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8B05A11

Teaching Note

LA HACIENDA DEL SOL

Neeta Khera prepared this teaching note under the supervision of Elizabeth M.A. Grasby as an aid to instructors in the classroom use of the case La Hacienda Del Sol, No. 9B05A011. This teaching note should not be used in any way that would prejudice the future use of the case.

CASE SYNOPSIS

It was the morning of January 7, 2004, and Juanita Garcia, vice-president of administration of La Hacienda del Sol, a resort hotel in San Felipe, Mexico, was reviewing the fiscal 2003 financial records. Another winter had gone by with the company experiencing low sales levels. Garcia had this problem each winter season and wanted to consider targeting the Mexican market to improve sales levels in the off-season.

TEACHING OBJECTIVES

La Hacienda del Sol[1] (Hacienda) is best taught in the marketing section of an undergraduate business course. The case addresses product, price, promotion and placement. This case should follow a lecture on cost behavior and strategic marketing. Hacienda should take a full class (approximately 80 minutes) to complete.

Specifically, this case will:

1. Allow students the opportunity to assess a company’s current marketing strategy.
2. Analyse the fit of a new opportunity with a company’s marketing strategy.

[1]*Pronounced: la ah-see-en-dah del sol*

3. Test students' abilities to make pricing decisions as part of a marketing strategy.
4. Give students an opportunity to design and justify a promotional campaign.
5. Give students practice in calculating market size and market share.
6. Give students practice in using breakeven analysis as a financial assessment tool.
7. Underscore the need to analyse an opportunity from both a qualitative and a quantitative standpoint before making a final decision.
8. Give students practice at designing a defensible marketing strategy.

SUGGESTED ASSIGNMENT QUESTIONS

1. Perform a consumer analysis of La Hacienda's current and potential target markets.
2. Which consumer group in Mexicali would you target during the off-season? Calculate the market size for the target you choose.
3. Calculate the price per room (garden view, ocean front, etc.) under the proposed pricing strategy in the summer months and the off-season months.
   Hints:
   - Use the average temperature in the summer months and average temperature in the off-season months to help you determine the price of a garden-view room.
   - Use the current weekend prices to determine the percentage increase from the garden-view room to each of the other room types.
4. What is the *current* weighted-average price (weekend rates) in the summer? In the off season?
   Hint:
   - Assume the hotel is at full capacity (full-revenue potential).
5. What is the weighted-average price in the off-season assuming the proposed pricing strategy is adopted (same hint as above)?
6. Use the weighted-average off-season price to calculate breakeven in terms of rooms.
7. Compare the breakeven number of rooms to the number of rooms booked by each promotional alternative.
8. How else could Garcia increase off-season attendance and revenue?

OR

As Juanita Garcia, do whatever analysis and make whatever recommendations you deem appropriate for La Hacienda del Sol.

SUGGESTED TEACHING STRATEGY

The suggested assignment questions are designed to provide some guidance in the analysis, although many assumptions still need to be made by the students. The instructor will probably encounter a debate between classmates about these assumptions. Encourage students to think about what the best assumptions would be, given the limited information.

One way to begin the class is to ask what people look for in a resort vacation. This opens up the opportunity in class to brainstorm what the resort may offer that would be appealing to people.

These ideas can then be contrasted with why the current customers visit Hacienda. (Students tend to give their opinions on what *they* would want instead of what *the target market* wants in the case.) Once a clear understanding of the current situation has been established, the company's current marketing strategy can be assessed.

Encourage students to complete a full quantitative and qualitative analysis prior to making a decision. Students tend to disqualify some alternatives, based on their qualitative analysis, without seeing the bigger picture. Due to the high occupancy rate in the summer months, some students can argue that there is no need to calculate the weighted-average price (since there is little room for additional guests). They may recognize there is little room left in the hotel to target the Mexicali market. They may also argue that the two target markets would not fit well together.

ANALYSIS

Qualitative

Current Marketing Strategy

Hacienda currently targets two distinct consumer groups: American families and American seniors and couples.

