Strategic Framework to Reduce Business Failure of Unclassified Hotels: Sri Lankan Perspective

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Abstract

The advances made in the hotel industry have brought a significant positive impact on the economy of the country. However, an increasing failure rate has been identified amongst the hotels in Sri Lanka, especially within the unclassified hotels. Selection of improper location, poor service quality, ineffective advertising media selection and inappropriate selection of sources of funding are highlighted as major reasons. These are caused by poor decision making which is triggered by lack of knowledge and high operational cost and time. This negative scenario also contributed to the downfall of the country’s economy as well. Therefore, this research intends to focus on the causes of business failure in unclassified hotels with the aim of providing an Information Technology and business solution to reduce the failure rate of hotel industry. A study was conducted on unclassified hotels and the analysis of the downfall was found to be inappropriate selection of locations, poor service, wrong selection of communication media and inappropriate selection of funds. The proposed solution aids to reduce the business failure by supporting the hoteliers to take appropriate decisions in select location, advertising media and funding. The business solution will aid to improve the service quality to eliminate business failure.

Keywords - Unclassified hotels, Hotel failure, Poor service quality, Ineffective advertising media selection, Improper location, Inappropriate selection of source of funding, Poor decision making.
Introduction

Tourism industry is a key sector as it is a major foreign exchange earner and is a fast growing sector in the Sri Lankan economy, where it contributed 3% to the GDP in 2011 (ICRA Lanka and IMaCS, 2011). In recent years the tourism industry in Sri Lanka has grown. The graph below proves that the arrival of tourists has shown a vast increase in 2010.

Figure 1. Tourist arrivals to Sri Lanka from 2000 to 2010

Source: (Sri Lankan Tourism Development Authority, 2011).

In the tourism sector many sub industries can be witnessed which comprises travel agents, airlines, tourism shops, hotels, restaurants, guides and tourism organisations (Sri Lankan Tourism Development Authority, 2011).

Among the sub-industries of tourism, the hotel industry generates the highest income and direct employment in the Sri Lankan economy (Sri Lankan Tourism Development Authority, 2011). It mainly comprises of tourist hotels, boutique villas, eco lodges, guesthouses and heritage homes, which are approved by the Sri Lankan Tourism Development Authority (Rajapakse, 2012). Such hotels have a proven record of unremitting growth and diversification that is directly being an influence in Sri Lankan economy (Illangasekera and Weeralingm, 2011).

The hotels can be mainly categorized depending on the level of service that is provided to the customer. It is depicted by a term called “star” that ranges from one to five which is acclaimed by the World Tourism Organization (Ranasinghe & Deyshappriya, 2012). Figure 2 shows the hotel classification in Sri Lanka and the percentage of hotels in each classification.

Figure 2 clearly defined that a high percentage of tourist hotels are unclassified where such hotels do not possess the required facilities to relate for the “Star” classification.
After the crisis situation in Sri Lanka, the high growth rate of the industry has led to hotels being built (Sri Lanka Equity Analytics, 2010). However, the main issue prevailing in this matter is that most of the unclassified hotels are failing due to unawareness of the latest situation in the industry.

The below chart clearly illustrates the number of rooms in the different classification of hotels. Though there is an increase in the number of rooms of star hotels there has been a decline of 37% in un-classified hotels from 2007 to 2009. The reason for such sudden decrease is the business failure that has led the hotels closure (Sri Lankan Tourism Development Authority, 2011).
It is found that Sri Lanka has a better scope for the development of the hotel industry due to the fact that it has all the sufficient resources to take over the development process under the criteria of the hotel industry. The failure rate of unclassified hotels seemed to be high due to various reasons such as poor decision-making, lack of knowledge regarding the business and high operational cost and time (Parry et al., 2012). These three main factors have a major impact in the selection of location, funding, and marketing medium and in providing the service (Chou, et al., 2008; Mellahi and Wilkinson, 2004).

At present there are few systems which aid hotels for location selection, funding and marketing medium selection. However, most of the systems are not Sri Lankan based; money.co.uk is a UK based company which provides online services to entrepreneurs to find and compare loans provided by several financial companies in UK. And location selection system is not specialised for hotel business. Therefore these systems are not useful for making decision on developing hotels.

Similarly, there is inadequate research done under business failure of unclassified hotels in the context of Sri Lanka. Therefore, researching on the causes of business failure in unclassified hotels in Sri Lanka is essential.

