Nam et al., 2020) or inclusive meals, swimming pools or even WI-FI (Krupskyi et al., 2019), guests will probably remain the main factor affecting performance. Additionally, instructors and/or researchers may further examine financial analysis measures both included or not included in the case to predict business trends and comparable matrix information to guide decisions for managers and owners. The Beachside Oasis is a functional property and certainly has many positive performance indicators, but there is (was) room for improvement; the authors hope your students' analysis will yield encouraging results.

Expert Commentary

Andrew Bou, Program Director & Regional Director of Revenue Management, Central Service;
Revenue Management – Americas, HYATT

What are some additional considerations students may wish to think about for this case hotel?

- Ensure to Common Size all of the metrics in order to compare "apples to apples". Determine which metrics should be in Per Occupied Room (P.O.R.) and which should be compared in Per Available Room (P.A.R.).
- Look for both strengths and weaknesses in performance. Some recommendations may be to intentionally decrease revenue in one area in order to apply resources to another area. For example: perhaps a decrease in Beverage Sales is necessary to bolster Food sales, or time spent by the guest in other revenue areas.
- Determine which ancillary revenues are underperforming. Ask why.
- What could the impact of Resort fees be on this hotel? Compare it to the comp set. It should impact the Other Revenue category.
- Think about the impacts that branded hotels have versus independents. What positive and negative impacts may occur a) financially and b) operationally?

From your professional view, what opportunities do you see for further analysis or recommendation considerations?

- Reconsider the STR Comp set as comparable hotels selected appear to be too small to compare against (at about 1/2 the size of Beachside Oasis, on average).
- Consider whether the resort ownership desires the resort to be a "Beverage first" or "Food first" business. Food first has more prestige and award possibilities. Beverage first is likely to be more profitable (as is the case here).
- Given the fact that the hotel is owned and managed by the owners, is there a need to have management fees at all? Franchise fees plus Management fees equates to costs of approximately 10% of Revenues from the top line. This is detracting against a Comp set that has a large number of independents.

Emily Miller, Vice President Asset Management Atrium Holding Company

This case study provides a solid introduction for students to the mindset of an Asset Manager. The key function of an asset manager is to gather information about a hotel property or portfolio, assess strengths and weaknesses, and evaluate ways to improve performance to create improved value for hotel ownership. As students review this case study, I would expect them to take into consideration all information and data points provided –guest feedback, financial performance, market conditions, customer profile, and the physical asset – and identify areas where the hotel has the most opportunity for improvement that align with ownership goals and objectives. An integral part of any asset management strategy is to benchmark a hotel's performance against other similar hotels. Requiring the students to compare the hotel's performance to the HOST report is a common exercise that Hotel Asset Managers undertake to find opportunities. Requiring the students to develop their own recommendations to Ownership allows them to “think like an owner” and assess the hotel from an investment standpoint. As students work through the case study, they will develop key skills necessary for navigating the professional world in hospitality and thinking about hotels as a real estate investment rather than just an operating business.

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STR and specifically Steve Hood, Duane Vinson, and Melane Rueff (STR SHARE Center) for their assistance with the case study by answering questions and providing the custom HOST reports included.

Andrew Bou and Emily Miller for their time and for sharing their industry insights and expertise with us to improve the case along with providing the additional add-in commentary here in the teaching note.

Additional Reading Material

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