American Families

American families seek an affordable resort vacation that is less than a day's drive from home (namely San Diego and Los Angeles). The hotel more specifically targets families through offering many amenities and services that both the parents and children can enjoy. The parents can relax on the beach while their children participate in various activities. Families may be attracted by the tropical, exotic and unique experience associated with the Mexican culture. The activities offered promote the "family unit" which is enticing for all members of the family. Visiting Hacienda is as easy as an all-inclusive vacation, one that is hassle-free. Families can enjoy an affordable and luxurious vacation for the family.

It is interesting to note that these guests visit the hotel when they would experience hot weather at home. Although students might initially think that these customers would prefer to go to San Felipe during the cooler seasons (to take advantage of the hotter climate further south), the main reason they visit San Felipe during the months of July and August is because it coincides with their children's school holidays. Therefore, if Garcia wants to target the family market in Mexicali, it is likely this segment will want to visit the hotel during similar months. Currently, Hacienda has a seasonal strategy aimed at the summer months; the key question is how to fill the capacity in the off-season.

American Seniors and Couples

Hacienda attempts to fill in the gaps during the off-season by targeting their second consumer group, seniors and couples. Seniors and couples visit the hotel during the off-season likely because they are looking for a quieter vacation and have the flexibility to travel year-round. They enjoy the same amenities as the families would in the summer, only without the crowds and noise. The seniors particularly look for inexpensive vacations. Seniors and couples primarily seek a vacation at Hacienda for the relaxing and romantic atmosphere. They are also attracted to the Mexican culture and the variety of tourist activities available to them.

Targeting College Students

Although Garcia has steered away from targeting college students, a discussion can be introduced regarding the fit this consumer group has with the current strategy. College students are looking for a relatively inexpensive vacation with many friends, where they can "party" and enjoy the beach. The main advantage of targeting college students is that it does provide extra income during the off-season; however, it may be detrimental to Hacienda's image by creating a party atmosphere instead of a primarily family-oriented atmosphere. Reputation is key in this business due to the large amount of word-of-mouth advertising. Additionally, the hotel would most likely incur extra maintenance costs after the college students have left, due to their types of activities and habits (such as having parties in their hotel rooms).

The instructor may choose to discuss the alternatives available to the above consumer groups. Although consumers have a variety of resorts to choose from, including the Mexican islands and the Caribbean, these locations are further away and, more importantly, are higher in cost for a getaway vacation. There are cheaper holiday alternatives such as visiting Disneyland and Sea World, but these are not family resort vacations or quiet atmospheres for seniors and couples. There are three other resorts available in San Felipe, but Hacienda's high occupancy rate during the summer months indicates it is not having difficulty attracting customers.

The instructor may want to discuss Hacienda's overall strategy. Hacienda aims to provide an affordable resort vacation that is close to home and where the customer can enjoy a unique cultural experience.

Prior to discussing the Mexicali market opportunity, the instructor should conclude with the class whether or not any changes should be made to the current marketing strategy. Most likely the class will agree that targeting families, seniors and couples suits the hotel's current product offering and image and that the hotel should steer away from targeting college students.

<u>Mexicali Market</u>

Hacienda has the advantage of targeting different markets during different times of the year due to the assortment of activities offered. Therefore, Garcia has the opportunity to attract the Mexicali market if there is a "fit" around the amenities and activities offered and if the timing is appropriate. If the Mexicali market is introduced, Garcia should time the introduction and the promotional campaign so as to not disturb the ambience expected by seniors and couples. The summer months are not an option since the hotel is currently occupied with American families. Garcia needs to consider when the Mexicali residents would want to visit the hotel and what type of atmosphere they are seeking.

Consumer Needs

"What do you think the Mexicali market consumer group is looking for?" will open discussion about this opportunity. Some students may want to discount the opportunity immediately since they may not see a fit with the company's strategy. The instructor should encourage these students to fully investigate the opportunity since Garcia, a Mexican, would likely think about this potential market. Since there is limited information given about the Mexicali market, this is a good time to let the class brainstorm on the needs of this consumer group.