**Problem Statement**

Though hotels have potential growth factors in Sri Lanka, they end up in business failure due to ineffective marketing media selection for advertising (marketing communication strategy), selection of wrong location, poor service quality and inappropriate selection of source of funding. The underlying factors for the above mention problems are poor decision making which is triggered by a lack of knowledge in the business and high operational cost and time. The causes of business failure in the hotel industry is as shown in the below graph.
Aim
To research and identify the factors that contributes to business failures in the unclassified hotels in the context of Sri Lanka and to design and develop an IT solution and business framework to aid in reducing the rate of failure in unclassified hotels.

Literature Review

The Hotel Industry in Sri Lanka
Tourism industry is one of the most profitable industries in the world and in the world tourism industry Sri Lanka has always been an attractive tourist destination due to its geographical location and the diversity of nature.

The year 2010 was the year in which the tourism industry reached the highest record in recent history (Ministry of Economic Development, 2011). It reached to 654,477 tourists arriving into the country and the income generated was 501 million US$ (BOI Sri Lanka, 2011). Rajapakse (2012) stated that in terms of tourist arrival in Sri Lanka, the first seven months of 2012 had seen a 16.7% of overall growth over 2011 same period and even during the time of recession in Western Europe there has been an increase of 20.6%. As shown in the graph increasing tourist
arrivals by 2.5 million and increasing the income earned by tourism industry to 2.75 billion US$ by 2016 is a key objective for the tourism industry in Sri Lanka (BOI Sri Lanka, 2011).

**Figure 5. Estimated tourist arrivals from 2010 to 2016**

In conclusion, tourism is one of the largest sources of income to the Sri Lankan economy as it is one of the most tourists’ attractive locations in the world due to its geographical location.

**Business Failure in the Hotel Industry**

The hotel industry has one of the highest business failure rates among the retail and service industries (Parsa, et al., 2011) and within the industry unclassified hotels have become the most vulnerable category which faces business failure in a very high scale in Sri Lanka. Due to low barriers all are willing to start hotel business with poor knowledge regarding hotel industry and end up with failure (Parsa, et al., 2011).

Since unclassified hotels are small and medium ranged they start up with a small amount of capital. As this capital is not sufficient for them to establish the business, they require additional funds through loans. Since hoteliers do not have sufficient knowledge regarding loan facilities in Sri Lanka they end up with an expensive funding option. As a result, they are enforced to pay more interest rate or pay back the loan in a shorter period which would be difficult for the hoteliers since they already operate on limited finance. Therefore, choosing the wrong funding to fulfil the additional need has become a major issue leading towards business failure.

Similarly, not keeping up with the latest trend in the market will also lead to failure. Unclassified hotels’ intention is to provide the basic needs for their customers; though customers’ wants keep changing as per the trends in the market. Therefore, adopting the latest trends has become mandatory for hotels. However, if the hotels fail to provide quality services as per the expectation of their customers they undergo service failure. As a result, hotels’ business starts to
shrink due to the reduction in the customer base. Though hotels implement the latest trends in their business if they provide a poor service nevertheless it will result in business failure.

Having lack of trained employees is a critical factor that leads a hotel to failure since staff play a major role in hotels as they directly interact with customers while providing a service. Therefore, having inexperienced and untrained staff can reduce the customer base and in turn lead to service failure.

Furthermore, choosing an effective advertising media is a crucial factor for unclassified hotels success since they operate in a highly competitive industry. Likewise, location also plays a vital role in deciding the growth of the hotel since customers give high priority for the location when choosing a hotel.

The other major factor that directs an organisation towards failure is poor management decision making (Parry et al., 2012). This has become a common issue in unclassified hotels due to lack of knowledge and inadequate experience in management. Hotels are reluctant to search for information as it results in spending more time and cost. In order to save cost and time, decisions are made with the knowledge they have. As a result of poor decision making, they end up making the wrong choices; hence they fail (Mellahi and Wilkinson, 2004).

Conclusively, the crucial facts which lead the unclassified hotels to business failure are improper selection of marketing communication media, location, funding requirements and poor service quality, which will lead to great failures and will force to close the entire business. The above facts will be discussed further in the following sections.

**Selecting wrong location**

Location is usually the first factor that should be considered when starting a hotel business (Karppinen, 2011). Hotels should do a proper market research while selecting location, but unclassified hotels fail to do due to high cost and time (Pogue, 2008). To be successful, hotels should select the best location; therefore site selection is a crucial factor for hotels. Inappropriate selection of location will lead to the dissatisfaction of the customers. Hence it would affect the revenue to a greater extent.

