

teaching note

The Chatham Hotel: A historical case during New England's "Elegant Era"

Summary

Considered as one of the most modern and luxurious hotels in New England at the time, The Chatham Hotel opened in 1890. The hotel opened on June 20, 1890 by four wealthy businessmen from New England. Frances Hammons recalled this time as the "Elegant Era" of New England where a number of testimonials have recounted this time in US history (Wilder, 1969). The hotel was managed by William Bates, who had been known to the public as having many years of hotel experience and worked with some of the most prominent hotels in the United States, both on the east and west coast. Mr. Bates wondered if he should be concerned about any aspect of the Chatham Hotel operations. Due to Mr. Bates' vast experience managing hotels, he determines that an organization assessment be conducted on The Chatham Hotel. Let's assume that Mr. Bates uses ADR and RevPar to quantify the hotel's financial value, a qualitative approach, known as SCORE is also used for the hotel. SCORE attempts to measure either a qualitative or quantitative assessment before and after applying a given strategy – which determines if the strategy actually worked. Since the hotel used brochures to market the features, the marketing mix needs to be examined which will need to include a 5th consideration of "people" into the mix to examine the hotel's overall performance.

Teaching Objectives and Target Audience

Reflecting on historical events can promote deeper understanding of the course material. Students will realize how past events in the hospitality industry relates to current management issues. A historical case will contribute to a rich, more ambiguous learning environment; it will allow students to explore contrary points of view relative to a variety of questions. A historical case is a pleasant break from standard teaching formats. Students will likely invest more mental energy while working on a mystery situation that occurred 120 years ago. This case comprises multidisciplinary competencies; therefore it can complement any undergraduate hospitality operations, strategic management, lodging operations or marketing curriculum and may reinforce many theories and concepts that students study throughout the course. For historical cases, teachers are encouraged to make theoretical connections that help to draw new conceptual lines around phenomena previously seen as disparate and not obviously comparable (Amenta, 2009). In addition, historical case studies also provide an opportunity for the student to think more deeply and conceptually about the phenomena revealed during the analysis and scope conditions on arguments (George & Bennett, 2005).

Learning Objectives

After studying this case, students should be able to:

- Understand challenges seasonal hotels face.
- Perform basic marketing analysis techniques.
- Apply an alternative management tool (SCORE) to audit a hospitality organization.
- Calculate ADR and RevPAR for a hotel in the 19th century.
- Reflect on business problems without benefiting the information overload that is currently available.
- Understand the magnitude of evolution of the hotel industry since 1890s.
- Recognize the importance of history to future hospitality managers.
- Realize how much past events in our industry relate to current management issues.

Teaching Approach

The case can enhance hospitality courses in various ways.

1. Traditional classroom teaching:

- Using the case in-class as a discussion topic.
- As individual or group homework assignment.
- As a student historical research assignment.

2. Online education:

- Discussion topic in courses delivered in asynchronous mode.
- As individual or group homework assignment.
- As a student historical research assignment.

Class Instructions

Prior to Class

Students should be encouraged to read the case and digest the facts and circumstances.

Depending on the teaching approach, students may be asked to conduct research on some of these areas:

- Transportation between Boston, New York and Cape Cod the 1890s.
- Performance of US businesses in 1893.
- Chatham, MA Tourism currently.

Answers to Discussion Questions and Solutions

During Class

Part One

- **What is the The Chatham Hotel value proposition and positioning strategy?**
 - The core elements of their value proposition:
 - The Town of Chatham
 - The Physical Aspects of the Hotel
 - The Hotel's Service Concept
- **How would you evaluate their pricing strategy? Estimate ADR and RevPAR.**

For hotel breakeven, "a hotel should generate one dollar in average daily rate per every thousand dollars in value per guest room." (O'Neill, 2003, p. 8.)

The ADR (O'Neill, 2003)

The investors spent an estimated \$155,000 to develop The Hotel Chatham as follows:

| | |
|--|---|
| 'Nickerson Neck' Land | \$5,000 (Wood, 1988 p. 29) |
| <u>+ Cost of the hotel estimated including equipment</u> | <u>\$150,000 (Knapton, 1976, p. 22)</u> |
| Total Estimated Cost of Development | \$155,000 |

Assuming that the Hotel had 73 guest rooms, The Chatham Hotel would be valued at 2,123 per guest room. (\$155,000/73)
Based on the ADR, theoretically, The Chatham Hotel should generate slightly over \$2 average daily rate. (\$2,123/1,000) The room rate set at The Hotel Chatham varied between \$3-\$4.

ADR

Let's assume that the hotel operated at 90% occupancy for two full months.

Rooms Revenue: 73 rooms X .90 occupancy X 60 nights X \$3.50 =
Approx. \$13,797

Total Rooms Sold: 73 rooms X .90 occupancy X 60 nights =
approx. 3,940

Average Daily Rate (ADR) = Total Rooms Revenue / Total Rooms Sold

\$3.50 = \$13,797 / 3,940 This sounds great; their ADR exceeded \$2.

RevPAR

Let's calculate now the Hotel's RevPAR.

RevPAR= Total Rooms Revenue / Total Rooms Available

RevPAR=\$13,797 / 26,645 (73 X 365)

RevPAR= Only approx. 50 cents

Since the hotel is not operating year-long; a serious question is raised whether the overall revenue generated is *enough* to justify their investment decision. The hotel is not operating in a vacuum for two months; unavoidable fixed costs will incur during off seasons.

- **What key challenges do seasonal hotels face as a business model?**

Here are some ideas for instructors to start the discussion.