Are Mexicali residents looking for a traditional Mexican vacation or an American-like vacation? The students' thoughts on this point will greatly affect their promotion plans. As a result of Mexicans feeling unwelcome to the hotel, they are likely to seek a hotel where they feel comfortable (a Mexican vacation for Mexicans).

Once an overall needs assessment is completed, the discussion can be narrowed to the target market Garcia should focus on: Mexicali families, seniors, couples, college students.

Students will likely conclude that it would be wise to target Mexicali families since this consumer group fits with the company's current marketing strategy and would bring in the most revenue (families spend the most). These families would be looking for an inexpensive family getaway close to home and would most likely want to visit Hacienda during the summer months due to the more extreme temperatures experienced in Mexicali. Knowing that the hotel is fully occupied during the summer at premium rates, students will need to be creative in coming up with a promotional strategy that attracts this consumer group during the off-season.

A secondary market, Mexicali seniors, could also be attracted to the hotel through the marketing campaign. Class debate will occur around whether it is, in fact, viable to target two very different markets and how to do it successfully. More astute students may suggest that the hotel target both market segments at different times of the year.

Some students may argue that it is wise to target the consumer group that is currently working in the hotel industry in Mexicali. They may want to "be treated" for a change instead of "treating" others. Mexicali residents may also associate relaxation with the smaller city of San Felipe, compared to the larger population of Mexicali.

At this point, instructors may want to turn class discussion to whether Hacienda is capable of meeting this new consumer's needs. Due to the variety of amenities and services available at the hotel, students should feel confident that changes can be made to overcome the cultural differences between the American and Mexican market. If students are strongly against targeting

Mexicali residents, they should have developed a solution to the current problem of under-capacity during the off-season.

New Marketing Strategy

If students decide to target the Mexicali market, they need to have a plan for dealing with the hotel's current reputation: too pricey and too American. One option is to target this market during an off-season when there are fewer Americans at the hotel. Once instituted, word-of-mouth that Mexicans are welcome and that the hotel is not infiltrated with American tourists, should spread locally. Some students may argue that Hacienda cannot target both the American seniors and Mexican families at the same time during the off-season. One consumer may have to be chosen over the other, depending on which consumer is assumed to bring in higher revenues.

In order to target both Americans and Mexicans, Hacienda would have to create a marketing strategy and image that fits with both consumer groups. One commonality between the two consumer groups is that they want a truly Mexican cultural experience, in addition to an affordable vacation. Case facts indicate that both consumer groups seek this type of vacation experience. Class discussion should conclude that the key to making this strategy work is to promote exclusively to each distinct consumer group.

Potential Changes to the Marketing Strategy

In order to provide the type of atmosphere attractive to the Mexicali residents, changes would need to be made to the current marketing strategy. To begin the discussion, the instructor may pose the question: "What can Garcia change in terms of the product offering, promotion, placement and price?" Students may need to be "pushed" to think about what could be included in the product offering. Some examples include:

- Product Offering: A change in the food provided could be slightly altered to satisfy Mexicali needs. The food that is currently offered is mainly Mexican so little change needs to be made in this area (unless the Mexican food is targeted more to Americans). Different spices (most likely hot spices) may need to be added. The chefs are likely Mexican and would know what changes to make to the cuisine to cater to this new market.
- Activities: Instead of performing traditional Mexican dances for the guests, the Mexicans can get more involved by actually taking part in the performances such as salsa and meringue. The hotel could hold annual dance competitions or special events to establish a loyal customer base. The types of activities offered to the children could also be easily catered to the Mexican market (such as arts and crafts familiar to Mexican children). Such events can be included in Hacienda's promotional offering.
- Spa Package: Another way to entice Mexicans to visit Hacienda is to package it as a spa vacation. Packages could include a room with spa services or other amenities to suit the needs of a relaxing getaway.

This discussion leads nicely to the development of a promotional strategy. Instructors may choose to let the students guide the discussion, or may choose to leave the promotion discussion until later in the class (when it is mentioned in the case).

