

STRATEGY AND LONGEVITY IN BUSINESS: HOTEL AVENIDA, CANCUN, MEXICO CASE STUDY

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CASE STUDY DESCRIPTION

This case study is intended for undergraduate students. We aim to have students analyze and propose alternative models for decision making regarding the implementation of administrative and management strategies in a business hotel. Information is presented on a hotel that has 53 rooms and a traditional approach to administration. It was established in 2002, in the city of Cancun, Mexico. Students are given information about: the history of the hotel; key figures involved in the business decision-making; evolution of the management model; and, the current management model within the traditional approach to administration. The hotel has a constant 87% annual occupation rate. The case study asks students to evaluate strategies for the following dilemma: a) modernize the management model; or, b) improve the existing model, based on the performance of the business and the ever-changing context of the tourism industry. Students can suggest alternative courses of action and can assume the role of external consultants. Students should ideally work in teams. Knowledge in administration, management and marketing is necessary. This case study can be developed in a two-hour class and should include a presentation of the results and a discussion at the close of the class.

JEL: M14, M15, M31

KEY WORDS: Tourism, Business Performance, Leadership, Strategy

CASE STUDY INFORMATION

In recent years a reconfiguration of the hotel operation model has been occurred in the Mexican Caribbean (Reyes O y Che Marbella 2015). Lodging centers that specialize on beach and business destinations have adopted operational strategies taken from the all-inclusive model. At first, it was used to guarantee that guests had all necessary services. Later, senior management of different hotel chains opted to use the all-inclusive model after noting the benefits in logistics, finances and operations that this model entitled. In parallel with the all-inclusive model adoption, business hotels from the bigger chains such as: Fiesta Inn, One, Quinta Inn grew significantly. They increased in size by up to 120% in recent years (Almaguer, J. 2016). Their success can be attributed to how they handle the business using a franchise type operational model. The model includes: perfectly defined operations manuals, privileged location, reduced staff numbers, ample parking space and limited offerings in food and beverages. Some traditional chains of business hotels have dabbled in the business tourism market to diversify their operations. The development has produced instability in traditional lodging centers of sole proprietors. These traditional lodging centers are commonly operated with a centralized administration model, and little emphasis on using technologies, processes and costs control.

This case study looks to establish how a traditional hotel business can grow and be successful in a globalized market through leadership and pertinent supervision (Olivares, M. 2015 pag. 34-40). A historical overview is presented which follows the hotel from its start to the completion of this research. In addition, the origin, advances and decision making processes undergone by the organization during this time is discussed (Robbins y Judge, 2013 p. 165). To reach the objective for the study, the text presents data gathered through interviews of key figures in the business. Quantitative and qualitative data was generated to aid in identifying administration functions which have positively impacted the hotel longevity and its success within the sector. This document can be used as an instrument in the decision making process for future businesspeople. The influx and existence of competitors in the market, adjustments to operational laws and regulations, taste and preference of consumers, among others, have provoked innovation in the tourist industry. This is especially true in the commercialization of tourist services, such as lodging centers. These centers are witnesses to the quick transformation in the industry. They in turn must react to these changes promptly and quickly to keep their competitive edge (Corona & Olivares, 2015; Moncada, Gonzalez, Valtierra & Jimenez 2011, pag. 57).

The changes in paradigm for the commercialization of tourist services are derived from four categories of service recognized by World Tourism Organization (UNWTO): a) Hostels; b) Entertainment and leisure industry; c) Travel industry; and, d) Transport. This case study deals with a hotel owned by a sole proprietor. The hotel has been managed with a traditional centralized family-business model. It seems surprising the hotel has survived so well under these centralized strategies. It caters to niche market customers and has specialized in customer service. Regardless of changes in its surroundings, corporate competitiveness, shifts in operational styles by its direct competitors and tourism paradigms, Hotel Avenida proves to be ideal to learn about leadership and decision making.

History of Hotel Avenida

In 2001, *Miguel González Gómez* decided to give life to a new business venture: Hotel Avenida. The hotel was located in downtown Cancun, Mexico. The hotel officially opened its doors in August 2002. It started operations with 45 rooms. The idea was to procure something for his daughter to manage who at the time was close to graduating with a bachelor's degree in International Business. *Miguel* believed that this business idea was the best way for his daughter to start her path in the world of business administration. Miguel was in charge of all administrative tasks from its opening until the year 2005. At that time, his daughter was supposed to take over as general manager. However, Miguel's daughter decided that she did not want to stay. Her general management tenure was only three 3 months long. She never took part in any other area of the business structure and left to pursue a master's degree in Tourism Management in Madrid, Spain. Thus, Miguel was back in charge rather quickly.