Hotels need to spend more time in analysing each prospective site to eliminate business failures in future (Murray, 2003). The selection has to be done carefully because the success or failure of
the hotel depends to a great extent on its location; also it is a long-term fixed investment, therefore disadvantages of a poor location are difficult to overcome (Duggal, 2007).

However, it is been noticed that hotels are diversifying into new, unknown areas without making any thorough analysis (Mbonyane, 2006). A location is chosen because of the availability of a vacant building, proximity to the owner's residence or low cost. Especially in unclassified hotels, the owners start at their residence area without considering whether that location is suitable for a hotel or not. If a hotel is in a remote area, it will be difficult for the customers to find and its accessibility will be compromised. If a hotel is in an area which is easy to find and within proximity to potential customers, its availability for potential selection of choice will be enhanced.

There are countable existing traditional ways to find locations for a hotel business such as real estate businesses, brokers, and newspapers. It is required that when selecting a location through real estate business and brokers the hotelier should be aware of those locations since there is a high chance to be misled because they are conning and selling unsuitable sites; thus it will be a reason to the failure. Despite this, if the hotelier is supposed to pay a higher amount rather the actual value of the location – where the value of the location becomes worthless (Duggal, 2007; Murray, 2003).

Hotel site selection is a complex decision often made without proper planning or sufficient information (Reynolds and Wood, 2009). There are some essential factors to consider while selecting a location. When choosing a location for hotels, commercial areas, conventional centre and airports should be considered (Chou, et al. 2008). Moreover, if the weather condition, infrastructure, traffic and transport condition remain unsuitable resulting in customers to not revisit to that particular location. This is a kind of service failure which in turn will lead to business failure, in future, since selection of good location does not only increase the market share and profitability but enhance the convenience of the customer lodging (Chou, et al. 2008).

Therefore in order to select a good location, the above mentioned factors such as infrastructure, weather, car park facilities, cost, target audience, a survey of economic conditions, current competitive analyses, population counts, and projected population growth of the region should be considered while decision making (Parsa et al, 2011; Chou, et al., 2008). Hotels however, do not emphasis on these facts when taking decisions. As a result of poor decision making they end up
in business failure since selection of suitable location is the most important factor that contributes to business success of a hotel (Duggal, 2007; Murray, 2003).

**Poor Service Quality**

The hotel industry operates in a highly competitive market place where there are increasing consumer expectations of service quality (Ngai, et al., 2007; Lewis and McCann, 2004). If the service provided by one hotel is not up to the standards they switch to another hotel (Ural, 2008). Since the hotel industry involves a high degree of interaction between customers there is a greater chances of service failure (Lewis and McCann, 2004).

Hotels that have the ability to attract, satisfy and retain customers are more likely to survive than the hotels which do not (Petzer et al, 2008). As per the below graph (figure 6), service is the first factor that customers consider when choosing the hotel and it is the most vital element that contributes to the success of a hotel (Dolnicar and Otter, 2003).

![Figure 6. Factors contributing to the success of a hotel](Source- Dolnicar and Otter (2003))

Providing a quality customer service is essential for a hotel in a confrontational situation (Niyomdej, 2010). If not it will cause service failure. If the customer service provided by a hotel is excellent this can make the business stand out from its competitor.

Staffs play a major role in the quality of the service provided by a hotel (Ratnam, 2012; Hess, et al., 2003). Sparks and Fredline (2007) indicates that in order to achieve in the industry good employees are needed with high skills and knowledge in four major sectors; food & beverages, professional cookery, housekeeping and front office operation. Therefore, to provide quality service hotels’ staff should have appropriate knowledge and skills. In order to keep staff’
knowledge and skills up-to-date hotels should provide proper training very often. But it has been noticed that hotels rarely provide training for their staffs due to high cost.

At the same time, most of the hotels fail to provide basic facilities, which are expected by customers; mostly in unclassified hotel they do not provide the basic facilities such as clean room, transport facility, punctual service and other small expectation from customers such as soap, shampoo, wet towel, wifi, television etc. If an unclassified hotel provides the above things it will increase the customer satisfaction and encourage them to revisit the hotel again.