The major change that Garcia must consider is the change in price. Prior to the quantitative analysis of the price, discussion may address the proposed pricing strategy. Although students may come up with some other creative solutions to establishing a price for Mexicali residents, most students will support different price points for the two consumer groups because the average income for Americans is approximately double that of the Mexicans. Some students (likely with an economics background) will bring up the need for purchasing power parity: if both consumers are willing to buy the same product, the price will have to be adjusted, given the average income of each consumer. The next question is by how much? This discussion leads nicely to the quantitative analysis of the price.

Quantitative

Price

Most students will have difficulty calculating the weighted-average price per season so direct questioning (using case Exhibit 4) each step of the way may be needed to guide the students to the solution.

Students first need to calculate the average temperature in the off-season. They may opt to use the lowest temperature (instead of the average) as a conservative price. See Exhibit TN-1 for the proposed price for a garden view room. Students can then extrapolate the proposed price for the other rooms. The solution assumes that the increase in room rates will be consistent with the new pricing strategy. See Exhibits TN-2 and TN-3 for these prices. The suggested assignment questions require students to use the weekend prices; however, if using the alternative assignment question, students could choose to use either the weekday prices or a weighted-average price.

Exhibit TN-4 takes the analysis one step further — it calculates the weighted-average price per room in both the off-season and summer based on the revenue earned at full capacity.

The weighted-average room price under the new pricing strategy can be compared to the weighted-average room price under the original pricing strategy to determine the discount rate (see Exhibits TN-5 and TN-6). If this new pricing strategy is adopted, the Mexicali residents would receive a discount of 65 per cent off the current room price, in the off-season.

Armed with this information, a leading question by the instructor on how to assess the risk of this new opportunity will direct the class into a breakeven analysis.

Breakeven Analysis

A breakeven in terms of sales dollars to the capacity of the hotel or a breakeven in terms of number of rooms to the size of the market can be completed (both solutions are provided in the teaching note).

See Exhibit TN-7 for the breakeven analysis in terms of sales dollars under two scenarios: spending $50,000 on radio ads or television ads, and spending $10,000 on flyers. The results show the number of sales the hotel would have to achieve under the proposed pricing strategy to breakeven. Most students will not be able to evaluate the risk with these numbers alone. They will need to compare these breakeven figures to either capacity or market size.

To compare the breakeven analysis in terms of sales dollars to maximum capacity, refer to Exhibits TN-8 and TN-9. Exhibit TN-8 displays the total revenue per season 100 per cent capacity. Exhibit TN-9 calculates the minimum increase in capacity needed to cover promotion costs. Since students may be accustomed to calculating a breakeven in terms of the entire company's operations, further explanation of the calculation may be in order. In this case, the analysis is based on the incremental promotion (fixed) costs for the new opportunity. Therefore, the percentages of capacity in Exhibit TN-9 represent the minimum increase in capacity required to break even, given the cost of promotion and not the minimum increase to break even for the entire hotel. This calculation is more meaningful than calculating the breakeven for the entire business since it isolates the costs of this particular opportunity.

See Exhibit TN-10 for the breakeven analysis in terms of number rooms under two scenarios: spending $50,000 on radio ads or television ads, and spending $10,000 on flyers. The same results will be provided if the breakeven, in terms of sales dollars, is divided by the weighted-average room price.

Most students will conclude that there is little risk in this opportunity due to this analysis; however, comparing these figures to the market size will help assess a "comfort level" with this opportunity.

Market Size

Introducing the rationale for calculating breakeven is useful at this juncture in the class. This allows students to think about the purpose of the calculation and how it will fit in their analysis. In this case, determining the market size provides students with a "feel" for how large-scale the opportunity is and allows an opportunity to assess its risk relative to the breakeven figures.

For this case, the students need to make a few assumptions. There is no right or wrong answer, but students should be able to reasonably defend their assumptions. The case provides some information on the age range to target. Students need to make assumptions about the age range(s), annual household income and urban versus rural households in the Mexicali target market. Below are two examples of a market-size calculation students may surmise.

