

Challenges and Potentials of a Budget Hotel: A Case Study of Mesra Hotel

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ABSTRACT

In conjunction with the rapid development of tourism sector in Malaysia, hotel industry has also advanced. Types of hotel include luxury hotels, resorts, and budget accommodation. This study aims to investigate the challenges and potentials faced by the owners of budget hotels. To achieve the objectives, a case study was conducted which focused on the challenges and potentials encountered by the owners of Mesra Hotel, a budget hotel located in Alor Setar, Kedah, Malaysia. The data collection was carried out through personal interviews. As evident in the extant literature, findings reveal that the difficulty to obtain external financing, lack of competent employees and financial as well as management skills are the major problems faced by the owners of this hotel. It is hoped that the findings will provide a better input for the owners and related authorities in order to ensure the successfulness of budget hotel industry in particular and Malaysian tourism sector in general.

Keywords: Alternative Financing, Budget Hotel, Entrepreneurial Financing, Entrepreneurship, Hotel Industry, Tourism Sector.

1. INTRODUCTION

Hotel industry is one of the industries that contribute positively to the development of national economy. Has more potential to grow further, it contributes significantly to the development of the country's economy by providing more employment opportunities and promoting Malaysia as a tourist destination. As a matter of fact, the hotel industry is one of the frontline sectors which are responsible in attracting more tourists to visit Malaysia. Hence, the need to continuously improve the services provided by this industry is very high and important. Based on the figure provided by the Department of Statistics Malaysia, Malaysia's tourism sector had contributed RM182.4 billion or 14.8 percent of Gross Domestic Product (GDP) in 2016. In addition to that, employment in tourism sector for 2016 constituted 22.7 percent of the country's total employment (Department of Statistics Malaysia, 2017). The importance of this sector is reflected by the increasing trend of tourist arrivals. Table 1 show that the number of tourist arrivals is always encouraging. In 2016, there had been 26.76 million of arrivals compared to 16.43 million in 2005. This is an increase of more than 50 percent.

Table 1 Tourist Arrivals in Malaysia (2005-2016)

Year	Arrivals (million)	Growth (%)
2005	16.43	
2006	17.55	6.82
2007	20.97	19.49
2008	22.05	5.15

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2009	23.65	7.26
2010	24.58	3.93
2011	24.71	0.53
2012	25.03	1.30
2013	25.72	2.76
2014	27.44	6.69
2015	25.72	-6.27
2016	26.76	4.04

Source: Tourism Malaysia (www.tourism.gov.my)

Nevertheless, it is predicted that this industry will face challenges like other industries due to the uncertainties of the global economy. Although the weaker Malaysian currency is said to be able to attract more tourists to Malaysia, there are many other factors that influence the growth of the industry. Definitely, falling oil prices will continue to bring significant impact to the economy. The advantages are the lower price may lower the air and other transportation fares, thus expanding the travel and tourism sectors. However, the impact may also be an increase in cost of living or decrease in people’s purchasing power which will eventually result in less allocation for travelling. As a result, travel, tourism and hotel industries will not be able to grow as expected.

The development of the tourism industry has definitely paved way for the proliferation of hotel industry in the country. This is due to the high percentage of foreign tourists as well as domestic tourists. A report by Tourism Malaysia revealed that there were 4,961 numbers of hotels in 2016 compared to 4,799 hotels in 2015. Number of rooms had also increased from 304,721 in 2015 to 321,972 in 2016. In 2005, there were only 2,269 hotels and 155,356 rooms available (Tourism Malaysia, 2017). In short, the number of hotels as well as the number of rooms has shown a year-on-year increase. Figure 1 shows the increasing trend of hotels and rooms available for the period from 2005 to 2016. The growth does not only involve expensive hotels, but also other types of accommodation such as budget hotels, motels, backpackers and homestay businesses; under the small and medium business category.