A few months after Miguel's return as General Manager, he decided to build eight more rooms, for a grand total of fifty-three rooms. This decision resulted from an increase in demand for cheap rooms and good service and an existing undeveloped area in the building. As the occupation rate and income increased in the hotel, the owner *Miguel González Gómez* broadened his operations in the city. He diversified by investing in real estate in Cancun and the Riviera Maya, specifically in the city of Playa del Carmen. The original idea was to expand and diversify the hotel business. For this reason he acquired some buildings downtown, a lot to build another hotel and some other properties. The acquired properties include: Edificio Cozumel (Cozumel Building) located in front of the football stadium; Edificio Zoraya (Zoraya Building) opposite the post service office; Edificio Madrid (Madrid Building); around 80 houses which are currently leased; a small hotel in Playa del Carmen and some beach-front residences. In addition, a collection of lots without a tourism-related development permit were acquired. As Miguel's business ventures grew his ability to manage Hotel Avenida was compromised.

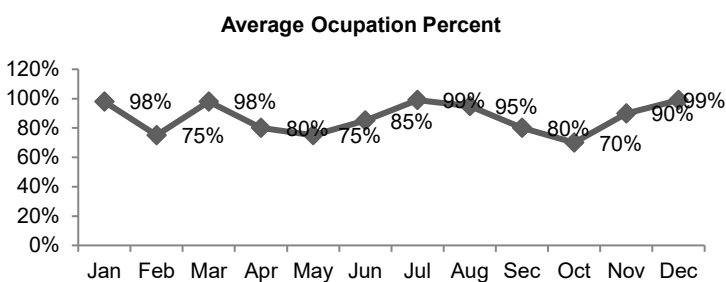
Miguel decided to delegate general management to a relative and allowed for some innovations in the administration model to occur such as: the use of a computer based system in the front desk, accounting software, outsourcing of cleaning duties, control of operating expenses, empowerment for the night manager and housekeeper, among other things. These changes produced instability in the traditional management style used. After some analysis, *Miguel* decided to return to basics and do away with the implemented changes so that he could take over operations. In summary, the hotel went back to traditional management, but under closer supervision by the proprietor and offering less maneuvering space for the employees. The return to a traditional management style came together with an initiative to elevate the quality in the service provided by the hotel. The hotel placed emphasis on personalized service, closer dealings between the hotel staff and the guest, room booking by phone so that repeating guests could always occupy the same room and parking space and be served by the same personnel.

This strategy showed results in the short-term and it promoted word-of-mouth recommendations. Basically, the marketing communication strategy is based on recommendation, word-of-mouth to be precise. This approach generates higher occupation rates which in turn are not affected by tourism cycles and seasons. Multiple recommendations resulted from the hotel becoming popular among sales agents, commissioners, tourist agents, corporation employees from the Yucatan Peninsula who do business in the city. Thus, the shift from a general public hotel to a business hotel can be explained.

The niche market currently served is sufficiently large so they could concentrate their strategy on that niche. The hotel is positioned as an alternative among the ever-growing availability of hotels in the city. Due to the operational model that centered on strong central leadership, a question arises: Does this hotel have a sustainable business model which will withstand the test of time? Strategy and longevity in business are head to head and it is a fight where only time will tell who is victor. Hotel Avenida does not have variation in its occupation rates by season. Throughout the year it maintains an average of 87.3% occupancy, with the exception of the last week of the year, Easter week and the three weeks of summer holidays when it reaches 99% to a 100% occupancy rate. Figure 1 shows occupancy rates.

Figure: 1: Annual Occupation Rate for the Year 2015

Annual Occupation Rate in Hotel Avenida for the Year 2015



This figure shows the monthly percentages in hotel occupation that Hotel Avenida registered between January 2015 to December 2015. Source: Developed by authors.

Good service is the best publicity and has yielded extremely positive results for Hotel Avenida. Another selling point is that this publicity strategy has no cost. Guests normally return and they recommend the hotel to friends and colleagues. Many customers have become personal friends of *Miguel* and they have been regulars for many years. The vast majority of customers indicate they are very happy with the hotel and the service provided. They understand that this hotel is not beachfront nor Grand Tourism. However, it has friendly service, it is welcoming and has all the amenities and facilities needed by the niche market.