FAMILIES

813,853 (Mexicali population)	×	9.4% (highest annual household income — assume all live in urban areas)	×	38% (age range 25-54 years)	=	29,071 people

SENIORS

813,853 (Mexicali population)	×	9.4% (highest annual household income — assume all live in urban areas)	×	10% (age range 55+ years)	=	7,650 people

Exhibit TN-11 calculates the breakeven number of rooms as a percentage of market size. Students may find it difficult to interpret the breakeven figure. In this case, the breakeven number of rooms represents one person staying for one night at the hotel. Numerous assumptions can be made at this point. For example, if it is assumed that the average number of people per room is two, then multiply the breakeven number of rooms by two to calculate the breakeven number of people. If it is assumed that these two people will visit the hotel, on average, for two nights, then divide the breakeven number of people by two. The two assumptions net out to the original breakeven number of rooms (assuming that an average of two people stay at the hotel for two nights). If students are targeting families, they may assume an average of four people per room. These assumptions can either be applied to the breakeven calculation or to the market size to achieve the same results.

Class discussion will entail how realistic these figures are and assess the risk under each scenario. This discussion leads to whether the Hacienda can achieve, at minimum, these breakeven figures by analysing the response rates of the promotional mediums.

Promotion Analysis

The qualitative reasons for choosing one promotional media over the other should be reviewed prior to calculating the response from each promotional format (see Exhibit TN-12). This review should assess which promotional media is most suitable before being swayed by the numbers. Since it can be clearly seen that, under the proposed pricing strategy, the company cannot break even, there is no need to calculate what percentage the breakeven figures are of the total market size captured.

Conclusions

Before dismissing the opportunity to target the Mexicali residents, ask the class what could be changed in order to make this opportunity work. Price can be controlled in this case. The use of a spreadsheet that allows the price to be changed in class will point to an ideal price to make the opportunity worthwhile. Once a price is determined, the class can discuss how reasonable this price is and what the potential reaction may be from the Mexicali residents.

The use of a spreadsheet also makes it easier to determine the minimum price that can be charged in order to breakeven under all scenarios. Instructors should take some time to discuss the effect a price change has on the decision. By decreasing the price, the unit contribution in turn decreases. If the denominator of the breakeven equation decreases, the number of rooms to break even will increase.

If the price offered to the Mexicali residents was equivalent to the current pricing strategy, the company cannot break even under any of the television ad scenarios and radio ad scenarios, other than using radio ads during the summer months.

To advertise by radio during the summer months, the price can decrease by 20 per cent to break even (comparing the breakeven number of rooms to the number of rooms achieved through the promotional medium).

The use of flyers appears to be the best alternative. Under the winter, spring and autumn scenarios, the price can be decreased by approximately 45 per cent to break even. During the summer months, the price can be decreased by up to 50 per cent to break even. Considering the hotel reaches maximum capacity during the summer months, promoting during the winter, spring or autumn season would be preferable.

Students may not be familiar with the hotel industry; therefore, when capacity is brought up in class, take some time to discuss hotel capacity. Although it is ideal to maximize capacity, a hotel does not need to reach 100 per cent occupancy to be profitable. (There may also be disadvantages of maximizing capacity such as constraints on resources and service.) For Hacienda, the summer sales have provided sufficient cash flow and profits for the entire year. The case issue addresses increasing occupancy levels in the off-season to increase overall profitability. Hacienda is not in financial trouble but, like most businesses, seeks opportunities to increase profits.

Recommendation

There are a number of decisions to be made, and students may choose among a number of available alternatives. Students' recommendations should be consistent with their analysis. If it is recommended that Garcia target the Mexicali market, decisions must be made on which season to begin promotions, room rates and the promotional format and should be consistent with their analysis. If students decide not to enter the Mexicali market, they must come up with a solution to the hotel's low sales levels in the off-season. Their recommendations could also make use of the $50,000 budget.

WHAT HAPPENED

As of April 2005, Juanita Garcia was still considering the opportunity to target the Mexicali market, but no progress had been made at this time.