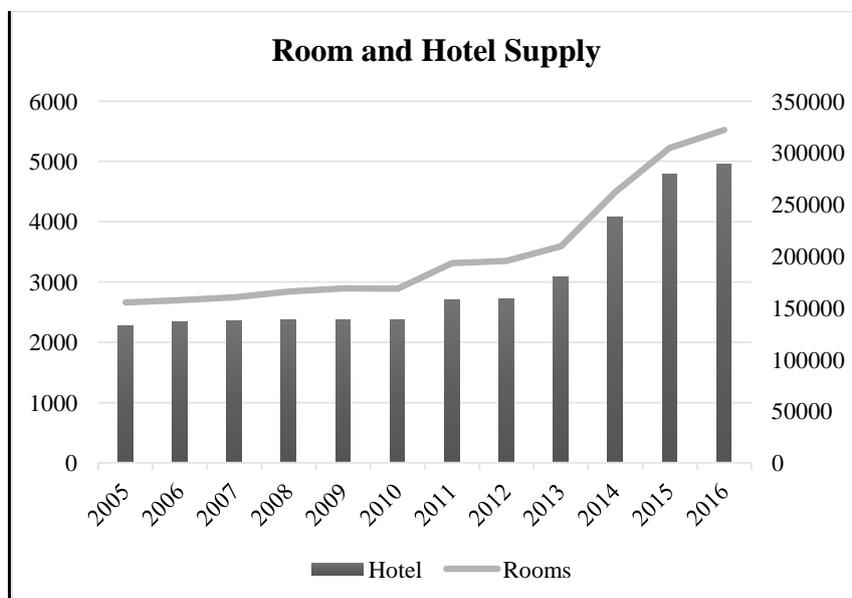


Figure 1. Room and Hotel Supply from 2005 to 2016.

In Malaysia, small and medium-sized accommodation includes categories of bed and breakfasts, backpackers' lodges and budget accommodation which are rated under the Orchid Rating category by the Ministry of Tourism Malaysia. The Orchid classification scheme is formulated to rate hotels which do not qualify for any star rating and is generally applicable to small and medium-sized accommodation. The Orchid Rating assessment is applied to tourist accommodation premises with basic facilities which include good, safe and clean accommodation and a friendly hospitable atmosphere. A budget hotel refers to a relatively cheaper hotel with basic services and facilities. It is a relatively new type of hotel that emerges to meet the demand changes in tourism market. As opposed to the traditional full service hotels, budget hotels just provide basic services and facilities and usually operated by the owner and fewer staff. The target markets of this kind of hotel are middle and small enterprise business people and leisure as well as self-help tourists. Budget hotels normally charge a low price, have a small number of staff and located near to the city. Budget hotels are usually considered as the one-star hotels because they provide lodging at a cheaper price; varies from RM50-RM100 per room or night, some even include breakfast at this price.

The purpose of the study is to investigate the challenges and potentials faced by budget hotels in Kedah, Malaysia. Budget hotels play a significant role in supporting the success of hotel industry in Malaysia. Budget hotels in Malaysia face many problems and challenges that may lead to business failure. In addition to serve as a "check for robustness" of the previous studies, this study hopes to provide valuable information to the budget hotel operators and related authorities that involve in this industry.

Budget hotels refer to small hotels, rated three-star and below. Included in this category are motels, backpackers and homestays (Jaafar *et al.*, 2011). In particular, this study looks at what are the major problems faced by the owners of budget hotels in Kedah by conducting a face-to-face interview with the owners of Mesra Hotel. This paper is organized as follow: the next section presents the background of Mesra Hotel, followed by the section that discusses the findings. Finally, the last section concludes the findings.

2. MESRA HOTEL

The history of Mesra Hotel began with the establishment of Mesra Motel in 2005. Renting a three-storey building in Jalan Ipoh, Kuala Lumpur, the motel had started its first operations in October 2005. Located in one of the busiest areas of the city, the motel had been the choice of many customers both for business and leisure. In 2013 when Mesra Motel failed to renew the rental agreement, the owners (†Salina and Armizi Zulkifli) decided to bring the business operations of the motel to their hometown, in Kedah.

Alor Setar is the state capital of Kedah, Malaysia. Located 400 kilometers from Kuala Lumpur, this city is one of the important cities in the West Coast of Peninsular Malaysia. As the capital city, it is home to the Central State Administration Center and various types of businesses. In addition to that, it is located just south of Thailand's border, which made it a major transportation hub in the northern area. Alor Setar is accessible by all transport means; by road, rail, air and sea. The North-South Expressway which stretches from Bukit Kayu Hitam (Malaysia-Thailand border town) to Singapore has made it easy to travel to or from Alor Setar. There are also train services provided by Keretapi Tanah Melayu Berhad (KTMB). Among the routes are between Kuala Lumpur and Alor Setar, Butterworth and Alor Setar, Padang Besar and Alor Setar, Hat Yai in Thailand and Alor Setar, and, Singapore and Alor Setar. In addition to that, one may also travel to Alor Setar by air. The airport, Sultan Abdul Halim Airport, situated at Kepala Batas is just 15 kilometers from the city center. It serves mainly domestic flights to and

† Real names of the owners have been changed to protect the privacy of the individuals.

from Alor Setar and Kuala Lumpur. Finally, there are also ferry services to and from Langkawi to Alor Setar. The jetty at Kuala Kedah is also located approximately 15 kilometers from the city center.

