

Case Study on the Hillside Hotel: A small boutique hotel in a unique location

By Timothy LG Lockyer

Introduction

This case study discusses the concept, development and operation of a family owned and operated boutique hotel nestled on a hillside adjoining a 300 acre private native forest conservation reserve in the midst of the 2300 acre working beef and sheep farm. The inspiration for the hotel was conceived in 1994 by the owner of the land whose family had farmed in the area since the 1860s. Fraser Graham stood on the highest point of his sheep and cattle station at Taupiri, near Huntly in the Waikato region in the north island of New Zealand and allowed himself to dream. As a farmer, he had tramped the ridge more times than he could remember, shifting stock, trapping possums and clearing stubborn clumps of gorse. When he came down from the mountain, he gathered his family and told them of his plans. He had resolved to build a hotel close to the highest point of his farm, some 765 feet above sea level. Despite all the negatives, Fraser Graham had a vision to create and operate a stylish hotel facility, sympathetic to the environment that would be a source of both pride and income for the family and local community.

Mr Graham had three motivations for the development of the hotel. First, the region had a special significance for his family. It was where his ancestors had farmed since they arrived from Scotland in 1858. He also wanted to share it with others, plus create a venture in which his family could be involved. He had to counter some scepticism from those who couldn't fathom why anyone would want to build a hotel on a mountaintop, especially one off the regular tourist route. To bring this vision to fruition would need a monumental amount of work. There would be resource consents to be obtained, initial surveying, concept drawings and layout, building consents, earthworks, water system design, kitchen design, building project management, on-site engineering, welding, landscaping, interior design and décor. Specialist assistance would be needed for visual assessment, geotechnical assessment, building engineering, building drawings, electrical design. While building, carpentry, plumbing and electrical work was sub-contracted the family did much of the work, pushing themselves 'to the limits', working long hours and battling the terrain, the elements and bureaucracy. Fraser admits it tested them.

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The Hotel

Building on the top of a high, steep site presented numerous challenges. Heavy timber and building materials had to be hand-carried up the mountainside. Pumping concrete for foundations up such a steep incline tested the equipment and the operators. Wind and cold often impeded progress of the work. Traditional timber cladding was chosen throughout the development. This is an unusual feature for a modern building but they used the resources they had - more than a third of the timber used in the construction was *pinus radiata* grown on Hillside Station and milled on site.

It was a family affair, right the way through. The 26-room boutique hotel was finally opened on 28 October 2003, by the then Minister of Tourism, the Hon Mark Burton in the presence of the Maori Queen, Dame Te Atairangikaahu, with a swirl of bagpipes and a powhiri (a Maori ceremony of welcome), reflecting the family's Scottish background and the support of local Maori people. The building design was inspired by famous American architect Frank Lloyd Wright – often considered the father of modern architecture and who described his work as “organic architecture”. Care was taken to settle the buildings as lightly as possible onto the natural contours of the hillside.

Current Operations

It is nearly ten years since the Hillside Hotel opening and the following comes from information obtained through interviews held with the manager of the hotel, Rosemary Leader (nee Graham) who is the daughter of Fraser Graham, the man with the dream. Rosemary left her employment as a scientist to develop and operate the hotel. She had no previous experience in the industry but had risen to the challenge of her father's passion for the dream.

In the interview with the Manager the level of occupancy was expressed as an area with significant challenges and something that the hotel has been working on since it first opened. The hotel has a total of 26 rooms. When the Hillside Hotel first opened the occupancy was less than had been expected. As reported by Rosemary, “In the low period the room occupancy could be 5 to 15 percent while in the main season 40 to 50 percent”. Initially the main approach was to try and even out the occupancy. As Rosemary put it, “The levelling of occupancy was felt to be important to be able to give continuity to the staff.” The staff of the hotel was made up of a very small number of full time staff, plus a

number of part time staff. Although this gives flexibility with occupancy falling as low as 5 percent even continuing to offer any permanent positions was problematic. The hotel does not offer any accommodation for staff on site and therefore all staff live away from the hotel and are drawn mainly from a surrounding 20 mile radius. It was interesting to note in the interview that the staff did not tend to come from the local town areas but rather were from local rural homes.