Exhibit TN-1

PROPOSED PRICE FOR GARDEN VIEW ROOM PER SEASON

Season	Average Temperature		Price for Garden View Room	
Summer	= (105°F + 116°F + 96°F) ÷ 3 mos.	106°F	= 106°F ÷ 2	$ 53.00
Off-Season	= (75°F + 73°F + 84°F + 80°F + 93°F + 105°F + 98°F + 69°F + 64°F) ÷ 9 mos.	82°F	= 82°F ÷ 2	$ 41.00

Exhibit TN-2

PERCENTAGE INCREASE ON BASE ROOM

Type of Room	Off-Season Weekend Rates	% Increase on Base Room	Summer Weekend Rates	% Increase on Base Room
Garden view rooms	$ 118.30		$ 125.30	
Ocean front rooms	$ 139.30	118%*	$ 160.30	128%
Junior suites	$ 153.30	130%	$ 174.30	139%
One bedroom suites	$ 174.30	147%	$ 188.30	150%
Apartments	$ 195.30	165%	$ 209.30	167%
Two bedroom suites	$ 209.30	177%	$ 237.30	189%
Master suite	$ 230.30	195%	$ 244.30	195%
Presidential suite	$ 349.30	295%	$ 370.30	296%

* *($139.30 – $118.30) = 118%*

Exhibit TN-3

PROPOSED PRICES FOR ALL ROOMS PER SEASON

Type of Room	Summer	Off-Season
Garden view rooms	$ 53.00	$ 41.00
Ocean front rooms	$ 67.84[1]	$ 48.38[2]
Junior suites	$ 73.67	$ 53.30
One bedroom suites	$ 79.50	$ 60.27
Apartments	$ 88.51	$ 67.65
Two bedroom suites	$ 100.17	$ 72.57
Master suite	$ 103.35	$ 79.95
Presidential suite	$ 156.88	$ 120.95

[1] *53.00 × 1.28 = $67.84*
[2] *41.00 × 1.18 = $48.38*

Exhibit TN-4

WEIGHTED AVERAGE PRICE

WEIGHTED AVERAGE PRICE (OFF-SEASON)						
	Number of Rooms Available	**Price per Room**	**Revenue per Night[1]**	**% of Total Revenue**	**Proposed Price per Room (Off-Season)**	**Weighted-Average Price**
Garden-view rooms	40	$118.30	$ 4,732.00	11.2%	$ 41.00	$ 4.59[2]
Ocean-front rooms	134	$139.30	$18,666.20	44.1%	$ 48.38	$21.36
Junior suites	26	$153.30	$ 3,985.80	9.4%	$ 53.30	$ 5.02
One-bedroom suites	42	$174.30	$ 7,320.60	17.3%	$ 60.27	$10.43
Apartments	4	$195.30	$ 781.20	1.8%	$ 67.65	$ 1.25
Two-bedroom suites	11	$209.30	$ 2,302.30	5.4%	$ 72.57	$ 3.95
Master suite	18	$230.30	$ 4,145.40	9.8%	$ 79.95	$ 7.84
Presidential suite	1	$349.30	$ 349.30	0.8%	$ 120.95	$ 1.00
Total	276		$42,282.80	100.0%		$55.44

WEIGHTED AVERAGE PRICE (SUMMER)						
	Number of Rooms Available	**Price per Room**	**Revenue per Night[1]**	**% of Total Revenue**	**Proposed Price per Room (Summer)**	**Weighted Average Price**
Garden-view rooms	40	$125.30	$ 5,012.00	10.6%	$ 53.00	$ 5.63[3]
Ocean-front rooms	134	$160.30	$21,480.20	45.6%	$ 67.84	$30.91
Junior suites	26	$174.30	$ 4,531.80	9.6%	$ 73.67	$ 7.08
One-bedroom suites	42	$188.30	$ 7,908.60	16.8%	$ 79.50	$13.34
Apartments	4	$209.30	$ 837.20	1.8%	$ 88.51	$ 1.57
Two-bedroom suites	11	$237.30	$ 2,610.30	5.5%	$ 100.17	$ 5.55
Master suite	18	$244.30	$ 4,397.40	9.3%	$ 103.35	$ 9.64
Presidential suite	1	$370.30	$ 370.30	0.8%	$ 156.88	$ 1.23
Total	276		$47,147.80			$74.95