Table 2 shows the increasing trend in hotel and room supply in Kedah for the period from 2005 to 2016. Although the overall situation shows the number of hotels and rooms offered in Kedah is increasing but the average occupancy rate does not change much from year to year (refer to Table 3 and Figure 2). This means the hotels need to deliver high quality service in order to attract new customers and at the same time retain the existing ones.

Table 2 Hotel and room supply in Kedah

Year	Hotels	Rooms (thousands)
2005	134	9.66
2006	144	10.19
2007	146	10.30
2008	142	10.27
2009	142	10.41
2010	154	11.25
2011	189	12.27
2012	177	11.57
2013	197	12.95
2014	236	14.71
2015	314	18.83
2016	315	18.92

Source: Tourism Malaysia

Table 3 Average occupancy rates of hotels in Alor Setar, Kedah

Year	Occupancy Rates (%)
2005	60.2
2006	58.6
2007	64.6
2008	69.9
2009	57.4
2010	49.6
2011	51.5
2012	52.9
2013	53.0
2014	53.3
2015	54.9
2016	59.5

Source: Tourism Malaysia



Figure 2. Average hotel occupancy rates in Alor Setar.

In early August 2013, the construction of the Mesra Motel building in Kedah started. The motel was built on Salina's land; a 2900 square meter land, in Jalan Langgar, Alor Setar. In November 2013, the motel started its first operations. Operated in a single storey building, it had 15 rooms, consisting of ten family rooms, one king-bed room, one queen-bed room and three single rooms. The rooms, which were very contemporary, came with a private balcony and facilities such as free wifi, air-conditioner, private bathroom with free toiletries, a flat screen TV with cable channels and complimentary coffee/tea facilities. In addition, to ensure the safety of the customers, the motel was equipped with CCTV and the parking lots were available in front of each room. All in, Salina and Armizi had spent about RM450,000 for the motel using their own cash and savings. They never obtained external financing from financial institutions because they always felt that financial institutions charged high interest and it was such a waste of money to pay the interest.

The motel was located close to the main road and surrounded by village houses and a few residential areas. It was six kilometers away from Alor Setar city center, two hundred fifty meters from Alor Setar government hospital and three kilometers from one of the biggest supermarkets in Alor Setar. The strategic location of Mesra Motel, coupled with being the only motel in the area, had attracted a lot of customers to the motel; especially during school and public holidays. Furthermore, there were a lot of eating-out options nearby. Later, Aman Central Mall, a new shopping mall which was officially opened in March 2016 was only 10-minute drive from the hotel. It offered plenty of shopping shops to choose from.

The good business performance of Mesra Motel had motivated Salina and Armizi to expand their motel operations. They were very confident that with all the cash, savings and assets that they had, they would be able to realize their dream, to have their own hotel. They decided to build a two-storey budget hotel on a nearby land owned by Armizi. The hotel, which would be located five hundred meters from Mesra Motel, would be named as Mesra Hotel. The existing motel would be placed under the management of the new hotel, and would operate under the name of Mesra Hotel. In relation to that, the motel would also provide the same quality of service as offered by the new hotel. Hence, on March 2015, as a first step to the realization of the hotel project, the registered name of the Mesra Motel had been changed to Mesra Hotel.

3. FINDINGS AND DISCUSSION

As a family-owned business, Mesra Motel was managed mainly by Salina and Armizi, who is her husband. In managing Mesra Motel, Salina hired four employees to assist her. These employees, aged from 35 to 60 years old, were responsible for maintaining and cleaning the motel; while, Salina herself handled the reservations and documentations. Both Salina and her husband had no formal education in hospitality industry as well as financial management. Their employees had no relevant working experience and had not undergone a proper training in hospitality industry. As most of her employees were from the nearby villages and did not receive tertiary education, they had difficulties in understanding instructions from Salina. As a result, there were a lot of backlogs and errors, especially related to documentation and administrative work. To make things worse, they were also often on leave for reasons such as attending family gatherings, wedding ceremonies, funerals and other family activities.