Product

- Hotel rooms are perishable. An empty room in July can never be recovered. Manipulating supply in a seasonal location to better match imbalanced demand is extremely difficult.
- Consider the negative effect of seasonality on the physical facilities. (e.g. Lack of regular maintenance; the need of a costly re-opening after a rough winter)

People

- Identifying staff members in the right quality and quantity is a challenge.
- The temporal nature of business is associated with increased training needs.
- The short-term spikes put extra pressure on the entire team.

Profit

- Seasonal hotels attempt to earn enough revenue and profit for the whole year. At the same time unavoidable fixed costs incur during off seasons.
- The difficulty to shift demand to the shoulder or low seasons (or from weekend to mid-week, etc.).
- The temporal decrease of demand does not allow the efficient use of resources.
- High level of uncertainties, such as bad weather, can dramatically influence the bottom line.
- Low return on investment.

- **Based off of additional research, how would you evaluate The Chatham Hotel management strategy? (Note: Research should be conducted on lodging industry in the late 19th century)**

Students' answers will vary however the learning outcomes should allow for students to understand that the lodging industry is hundreds

of years old in the US and thousands of years old in parts of Europe, Africa and Asia. Further discussion may develop as a result of their research.

- **How has the lodging industry changed within the last 125 years? In addition, how have employee and guest expectations evolved over this time? Why or Why not?**

Students' answers may vary; however, promoting further discussion is important to the learning outcomes. Reflecting on historical and primary sources can promote a deeper understanding of the teaching and learning in a social science course. Deale (2007) noted that students may benefit from gaining knowledge about content material by understanding the cultural and environmental context of approaching a project. Irwin (2000) found that student's understanding of historical course material was as important as their understanding of current curriculum content. The fact that rigorous assessment from an historical perspective is difficult should not lead educators to undervalue its importance. Historical cases reveal the ways in which past events in the hospitality industry relate and contribute to shaping the current management issues faced by the industry. In addition, when students see the challenges within their historical context it counteracts the patronizing attitude that many students adopt towards past history. The instructor may want to refer to three historical cases: *The Rise and Fall of the Portland Hotel* by G. Douglas Nicoll (1998), *Henry Heinz: Making Market for Processed Food* by Nancy Koehn (1999), and *The Willard Hotels of Washington, D.C., 1874-1968* by Dean R. Montgomery (1968).

- **Why did The Chatham Hotel, constructed with substantial investments made by well-funded businesspersons, fail?**

Student answers will vary. (TEACHING NOTES ONLY FOR DISCUSSION)

According to the sources reviewed, here are some of the theories that have arisen concerning the failure of the hotel:

Ambitious development

The demand couldn't support such a large hotel. Our rudimentary calculation potentially indicated that no serious feasibility analysis has been written. Interestingly, three years after the hotel closure, one of the original hotel investors, Marcellus Eldridge, built "a more realistically conceived business venture," (Tolles, 2008, p. 68) another seaside resort, the Hotel Mattaquason.

Leadership

Contrary to competitors, the hotel was not operated by locals. Had this impacted the way they managed the hotel? Has this created negative emotions by Chatham residents and/or guests?

National Economic Factors

A serious economic depression in 1893 (called 'The Panic of 1893') undermined public confidence and weakened the

economy. (Buckley, 2005)

Remote Location

Some believe that major cause has been the tedious "drive over the sandy, deeply rutted road" taken from the Rail Road to the Hotel." (Buckley, 2008; Wilder, 1969)

Transportation

Ten years after its closure the building was torn down, "ironically, just as travel by automobile was becoming widespread." (Wilder, 1968, p. 1). As Mr. Wilder, a former hotel guest framed, "Indeed the Hotel was built twenty-five years before its time, and today, with automobiles and hard roads would be a most popular summer resort." (Wilder, 1969, p. 1)

Part Two

Answer the following questions by analyzing the organizational performance of The Chatham Hotel using the first four dimensions (SCOR).

Student answers will vary. Note: It's not our goal to be part of a debate on how many variables (e.g. 4, 5, 7, etc.) should contain an appropriate marketing mix analysis. For the purpose of this class assignment we simply chose to include 5 elements.

Some areas of discussion to consider:

- Favorable environmental conditions.
- Strong management familiar with hotel management.
- Guest rooms had no private bath. The Stalter was the first major hotel chain to have a bathroom in every room in 1829 (Rutes, Penner, & Adams, 2001). Therefore, guests in this traveler segment may have been used to private bathroom accommodations.
- Train was the only means of transportation to get to Chatham. West Chatham Railway Station located four (or six) miles away from the hotel.
- Access to the hotel: "Sandy, deeply rutted roads in barges, horse-drawn, and proceeding mostly at a walk." (Wilder, 1969, p. 28)
- There were several successful summer boarding houses and hotels operated by locals in Chatham (Nickerson, 1982).
- The hotel pre-opening documentation suggests that the railway station is "only one and one half miles" away. Various accounts confirm that the distance was actually between four to six miles. This deceptive advertising may give the impression to visitors that the hotel isn't a trustworthy business. The false information may generate negative word-of-mouth and reduce the chance that guests will return for another season.

Part Three

Answer the following questions by analyzing the organizational performance of The Chatham Hotel using the fifth dimension (E).

- How would you evaluate the project actions in the following areas?
- Consider the Five Ps of Marketing - product, price, place, promotion and people . Apply the five marketing principles to the first four dimensions (SCOR) for The Chatham Hotel. Structure your suggested application according to the 'Effectiveness' dimension described in Question #1.

Student answers for Questions #1 and #2 will vary. Instructors should encourage them to structure their suggested actions according to the SCORE guidelines.

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