[1] *Assuming full capacity at current prices.*
[2] *$41.00 x 11.2% = $4.59.*
[3] *$53.00 x 10.6% = $5.63.*

Exhibit TN-5

WEIGHTED-AVERAGE PRICE
No Price Change

OFF SEASON					
	Number of Rooms Available	**Price per Room**	**Revenue per Night[1]**	**% of Total Revenue**	**Weighted Average Price**
Garden-view rooms	40	$118.30	$ 4,732.00	11.2%	$ 13.24[2]
Ocean-front rooms	134	$139.30	$ 18,666.20	44.1%	$ 61.50
Junior suites	26	$153.30	$ 3,985.80	9.4%	$ 14.45
One-bedroom suites	42	$174.30	$ 7,320.60	17.3%	$ 30.18
Apartments	4	$195.30	$ 781.20	1.8%	$ 3.61
Two-bedroom suites	11	$209.30	$ 2,302.30	5.4%	$ 11.40
Master suite	18	$230.30	$ 4,145.40	9.8%	$ 22.58
Presidential suite	1	$349.30	$ 349.30	0.8%	$ 2.89
Total	276		$ 42,282.80	100.0%	$ 159.83

SUMMER					
	Number of Rooms Available	**Price per Room**	**Revenue per Night[1]**	**% of Total Revenue**	**Weighted Average Price**
Garden-view rooms	40	$125.30	$ 5,012.00	10.6%	$ 13.32[3]
Ocean-front rooms	134	$160.30	$ 21,480.20	45.6%	$ 73.03
Junior suites	26	$174.30	$ 4,531.80	9.6%	$ 16.75
One-bedroom suites	42	$188.30	$ 7,908.60	16.8%	$ 31.59
Apartments	4	$209.30	$ 837.20	1.8%	$ 3.72
Two-bedroom suites	11	$237.30	$ 2,610.30	5.5%	$ 13.14
Master suite	18	$244.30	$ 4,397.40	9.3%	$ 22.79
Presidential suite	1	$370.30	$ 370.30	0.8%	$ 2.91
Total	276		$ 47,147.80		$ 177.24

[1] *Assuming full capacity.*
[2] *$118.30 x 11.2% = $13.24.*
[3] *$125.30 x 10.6% = $13.32.*

Exhibit TN-6

DISCOUNT WITH PROPOSED PRICING STRATEGY

Weighted-Average Price per Season	Original Pricing Strategy	Proposed Pricing Strategy	Percentage Discount
Summer	$177.24	$74.95	($177.24 – $74.95) ÷ $177.24 = 58%
Off-Season	$159.83	$55.44	($159.83 – $55.44) ÷ $159.83 = 65%

Exhibit TN-7

BREAKEVEN ANALYSIS
Sales Dollar

Season	Weighted-Average Price	Variable Cost	Contribution Margin Rate	Fixed Cost	Breakeven Sales Dollars	Fixed Cost	Breakeven Sales Dollar
Summer	$ 74.95	$ 20.00	73.3%	$ 50,000	$ 68,212	$ 10,000	$ 13,642
Off-Season	$ 55.44	$ 20.00	63.9%[1]	$ 50,000	$ 78,247[2]	$ 10,000	$ 15,649[3]

[1] *($55.44 – $20.00) ÷ $55.44 × 100 = 63.9%.*
[2] *$50,000 ÷ 63.9% = $78,247.*
[3] *$10,000 ÷ 63.9% = $15,649.*

