ENTERPRISE HOSPITALITY MANAGEMENT, OUTSOURCING ECONOMICS AND VALUE CREATION: A CASE STUDY

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Abstract

Every organization has several stakeholders including customers and vendors, who often visit organization frequently, and in many cases have to stay overnight and in some cases for several days. Enterprise hospitality management (EHM) in a large business firm accordingly becomes an important organizational function as customers, vendors, and other trading partners visit the company every now and then. In view of the importance of EHM, large firms generally maintain their own guesthouses or transit accommodation for the company visitors. However, there can arise many situations when numbers of visitors are much more than they can be internally accommodated in the company guesthouse. Visitors in such situations either have to be turned away or accommodated in hotels for which most organizations generally have some contractual arrangement with them.

In this paper it has been attempted to study comparative economics of guesthouse versus hotel accomodation by collecting and analyzing complete one year hospitality data including several hospitality parameters. It was found that at existing levels of visitors movements in the organization, maintaining the company's own guesthouse is very much desirable and economically viable, and accordingly visitors should be diverted to hotels only when guesthouse occupancy is 'full' otherwise they should be accommodated in the guesthouses only.

INTRODUCTION

This paper presents a case on hospitality of a large business firm based on visitors data pertaining to visitors stay in the company guesthouses versus empanelled hotels. The study was undertaken with a view to study the pattern of stay observed during previous one year period in different company empanelled hotels in New Delhi which included Central Court, Lodhi Hotel,

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Marina Hotel, Janpath Hotel, Plaza Hotel, Centaur Hotel, YMCA, Ashoka Hotel and Kanishka Hotel and three company guesthouses A, B and C, with their actual identity and name of the organization kept as disguised.

The study covered analysis of visitors census, bed occupancy and length of stay (LOS) for one year period in the empanelled hotels and guesthouses. Whereas visitors data is directly countable, bed occupancy and LOS can be estimated using the following simple relationship.

Bed occupancy   =   Bed- days occupied

                    Number of beds x 365

LOS   =   Bed days occupied

                    Number of visitors

The case is based on complete one year data with regard to visitors' volume, bed occupancy and length of stay in the company empanelled hotels and three company guesthouses for analyzing comparative economics of guesthouse versus hotel accommodation. This involved collecting all fixed and variable cost components of the company's three guesthouses and expenditure incurred in accommodating visitors in hotels for past one year period. Based on comparative study of expenses incurred at three guesthouses versus hotels, it was found that formers are overwhelmingly more economical than hotels at the current volume of visitors flow and more. It is only when visitors volume is exceedingly low that it makes sense to make visitors stay in expensive hotels without the company having its own guesthouse.

An issue thus, often arises is whether a company should have a guest house at all or whether making visitors always stay in hotels is a better option as a policy decision. Outsourcing visitors to hotels can be economically advantageous as long as volume of visitors is limited i.e. less than a minimum threshold or cut-off limit. Maintaining an independent company guesthouse is beneficial only when visitors' volume is more than the threshold limit.

ANALYSIS AND RESULTS

The company maintained three guest-houses in New Delhi where its corporate office is located and large numbers of visitors are in the first instance accommodated therein (Table 1) and as second preferred option as per the company policy, large numbers are diverted to different company empanelled hotels in the city (Table 2) when accommodation in the guesthouse is inadequate

or when visitors are very prestigious for the organization who have to be accommodated in superior hotel accommodation.

Month and Year (t)	Guest House 'A'	Guest House 'B'	Guest House 'C'
January (t)	203	110	29
February (t)	119	186	20
March (t)	145	141	16
April (t)	161	129	32
May (t)	159	148	14
June (t)	161	151	15
July (t)	154	109	20
August (t)	163	112	19
September (t)	145	107	28
October (t)	190	145	11
November (t)	133	127	15
December (t)	200	107	19
Total	1933	1572	238
Average per month	161.08	131.00	198.3

Table 1 Number of Visitors Who Stayed in the Company Guest during Past One Year Period

Month and Year	Number of Hotel Bills Received	Bed-days	Number of Visitors
January (t)	650	N.A.	430
February (t)	439	1009	264
March (t)	439	1081	266
April (t)	156	1195	259
May (t)	354	1295	287
June (t)	365	1157	228
July (t)	290	1110	269
August (t)	467	1060	321
September (t)	321	1065	358
October (t)	324	1089	378
November (t)	298	1168	486

December (t)	509	1174	401
January (t + 1)	530	1171	301
February (t + 1)	358	1123	363
March (t + 1)	846	1182	313
April (t + 1)	187	1198	330
May (t + 1)	317	1394	330
Total for 17 months	6932	18471	5583
Average per month	407.76	1154.43	328.4