Description of the Guest

The main guests served in the hotel are people dedicated to business. Guests stay 2 to 5 nights on average. Additionally, couples looking for a hotel downtown or families meeting during holidays, are regular guests. The hotel has a small number of promotional tools. One, is a banner which is displayed outside stating the occupation rate. The second promotional strategy, is to send every two to three-months emails to all the companies that have sent their employees to stay at the hotel. The email thanks them for their business and reprising their safety record, plus a mention of their special fee. They do not work with any tourist agency or holiday promoter. Regarding publicity, two signs are displayed. The signs have exchangeable boxes and are used to advertise promotions. Every once in awhile brochures are printed and visits to local businesses are planned where hotel services are offered.

Services Offered by Hotel Avenida

Table: 1: Services offered by Hotel Avenida

Service Offered by Hotel Avenida
Reception desk open 24 hours
24 hour security
Free covered parking
Free safe deposit box
Air-conditioning with remote control
Flat screen TV with cable
Hair dryer
Elevator
Minibar
Free Wi-Fi
Personalized guest service

This table lists the services and amenities offered to guests at Hotel Avenida, at no additional cost. It also has an on-site restaurant. Source: Developed by authors.

Interesting/ Curious Facts

As any other hotel, Hotel Avenida Cancun has some interesting anecdotes. Six years ago they were petitioned by the Attorney General’s Office (PGR). With the leave of the owner, Hotel Avenida was converted into a safe house and virtual headquarters for the Federal Police. Many delinquents were brought to the hotel and it was filled and surrounded by police forces and soldiers. The receptionists had to wear bulletproof vests given by the armed forces and many infamous local and regional lawbreakers stayed the night. On another occasion, the Federal Police arrived a couple of times to the front desk asking, photo in hand, if a guest had already registered. On both occasions the “guest” had already arrived. The guests were contacted and asked to go down to reception. These guests were actually delinquents were on the run. The authorities had been alerted by management as they were not regulars and seemed suspicious. Not long ago, one of the maintenance workers suffered a fatal accident while trying to install an electric connection on the third floor from outside the building. He got distracted and received an electric shock. He fell and was dead on impact.