Successful promotion included flyers and offers to not-for-profit organisations and schools. These types of organisations have employment breaks (and therefore potential customers) during low periods of the year when the corporates have fewer bookings. Rosemary reported that this approach has worked well. Also there has been heavy promotion of weekend specials, assisted through the sale of coupons through radio and internet sites which have been priced at break-even point. Profits from this type of scheme may be minimal and focused on any additional services that can be sold to the guest but Rosemary believes that they have raised awareness for the hotel within the market. In addition it has generated a lot of repeat business. With these efforts the lowest periods now achieve 20 percent occupancy.

It is important to note that New Zealand is in the southern hemisphere therefore the seasons are reversed. The main summer holiday is from just before Christmas up until early in February. Schools are closed for six weeks at this time and many businesses will close completely for three weeks over Christmas when there are four statutory holidays and many people take the bulk of their annual leave.

As reported by Rosemary the hotel has done well with conferences. However, the structure and layout of the hotel is unusual and it has been really necessary to make sure that those booking a conference understand the constraints of the hillside location. Between the rooms and the other facilities the walkways and landing areas are open – the native bush, fresh air and views are a particular feature in these areas but the weather can provide difficulties. Management like those people in charge of booking events to come and see the facilities before confirming the booking so that they can see the property and can be sure that it is what they want. The site is so unique and different and there have been people who have not responded well to the location, the outdoor aspect and isolation. Management are committed to not disappoint guests. The example was given of a function booking the restaurant and booking a band. The restaurant is at the top of the development and there are three flights of stairs to get there so access for bringing in heavy instruments etc proved a problem.

The Hillside Hotel has a small a la carte restaurant featuring the best of local produce. For most of the year the restaurant is promoted only to in-house guests as access at night can be difficult.

Some interesting comments published on TravelBug, New Zealand's online travel website, are as follows:

A fantastic weekend spent at hillside hotel. From the friendly greeting at the front desk to the warm farewells, it was a taste of good old fashioned kiwi hospitality. The rooms are spacious and nice and warm, and the restaurant serves excellent dinners and breakfasts. Top marks also to our room service lunch. This is not a glitter and gloss spa retreat, but authentic country living at its best. As it is built on a hillside there are naturally steps to all levels, but a very clever 'chair lift' makes handling luggage easier. Will definitely be making a return visit. Thanks especially to Rosemary and Clair. Absolutely stunning views, the dinner of lamb cutlets has to be eaten to be believed! The hand prepared fruit salad was divine. Excellent staff, and a totally refreshing time.

Great resort, very peaceful and quiet. Awesome views and a great room (level 4). Very friendly staff and owner and exceptionally helpful! Recommend bush walk (Rangi track) in Taupiri ranges, awesome views of approx 12 lakes at the end (1 1/2 - 2hrs round trip). The only problem I would have to say is the drive up to the resort, gravel/dirt road and bumpy, not that great at all. I would definitely recommend this resort and stay here again. .

We found everything first class - the spacious room, furniture, meals, service, plus friendly informative hosts and outstanding views. Definitely highly recommended.

The clear objective of management is to offer as little discount as possible but to add value. Although there is no direct competition close by, Hamilton (New Zealand's fourth largest city, population approximately 125,000) is only about 15 miles away and in Hamilton there is heavy discounting. [A recent unpublished research project demonstrated that taking into account all factors (inflation, salary increases etc) most hotels in Hamilton are charging less today in real terms than they were ten years ago.] Although not encouraged at Hillside, for specific purposes Rosemary will discount. For example large corporate clients, depending upon their frequency of use, could receive a discount of 10, 15 or 20 percent. This approach has worked well and there a number of large corporates (large in New Zealand terms) who regularly hold courses and retreats at the Hotel. An interesting comment that Rosemary made was that corporates like to have retreats at the hotel because delegates are not tempted to visit local bars, clubs, shops or other diversions as there are none close by, and this makes the retreats a lot more productive.