Table 2 Number of Visitors Who Stayed in Different Company Empanelled Hotels in Past One and Half Year Period

Apart from visitors' statistics, data with regard to fixed and variable costs incurred on guest-houses and expenses incurred in accommodating visitors in empanelled hotels were duly compiled for one year period. Expenditure incurred by three guesthouses on electric power, water and telephones (fixed costs) is summarized in Table 3. Expenses incurred by visitors on food bills in three guest-houses are given in Table 4. Cost data was used to determine average cost of staying in company guest-houses and empanelled hotels.

Item	*Guest House 'A' (Rs.)*	*Guest House 'B' (Rs.*	*Guest House 'C' (Rs.)*
Electricity	37601.15	78259.90	32575.80
Water	2699.85	14142.70	929.75
Telephone	31555.88	67914.35	32909.40
Electricity .charges p.m.	3133.45	6521.65	2714.65
Water charges p.m.	224.98	1178.55	77.47
Tel. charges p.m.	2629.65	5659.52	2742.45
Total utility costs p.a.	71856.88	160316.95	66414.95
Total utility costs p.m.	5988.07	13359.74	5534.57

Table 3 Utility Expenses on Electric Power, Water and Telephone Incurred by Three Guest Houses during Past One Year Period

Month	Guest House 'A' (Rs.)	Guest House 'B' (Rs.)	Guest House 'C' (Rs.
January	2012.0	2440.00	425.0
February	1729.5	1711.00	280.0
March	1825.0	1191.00	288.0
April	2183.0	1933.00	739.0
May	2753.0	1612.50	301.0
June	2586.0	2351.50	424.0
July	2106.0	919.50	456.0
August	2818.5	1401.50	482.0
September	1961.0	1641.50	374.0
October	2128.0	1457.00	276.0
November.	1783.0	1213.00	202.0
December	2451.5	1535.50	446.0
Total	26336.5	19407.00	4693.0
Average per month	2194.7	1617.25	391.1

Table 4 Expenses Incurred by Visitors on Food Bills in Three Guest Houses during Past One Year Period

Computations of 'mean bed occupancy' and 'average length of stay' for three company guest-houses A, B and C are summarized in Table 5, 6 and 7, respectively. Data with regard to length of stay in nine empanelled hotels are summarized in Table 8. Average LOS is largest (4.83) in YMCA and lowest in Centaur Hotel (1.12). Average LOS in Centaur Hotel is low as being near Airport, visitors generally use it for catching the flight, etc. It is to be seen that excepting Central Court and YMCA, individuals generally stay longer in company guest-houses as compared to other empanelled hotels.

LOS (xi) days	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	fi	fixi
1	41	24	20	29	31	29	37	46	28	28	31	46	390	390
2	32	27	18	38	21	40	31	30	25	21	38	28	359	718
3	22	3	14	9	9	10	8	15	21	16	13	14	164	492
4	18	8	16	17	28	17	10	13	23	19	9	15	193	772
5	7	1	5	4	1	3		2	8	10	7	4	52	20
6	8	6	5	7	7	17	6	7	6	7	7	11	94	564
7	3	5		5	1	1	2	2	4	3		3	29	203
8	5	8	2	6	3	2	3	3	2	12	1	19	66	528
9			2	3	3			1		1		1	11	99
10	1	4		3	1	2	2	2	1	2	3	3	24	240
11					1		1						2	22
12	1	1	2		3		2			1	2	3	15	180
13					1						2		3	39
14	1		1	1	1	1		2		1	3	1	12	168
15		2									1		3	45
16		1	1					1				2	5	80
17	1						1						2	34
18					2			1				1	4	72
19	1													
20				2		1	1	2				2	9	180
21	1													
22		1								1			3	66
23														
24	1				1		2					1	4	96
≥25	(126)		4	1	2	1	1	1	1	2		1	15	530
			(139)	(80)	(26)	(32)	(30)	(30)	(70)			(32)		(530)
Total	142	93	100	125	116	124	106	129	119	122	117	155	1448	5878

Total LOS in past one year   =   5878 days

Total number of visitors   =   1933

Average LOS per visitor   = $\dfrac{5878}{1933}$ =   3.04 days

Total beds available   =   26

Total bed days available per annum   =   26x365   =   9490

Average bed occupancy   = $\dfrac{5878 \times 100}{9490}$ =   61.93 per cent

Table 5 Occurrences of Varying 'Length of Stay' of Visitors in Guest House 'A' during Past One Year Period