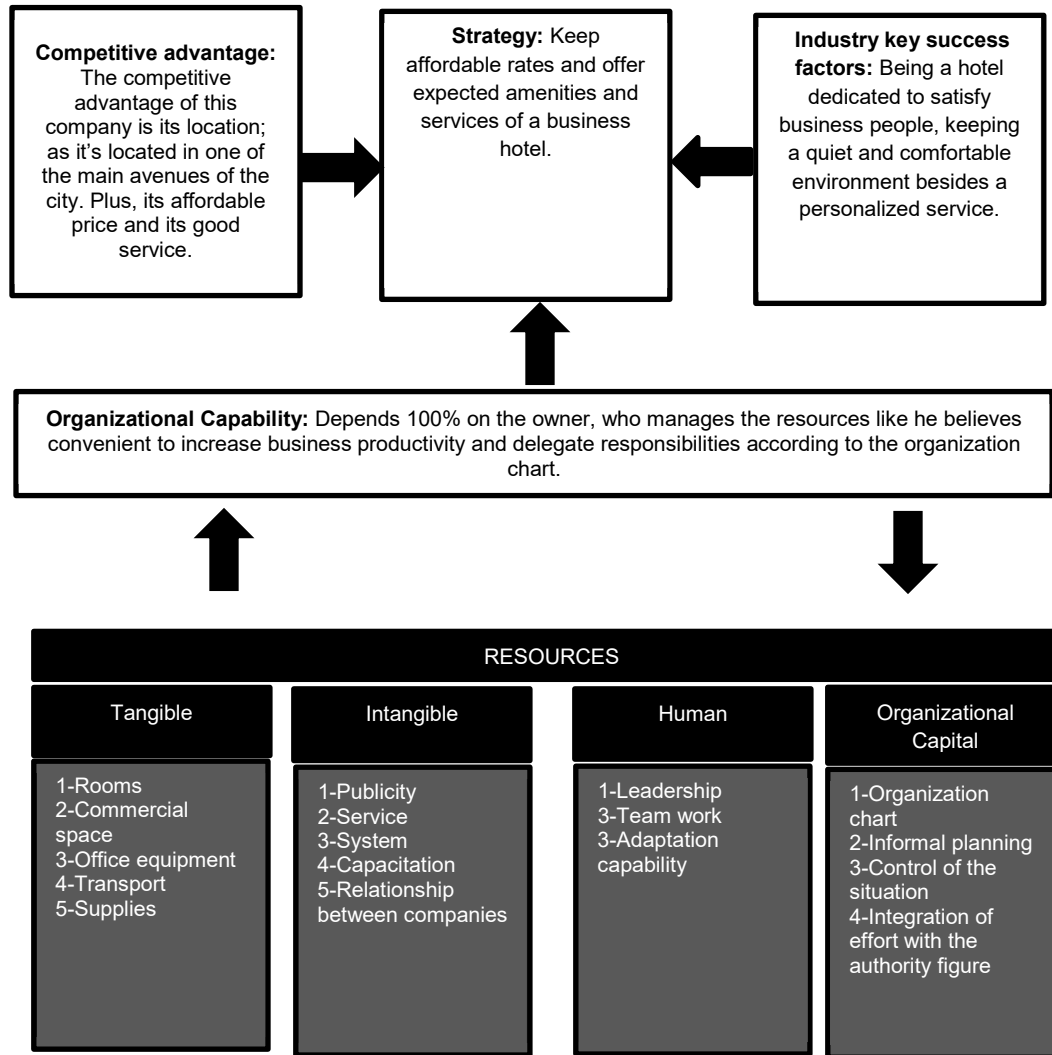
Theory of Resources and Capabilities

The theory of resources and capabilities states that organizations are different amongst themselves in terms of the resources and capabilities they possess at a determined moment. Also, by the different

characteristics each has resources and capabilities are not available for all businesses in the same condition. This theory allows for an internal analysis focused on the more salient aspects of the organization interior. This is related to the external analysis made and which will serve as a basis for the general strategic and human resources subsequent plan presented in Figure 2. Additionally, this tool is used to determine internal strengths and weaknesses in the organization (Grant, 2006).

Resources and Capabilities Hotel Avenida

Figure 2: Resources and Capabilities Hotel Avenida 2015



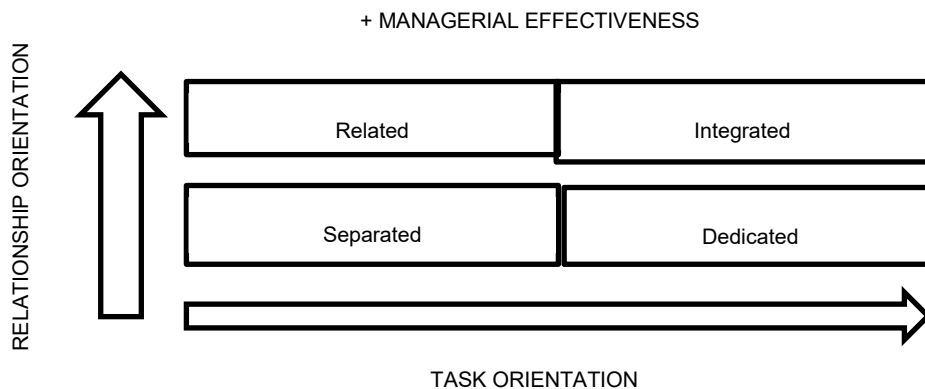
This figure describes the resources and capabilities of Hotel Avenida following Grant's theory of Resources and Capabilities. Source: Developed by authors.

Management Styles

Management is an activity performed by humans and as such, it is influenced by personal characteristics. These characteristics serve as key elements to what has been termed management style. Aspects such as leadership as well as capability to negotiate and harmonize, form part of an individual's personality. These in turn define the management style and the possibility of obtaining results with a high degree of

performance. It is important to identify the more vulnerable components of the business related to a management style. These components must be taken into consideration when deciding on a management profile. The profile should follow demands imposed by the processes and more importantly by the person's characteristics. It is quite different to lead a high professional level versus an operational level; or high-quality technicians versus beginners. Consider an environment where actions are repetitive to an environment that works on a case by case scenario. Personal style does influence management style. Consider hyperactive people with little or no patience and who want to impose their way of doing things, against a calm and patient person who lets each individual solve things to the best of their abilities. The conviction is that a strong character equates to leadership. The best management style one that accomplishes the best results, due to its style being attuned more frequently with the situations it faces and which has the necessary flexibility to adapt to new occurrences (Tripiet, 2002) (Figure 3).

Figure 3: Management Style



This figure describes different trends that management styles can follow regarding decision making and staff interaction. Source: Developed by authors.

In this case the Management Style is profoundly decisive thanks to the owner being committed to supervising and leading all his employees in a direct manner, similar to a dictatorship. However, this has worked quite effectively since the business opened. In the words of Miguel “ You do what you’re told, as I’m the one who pays.” That sums the owner’s view on the matter.