Exhibit TN-8

REVENUE PER SEASON AT FULL CAPACITY

Type of Room	Number of Rooms Available	Autumn, Winter, Spring Weekend Rates	Maximum Revenue per Season
Garden-view rooms	40	$118.30	$ 425,880[1]
Ocean-front rooms	134	$139.30	$ 1,679,958
Junior suites	26	$153.30	$ 358,722
One-bedroom suites	42	$174.30	$ 658,854
Apartments	4	$195.30	$ 70,308
Two-bedroom suites	11	$209.30	$ 207,207
Master suite	18	$230.30	$ 373,086
Presidential suite	1	$349.30	$ 31,437
Total	**276**		**$ 3,805,452**

Type of Room	Number of Rooms Available	Summer Weekend Rates	Maximum Revenue per Season
Garden-view rooms	40	$125.30	$ 451,080
Ocean-front rooms	134	$160.30	$ 1,933,218
Junior suites	26	$174.30	$ 407,862
One-bedroom suites	42	$188.30	$ 711,774
Apartments	4	$209.30	$ 75,348
Two-bedroom suites	11	$237.30	$ 234,927
Master suite	18	$244.30	$ 395,766
Presidential suite	1	$370.30	$ 33,327
Total	**276**		**$ 4,243,302**

[1] *40 rooms × $118.30 × 30 days/month × 3 months = $425,880.*

Exhibit TN-9

BREAKEVEN AS A PERCENTAGE OF MAXIMUM CAPACITY

$50,000 PROMOTION			
Season	**Breakeven**	**Maximum Revenue**	**Minimum Percentage of Capacity**
Summer	$68,212	$4,243,302	1.6%
Off-Season	$78,247	$3,805,452	2.1%

$10,000 PROMOTION			
Season	**Breakeven**	**Maximum Revenue**	**Minimum Percentage of Capacity**
Summer	$13,642	$4,243,302	0.3%
Off-Season	$15,649	$3,805,452	0.4%

Exhibit TN-10

BREAKEVEN ANALYSIS
Number of Rooms

Season	Weighted-Average Price	Variable Cost	Unit Contribution	Fixed Cost	Breakeven Number of Rooms	Fixed Cost	Breakeven Number of Rooms
Summer	$ 74.95	$ 20.00	$ 54.95	$ 50,000	910[1]	$ 10,000	182[2]
Off-Season	$ 55.44	$ 20.00	$ 35.44	$ 50,000	1,411	$ 10,000	283

[1] *$50,000 ÷ $54.95 = 910.*
[2] *$10,000 ÷ $54.95 = 182.*

Exhibit TN-11

BREAKEVEN NUMBER OF ROOMS
As a Percentage of Market Size

$50,000 Promotion			
Season	Breakeven Number of Rooms	Market Size	Market Share
Summer	910	29,071	3.1%
Off-Season	1,411	29,071	4.9%

$10,000 PROMOTION			
Season	Breakeven Number of Rooms	Market Size	Market Share
Summer	182	29,071	0.6%
Off-Season	283	29,071	1.0%

Exhibit TN-12

RESPONSE PER PROMOTIONAL MEDIUM

SEASON	PROMOTIONAL MEDIUM	NUMBER OF PEOPLE CAPTURED	NUMBER OF ROOMS[1]
	Internet		
Per season	$= 29{,}071 \times 1\% \times 0.5\%$	1	1
	Television		
Winter, spring, autumn	$= 29{,}071 \times 85\% \times 2.5\%$	618	309
Summer	$= 29{,}071 \times 85\% \times 15\%$	3,707	1,853
	Radio		
Winter, spring, autumn	$= 29{,}071 \times 45\% \times 1\%$	131	65
Summer	$= 29{,}071 \times 45\% \times 7.25\%$	948	474
	Flyers		
Per season	Target market % $= 29{,}071 \div 813{,}853 = 3.6\%$	302	151
	# of Flyers distributed $= \$10{,}000 \div \$0.0298$ per flyer $= 341{,}297$ flyers		
	# People captured $= 335{,}570 \times 3.6\% \times 2.5\% = 302$		

[1] *Assuming an average of two people per room. One could also assume that the people captured is unique and that the number of people captured is the number of rooms likely booked.*