LOS (xi) days	Jan.	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	f_i	f_ix_i
1	29	37	46	24	24	33	32	28	33	33	33	14	366	366
2	20	21	28	17	28	25	18	21	13	26	15	22	251	502
3	9	18	14	11	11	15	8	3	8	10	12	9	128	384
4	5	22	5	15	15	14	11	9	11	7	6	6	126	504
5	3	6	12	5	5	1	5	4	1	4	6	6	58	290
6	7	9	5	8	11	12	6	3	2	8	6	7	84	504
7	1	2	3	2	1			4	1	2	2	3	21	147
8	1	2	2	5	5	3	3	3	4	2	1	4	35	280
9	3	2	3	3	2	3		1	1	2		2	22	198
10				3	3	1	2	1		2	6	2	20	200
11				1	1				1		1		4	44
12	3	5			1	2		2	3	2	4	1	23	276
13	1	1	1	2	1					1		1	8	104
14	1	1			1			1		1	2	1	8	112
15		2		1			1	1	1		2		8	120
16	1						1	1	2	1		1	7	112
17														
18												1	1	18
19														
≥ 20	5 (571)		1 (54)	1 (32)	1 (26)	1 (27)				1 (25)	2 (56)		12	791 (791)
Total	89	128	119	98	107	110	88	82	81	102	98	80	1182	4952

Total LOS in past one year = 4952 days

Total number of visitors = 1572

Average LOS per visitor = $\dfrac{4952}{1572}$ = 3.15 days

Total beds available = 24

Total bed days available per annum = 24x365 = 8760

Average bed occupancy = $\dfrac{4952 \times 100}{8760}$ = 56.52

Table 6 : Occurrences of Varying 'Length of Stay' of Visitors in Guest House 'B' during Past One Year Period

LOS (xi) days	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	fi	fixi
1	4	3	3	6	2	1			7		4	7	37	37
2	4	2	5	8	5	1	2		2	1	2	3	35	70
3	1		1	2		2		2	3	2	2		15	45
4	2	2	1		1	2	4				1	1	14	56
5		2				1	1						4	20
6	1	1	2			1	2	2	3	1	1	1	15	90
7			1										1	7
8	4			4			1	2					11	88
9														
10	1			1		1			2			1	6	60
11					1			1					2	22
12	1						1		1	2			5	60
13														
14				1				1			1		3	42
≥15								1		1		1	3	94
								(42)		(18)		(34)		
Total	18	10	13	22	9	9	11	9	18	7	11	14	151	691

Total LOS in past one year	=	691 days	
Total number of visitors	=	238	
Average LOS per visitor	=	$\frac{691}{238}$	= 2.90 days
Total beds available	=	6	
Total bed days available per annum	=	6x365	= 2190
Average bed occupancy	=	$\frac{691 \times 100}{2190}$	= 31.55 per cent

Table 7. Occurrences of Varying 'Length of Stay' of Visitors in Guest House 'C' during Past OneYear Period

LOS (xi) days	Total Occurrences During Previous Years (fi)								
	Central Court	Lodhi Hotel	Marina Hotel	Janpath Hotel	Plaza Hotel	Centaur Hotel	YMCA	Ashoka Hotel	Kanishka Hotel
1	313	383	414	126	116	97	47	6	55
2	272	177	295	86	60	11	52	8	25
3	169	90	125	28	34		36	1	14
4	132	65	73	10	52	1	30		5
5	149	62	41	3	5		31		3
6	77	17	23	3	6		17		1
7	47	6	11	0	2		12		1
8	37	4	2	0	3		5		
9	29	0	1	0	2		4		
≥ 10	97	10	8	0	0		65		2
Total Visitors	1322	814	993	256	280	109	299	15	106
Visitors/ day	3.62	2.23	2.72	0.70	0.76	0.29	0.82	0.04	0.29
LOS	3.74	2.27	2.21	1.77	2.36	1.12	4.83	1.66	2.03

Table 8. Occurrences of Varying 'Length of Stay' of Visitors in Company Empanelled Hotels during Past One Year Period

Hotel	No. of Visitors	LOS (Days)	Amount Paid (Bills Passed)	Cost/ Visitor	Cost/ Visitor/Day
1. Central Court	1322	3.74	1054076.85	797.33	213.21
2. Lodhi Hotel	814	2.27	554731.05	681.48	300.21
3. Marina Hotel	993	2.21	929582.05	936.13	423.59
4. Janpath otel	256	1.77	61002.15	238.28	134.62
5. Plaza Hotel	280	2.36	240642.16	859.43	364.16
6. Centaur Hotel	109	1.12	56048.70	514.20	459.11
7. YMCA	299	4.83	163095.33	545.46	112.93
8. Ashoka Hotel	15	1.66	19649.30	1309.95	789.12
9. Kanishka Hotel	106	2.03	116669.29	1100.65	542.19

Table 9 Comparative Costs Incurred by the Company In Accommodating Visitors in Empanelled Hotels in New Delhi (All Cost Figures in Rupees).