IN CONCLUSION

Hotel Avenida is a clear example of hard work and perseverance on the owner’s, *Miguel González Gómez*, part. He added value to his investments through his impressive business acumen. In addition, Miguel has been “learning” the business for over 35 years as he acquired more properties throughout this time. It is not necessary to make any changes to administration for the hotel to work. Since its start, it has grown gradually to the position where it now stands. The owner’s motto: hard and steady work, seems to permeate the whole business structure. He also believes that all problems have a solution. The model Miguel has followed seems to work very well. However, it does rely heavily on his figure and if he went missing the viability of the business could be heavily compromised.

QUESTIONS

1. Do the administrative decisions employed by the hotel answer to an identifiable pattern within Management Theory? Identify and justify your answer.
2. Is there any evidence of the relation between the performance of the hotel and the management style used? Justify your answer.

3. What strategic actions would you recommend for internationalization of the firm in the coming years?
4. List some of changes in context that would impact the business the most, in the short-term and in the long-term. Draw a table and suggest possible scenarios.
5. From the external consultant perspective, propose a final recommendation for the senior managers of the company.

STRATEGY AND LONGEVITY IN BUSINESS: HOTEL AVENIDA, CANCUN, MEXICO CASE STUDY TEACHING NOTES

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General Comments

This case study encourages students to reflect on the importance that decision making has in a traditional organization which needs to perform in a highly competitive and innovative field. A systemic vision is necessary to provide this vision and experience as an external consultant. Management strategies work as guiding principles from which to act in the decision making processes. The information presented has been complemented with data which should aid in the adoption of a qualitative analytical frame. The team should seek to discuss ideas and reach consensus on management strategy proposals. Students are free to present any proposal they see fit as long as they can justify their choice. They also need to prove that the proposal derived from the analysis and discussion done with their team.

QUESTIONS

Question 1: Do the administrative decisions employed by the hotel answer to an identifiable pattern within Management Theory? Identify the pattern and justify your answer.

Solution 1: The strategy is identifiable with the decision making schools. Miguel establishes quantitative and qualitative parameters for his decision making. This results in centralizing leadership and control in his own person. He tried to delegate the direction of the hotel business, but the lack of shared vision between the incoming manager and the existing manager and owner, didn't allow for the delegation of leadership. This has in turn made a change in succession very difficult. The high-profile of the owner doesn't allow for empathic coordination of activities between the new manager and the current leader due to the latter believing things should be done his way.

Question 2: Is there any evidence of the relation between the performance of the hotel and the management style used? Justify your answer.

Solution 2: The activities developed by management incentivise the development of activities. The return to a traditional, personalized style centered on a market niche for operational level business guests. They allow growth in the demand for the services of the hotel. Growth in demand is made evident in the high numbers in occupation seen in the hotel. High and low seasons disappear due to the guest profile. The hotel’s guests seek not sun and beach destinations. Rather, they are looking for a room that has basic commodities at a low price point. Offering this services and word of mouth marketing guarantees constant occupation throughout the year.

Question 3: What strategic actions would you recommend for internationalization of the firm in the coming years?

Solution 3: Due to its centralized administration, a firm commitment on the owner’s part to delegate functions to experts in the field must be reached. Those experts would allow the hotel to be positioned in an international segment. Under current conditions, the owner and manager are focused on an operational staff level segment which big hotel firms that franchise this service do not contemplate. For the internalization of this hotel, a deep restructuring in the functions and operations of the hotel would be needed. In addition, the facilities would have to be renovated and modernized.

Question 4: List some changes in context that would impact the business the most, in the short-term and in the long-term. Draw a table and suggest possible scenarios. (Expect different answers).

Suggested answers 4:

Change	Short-term	Long-term
Miguel retires or passes away.	Hotel occupancy goes down; change in management doesn’t go well.	Hotel closes; a franchise takes over. Bankruptcy.
Financial crisis	Increase rates; lose niche market.	Competitiveness is lost.
Adoption of technology	Loss of stability in the business;	New forms of making business are adopted successfully.

Question 5: From the external consultant perspective, propose a final recommendation for the senior managers of the company.

Solution 5: The hotel might specialize and expand by attacking the same market niche of operational level business guests which it already has. They might move toward specialized service. Due to the current scheme outlay, the operation can be replicated and systematized in small hotels in centric locations. The hotels could be operated with a small number of highly committed personnel keen on providing top quality service. To do this, the decision making process must be decentralized and leadership awarded to candidates who undergo a strict selection process to guarantee that they are imbued with the vision and spirit of expanding Hotel Avenida.

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BIOGRAPHY

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