Other than for corporate guests, only the basic rooms are discounted. The suites are only discounted as a package including evening meal and breakfast. While still remaining flexible they try to remember that the property is not designed for the mass market. In relation to segmenting guests, Rosemary identified two groups with whom the property has particular success. The first is new immigrants to New Zealand, many who come from Asia and want to experience the New Zealand outdoors in a controlled situation. The other seg-

mented market is for New Zealanders who are living overseas, perhaps Australia or the UK, but want to have a New Zealand wedding. This gives a traditional occasion which reflects the couple's heritage.

A further sector of the market that is growing is people on a 'get-away' weekend from Auckland. Auckland is New Zealand's largest city (approximately 1.4 million people and over one third of New Zealand's total population). New Zealand employment law requires that all workers are paid four weeks annual leave on full pay. This has meant that leisure time has increased. The Hillside Hotel is only 60 miles from Auckland and offers such a different experience that there is a potential growth in this market. Along with the growing awareness of 'green' issues combined with an encouragement for physical exercise and outdoor pursuits, the bush walks are proving an incentive also.

A great number of the challenges in the operation are directly related to the location and uniqueness of the product provided by this hotel. Currently the hotel makes a small profit; this would not cover the true cost of family members' time spent in the operation of the business. The owners were asked about the return on the investment but this was not possible to be answered as they did not know the asset value of the property.

The hotel is currently run by the daughter of the owner of the land (Rosemary Leader) and her husband. No other members of the family (the next generation) have an interest in working the hotel and so there is some concern about the long term future of operation. It would be possible to bring in a management company but the cost of doing so would probably not be met by the current operational income.

Literature Review

Location

When considering the development of a new hotel it is often stated that one of the most important aspects is location, location, location (Bull, 1994). As the location of a hotel is fixed at least in the medium term it has a very large impact on its operation (Bull, 1994). At the same time the location has a direct impact on issues such as: occupancy, room rate, the willingness of guests to travel, staffing, the supply of goods and services, and the environment where the hotel is located (Lockyer, 2007, p11).

The selected location for the hotel impacts on many operational factors and as a result for this case study a multi-disciplinary approach has been taken drawing on a number of different sources: the literature, published documents and interviews held. The aim is to give a rounded understanding of the issues involved in the development and operation of the Hillside Hotel.

A good location is important to the successful operation of a hotel. Even excellent marketing has a problem in overcoming the

inherent problems of a poor location (Moutinho & Paton, 1991).

The location is a complex mixture of attributes, for example, where location close to city areas might be seen as an advantage to some, surrounding characteristics such as noise and congestion may be seen as a disadvantage and the hotel's use of natural resources may have impacts on the community as a whole.

As location is a fixed attribute, it has to be considered along with many other influencing factors. For example, location directly impacts upon room rate, also influencing staff and service quality, the supply of goods and services, the use of natural resources, and pollution. Therefore, the location of a hotel cannot be considered in isolation from other factors. It must be considered on a strategic level with full awareness of the factors that the hotel's location are influenced by and have influence over (Lockyer, 2007).

Yield Management

The room rate charged by a hotel in today's environment is a very challenging issue. The management of room rates is generally related to yield management. The fundamental question that surrounds yield management is how to "sell the right room to the right person for the right price" which in turn relates to maximising the return for the space of the hotel (Berman, 2005). Yield management originated from the airline industry in the 1970's, and is based on the assumption that hotels (like airlines) have a high fixed cost and a low variable cost (Smith, Leimkubler, & Darrow, 1992). To successfully use the principles of yield management, hotel operators and managers must achieve an understanding of the market in which the accommodation is operating. This often requires a long term vision of the hotel's future.

From an operational perspective yield management has two parts: A differential room rate pricing strategy – the price charged to a guest in any particular situation, and room inventory management – allocating different types of rooms to the pattern of demand. Finding the balance between these two impacts upon the financial success of the property and also the level of satisfaction by the guest is a challenge. Changing the room rate is a strategy that management often uses to try to maximize revenue. Depending on the objectives of the management the room rate can be increased or decreased (Brewton, 1991). To successfully use the principles of yield management, hotel operators and managers must achieve an understanding of the market in which the accommodation is operating. The aspects that need to be understood are: average room rate charged by other hotels in the region, fixed costs of the hotel, variable costs of the hotel, cost of advertising, value of the location, amenities available in the hotel, occupancy percentage of hotels in the competing region, competition from other hotels, and season of the year, time, or special events impacting on prices.