Comparative costs incurred by the company (which is partly inclusive of the costs of company staff) in accommodating its visitors in different empanelled hotels is given in Table 9. Figures should be seen in the context of understanding the study methodology employed as tariff rates have gone up appreciably since the time of the study. (Average costs per day worked out for empanelled hotels should not be mistaken with their current tariffs of these hotels). It was proposed that bed occupancy should be measured and monitored on month to month basis and visitors should be diverted to hotels only when the guesthouse occupancy is full.

Parameter	Guest House 'A'	Guest House 'B'	Guest House 'C'
Fixed Costs			
Building rent p.m.	22000.0	7000.0	4500.0
Building rent p.a.	264000.0	84000.0	54000.0
Wage-Bill p.m.	8504.3	8504.3	2021.3
Wage-bill p.a.	102052.0	102052.0	24256.0
Total fixed costs p.m.	30504.3	30504.3	6521.3
Total fixed costs p.a.	366052.0	186052.0	78256.0
Variable Costs			
Electricity charges p.a.	37601.15	78259.90	32575.80
Water charges p.a.	2699.85	14142.70	929.75
Telephone charges p.a.	31555.88	67914.35	32909.40
Total variable costs p.a.	71856.88	160316.95	66414.95
Total variable costs p.a.	5988.07	13359.74	5534.57
Occupancy Parameters			
Total visitors	1933	1572	238
Number of beds	26	24	6
Mean bed occupancy	61.93	56.52	31.55
LOS	3.04	3.15	2.90
Derived Parameters			
Variable cost per visitor	37.17	101.98	279.05
Variable cost per visitor per day	12.22	32.37	82.06

Note: All cost figures have then gone up considerable from the time of study.

Table 10. Occupancy Parameters and Fixed and Variable Costs for Running Three Guest Houses in New Delhi (All Cost Figures in Rupees)

Visitors should be diverted to hotel when they have to be provided 'four star' or 'five star' facilities which the company guesthouses are not in a position to provide. Additional guesthouse capacity is recommended when visitors arrival rate has increased on sustained basis when existing capacity is found inadequate on most days. This is because guesthouse accommodation is cheaper in most cases unless visitors volume is very low in which case hotel accommodation for few visitors would always be cheaper.

This analysis shows that staying in guesthouse is much cheaper option than hotel stay (Table 10). Thus, visitors should be diverted to hotels only when the guest-house occupancy is full or when prestigious visitors like company's valued customers have to be accommodated in luxury hotels. Mean bed occupancy of three guest-houses at 56.52, 31.55 and 61.93 apparently shows that in this instance visitors were accommodated in empanelled hotels even when 'mean bed occupancy' was far below 'full' occupancy. A low occupancy is OK when actual numbers of visitors are less but when they are large in numbers but made to stay in hotels and not in guesthouses where beds are lying idle, it should be seen as violation of Enterprise Hospitality Management policies.

CONCLUDING REMARKS

In large business firms, study of this nature should not be a one time activity but should become regular feature of organizational activity. In fact, firms should include hospitality parameters such as arrival rate of visitors, mean bed occupancy and average length of stay on regular basis as part of organization's management information and decision support systems. It is generally seen that while 'mean arrival rate' and 'average bed occupancy' may vary over period, 'average length of stay' generally remains unchanged and shows considerable statistical stability. One method for analyzing visitors flow is by collecting enough data to establish confidence limits for these parameters. Alternatively, check can be made on monthly or quarterly basis to determine if there is shifting trend in values beyond upper or lower confidence limits and then decide whether fresh measurement or analysis is necessary. A shortcut approach could be to simply plot parameter values over time to observe shifting trend in their values.

When visitors' volume increases on permanent basis over a time period, company should consider building additional guesthouse capacity rather than diverting additional stream of visitors to expensive hotels as a policy matter. Reducing expenses on hospitality without reducing the comfort level of visitors should be seen as a value creation for the company as an EHM activity as the money thus, conserved can be more gainfully diverted towards value-adding activities of the firm, which are the primary goal of any organization.