In promoting her motel, Salina used several social media channels such as facebook, instagram and blogspot. She attended several courses to learn about computers, promotion and marketing, and in the process of building up a website for the motel. The work had been quite slow as Salina had to do everything on her own, i.e., from generating ideas, designing the website and finding a person or company who could build the website for the motel. Other than that, Salina also in the process of preparing the motel brochure, as one of the steps to promote the motel to the public, and as usual, she was the one who took care of everything related to the brochure.

In 2015, as Salina and Armizi decided to expand their operations, a two-storey budget hotel was built. The initial cost of building the hotel was estimated at RM950, 000. They used internal financing. Unfortunately, an unforeseen problem occurred. The project had been beyond schedule due to lack of capital because the cost of completing the building had increased. Everything had become expensive, while the income from the existing motel had decreased. They were having a serious financial problem. Insufficient fund to pay the contractor and did not know the proper procedure to obtain external financing. They approached several financial institutions for financial assistance but their applications were rejected due to incomplete documents.

Based on the information gathered, three main problems have been identified. They are (i) financial constraint, (ii) lack of management and financial skills and (3) lack of experienced and skilled employees. These findings support past studies which indicate financial constraint is the major problem faced by small and medium enterprises (SMEs) (Haron *et al.*, 2013; Aziz *et al.*, 2012; Jaafar *et al.*, 2011; Beck & Demirguc-Kunt, 2006). Having less access to external financing has definitely impeded their growth. According to Beck, Demirguc-Kunt and Maksimovic (2005), small and medium-sized businesses experience greater financial constraints compared to the large businesses. Transaction costs and asymmetric information between borrower and lender have been identified as two main factors that cause many SMEs fail to raise the required fund (Nizamani & Marimuthu, 2015; Beck, 2007). In addition to that, Beck (2007) also found that this problem is common in both the developing and developed countries.

To overcome this problem, it is important to introduce them with other financing alternatives like crowdfunding, venture capital and angel investors. Compared to traditional financing alternatives like bank loan, which require complicated procedures, these non-traditional financing alternatives require simpler process and documents. Crowdfunding, for example, is a way of raising fund from a large number of people through the internet where it does not require any collateral. Crowdfunding has become one of the popular choices nowadays due to its simpler procedure and enable the businesses to reach out to more potential funders worldwide (Nordin *et al.*, 2017). It reduces the traditional geographic constraints and cumbersome standard financial intermediaries' procedure. Thus, giving more opportunity for small businesses to obtain entrepreneurial financing (Mollick, 2014).

Other problems that have been identified are lack of financial and management skills as well as lack of competent employees. According to Jaafar *et al.* (2011), majority of small and medium budget hotel operators lack of knowledge and skills on how to run the business. For that reason, training programs and workshops are essential to help them to deliver better services. The skills may include both management and financial management skills. In addition to that, trainings must also be provided to the employees who have no experience and the required skills in order to expose them to the hospitality industry, hence facilitating them to perform better (Abdullahi *et al.*, 2015; Abdullah *et al.*, 2012; Jaafar *et al.*, 2011; Chan & Quah, 2008). According to Chan and Quah (2008), the hotels association and the government need to tackle this issue by providing appropriate trainings so that the performance and service quality of small and medium size accomodation can be improved. In addition to that, promotional activities must also be carried out. Past studies find that small and medium size accomodation do not have proper marketing tools to promote their products (Christian, 2001; Abdullah *et al.*, 2012). According to Christian (2001), the use of the internet as a promotional tool by small and medium tourism enterprises in Australia has not been fully utilised due to poor understanding and confusing information regarding the technology. It is evident that promotional or marketing activities for small hotels like Mesra Hotel is vital. Formal approach to market planning is necessary for these budget hotels in order attract new customers and to maintain a longer-term customer relationships.

4. CONCLUSION

In conclusion, the findings of this study support the findings of previous studies that budget hotels face many problems and constraints. Three main problems which have been identified are financial constraint, lack of financial and management skills and lack of experienced and skilled employees. These problems have become the obstacles for them to run their daily operation smoothly. This case study on Mesra Hotel provides evidence that financial management skill is very important in order to run a smooth operation of a small business. Yet, many owners of small business in general and budget hotels in particular lack of this vital skill. The findings of this study reveal that as a result of inadequate knowledge on how to prepare proper financial statements has resulted in difficulty for the owners to raise more fund. This indicates that steps should be taken to educate them. More alternatives of fund raising alternatives such as crowdfunding, angel investors and venture capital should be make known to them. These findings are essential in helping the budget hotels to survive in today's competitive market. Hence, the findings are hoped to provide useful input to the relevant parties for the betterment of not only the hotel industry but also the tourism sector.

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