An important aspect of yield management is selling to the right

person. The segmentation of the market has a direct impact on the amount charged for a particular room and works on the principle that each guest has a unique set of needs and wants. Each guest is therefore potentially a separate market. To be able to segment the market management must be able to: a) decide on what basis the market could be segmented, b) develop an understanding of the market segment, c) develop ways in which the segmented market could be measured, d) position the product so that it becomes attractive to the segment of the market, e) develop a plan of the mix of products to be sold in the segment.

Marketing

Hotels are a service industry. Hotel products have the following characteristics: inseparability, intangibility, perishability and variability. The marketing of a hotel is very different from a product. Since the 1960's many marketers have been talking about the four P's (product, price, place, promotion) which in relation to service industries has been expanded up to, as suggested by some, the 7P's or 8P's (Booms and Bitner, 1981). Whether there are 6P's, 7P's, or 8P's (Collier, 1991) is not important for the purpose of this discussion, but what is important is that in the hotel industry, the service characteristics need to be reflected in the approach to marketing. A key ingredient of marketing a hotel to a guest requires an understanding of the guest's 'needs', 'wants' and 'demands'.

Potential guests looking for a hotel room make a number of decisions when choosing where to stay. The process that they go through in the selection of a product is important for hotel managers to understand. As suggested by Lewis (1984), management should accept: 1) That a particular hotel will be evaluated differently by different guests, 2) Where a particular guest is satisfied with one hotel they may be dissatisfied with another, and 3). The perceptions of guests change over time and with experience. The decision process is complex. Lockyer (2005) developed a model which comprised items which he calls 'must haves', such as cleanliness, fittings and fixtures and 'trigger points' such as facilities and price.

Human Resource

As a business, a hotel's major asset is its employees. The process of recruiting, selection, training, and so on, is expensive and requires considerable care. Because of the characteristics of the hotel industry, human resource is a vital part of its management. Many of the staff in a hotel have direct relationships with the guests. This type of relationship is more acute in smaller operations than large ones as there is a much smaller number of staff and each has a closer direct service relationship. Managers need to motivate their staff so that they can undertake many complex processes and give satisfaction to the guest. International research (Cho & Wong, 2001) indicates that a lot of jobs within hotels are filled by those who are there on a part-time basis. Re-

search also indicates that part time employees are not as committed to an organisation as full time employees, that there is a high turnover of part time employees and this adds to the cost of training and impacts upon guest satisfaction (Stamper & Van Dyne, 2003). Sometimes part time staff can have a lack of commitment to the success of the hotel. Managers and full time staff perceive part time staff as less valuable (Inman & Enz, 1995). It also must be stated that in the current economic environment these perceptions of part time employees are not necessarily accurate.

The level of education among employees is having an impact on the desire of people to work within the hotel industry. As the level of education increases in the local population, there is a growing reluctance to work in a hotel where employment can include unsocial hours and weekend work. The style, location, and type of hotel plus numerous other factors influence staffing requirements. Where a particular hotel is isolated, the pool of experienced staff is limited. If there is a need to bring staff into the area for employment this can be very expensive. As a result the talent available to a hotel located a long way from available staff is problematic.

Case Study Questions

1. As a manager of the Hillside Hotel what would you consider as the strengths of the hotel?
2. How would yield management be applied in the case of the Hillside Hotel?
3. Discuss the current segmentation of the market in relation to the Hillside Hotel and suggest new and innovative approaches to this.
4. With a large fluctuation in room occupancy there is a need for flexibility. The hotel has a small number of full time staff and the rest of the employees are made up of part time staff. What issues can you see from such a situation?
5. The experience of the management at the Hillside Hotel has been that where one person in a group staying at the property will have an enjoyable time there are those in the same group that have the opposite view. What are ways in which market segmentation and the understanding of different markets assist in reducing dissatisfaction?
6. How can you as the manager of the Hillside Hotel develop your marketing plan for the next five years?
7. In considering the Hillside Hotel how could being part of a larger group of properties assist in the development of new markets?

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