The customer service provided by a hotel is additionally considered as a marketing technique (Niyomdej, 2010). Excellence customer service creates a good image about the hotel amongst customers. Satisfied customers will share their good experiences with their family and friends; they may be return customers and take their families and friends with them. Unsatisfied customers however will share their negative experiences and once the hotel has a negative reputation it is extremely difficult to overcome it (Sparks and Fredline, 2007).

The hotel industry is a highly competitive industry with increasing consumer expectations of services and switching between service providers (Lewis and McCann, 2004). When a product offers greater value then customers will be pleased with it; therefore hotels must provide a better service than the competitors’ services. At the same time if the competitors offer better services, then the customers will prefer moving to the competitors. A hotel should provide better services in order to improve sales and profit since there are increased choices in the market for customers and customers look for values for money and augmented level of services (Kandampully and Suhartanto, 2000).

**Ineffective media selection for advertising**

Marketing is about understanding human social needs and wants. Nevertheless, marketing creates a relationship between a product and its end user. (Kotler 2006, referenced in Williams, 2010). Additionally, it plays an important role in creating brand awareness (Laitinen, 2009); since brand name is becoming important in the market for any product or service recognition. It is unusual for a product not to have a brand name in the market. At the same time marketing helps to draw new customers to buy the product or service.
From the hotel’s point of view the goal of marketing is to first build and then manage profitable customer relationships. In order to build and maintain a base of loyal customers, hotels should build a very competitive marketing strategy (Petzer et al, 2008). Marketing is not only about creating innovative products, pricing attractively and making it available for customers. The product should also be made known for the potential customers (Laitinen, 2009). Most of the Businesses fail in creating brand awareness since they do not have a proper communication with their potential customers (Mbonyane, 2006).

Marketing communications is the promotion part of the marketing mix (4 P’s). It refers to the message (advertisement) and the related media used to pass on that message to the target audience. Media planning, i.e. selecting the most optimal way to deliver the message to the customer is the most crucial part in market communication (Rademaker, 2011). Messages must be delivered in a way that the audience is able to notice it. Since there are many media options (i.e. TV, radio, newspaper, magazine, internet, display advertising, public relations etc) available to the customers, decision in media planning and selection is becoming increasingly complex and challenging (Rademaker, 2011). However, hotels need to put in place competitive marketing communication to improve their competitiveness and thus retain customers if not the cost of losing customers will rise, i.e. loss of sales; this in turn will leads to business failure (Petzer, et al, 2008).

As per Rademaker (2011), main factors considered when selecting a media are the type of the product or service, target group, concentrated geographical focus, budget, season and availability of the media space. Most unclassified hotels do not have good practises in selecting the media. At present social media is playing an important role in marketing by creating awareness, communicating with customers and responding to their comments and its being a major factor in influencing consumer behaviour (Assenov and Khurana, 2012; Luck and Lancaster, 2003). However, most unclassified hotels in Sri Lanka do not have knowledge about the latest trends and they still use the traditional methods. Hotels which target youngsters advertise through newspapers and magazines, but at present young generation use internet for information gathering.

Inappropriate selection of marketing communication media may be expensive but it will not aid to reach the target audience (Laitinen, 2009; Nair and Subramaniam, 2012). If the expected
customers do not turn up advertising will only be an expense. This will lead to business failure (Lutz, 2013; Lucenko, 2012).

In order to be successful, marketing communication should be planned wisely (Laitinen, 2009). Most of the hotels fail because they do not have much knowledge in the available marketing communication mediums. To be aware of all the available marketing communication mediums they have to spend more time and money. Therefore, hotels do not tend to search for the available mediums’, which in turn will lead them to poor decision making (Lutz, 2013; Riabacke, 2006).

**Inappropriate selection of source of funding**

As hoteliers are in need of money to establish their businesses they may need additional capital on a short-term basis to deal with working capital issues or long-term financing to help them build and strengthen their businesses (Buvanendra, 2010). Unclassified hotels face challenges in terms of expanding the customer base, becoming a survivor and learning the business (Mbonyane, 2006). They need to have enough money in order to overcome these challenges. However, due to inefficient management and poor sales hotels end up with unsaved capital, therefore they require additional fund; this is where the selection of funding plays a main role in unclassified hotels.

There are two kinds of funding for businesses; equity financing and debt financing (Segot, 2010). Equity financing refers to where someone gives money and joins as a partner. Mostly large organisations go for initial public offering, which is the goal of many entrepreneurs. It generally means selling stock to the public through the stock exchange; but this is only possible for large hotels. The ‘Partnership Finder’ of Board Of Investment of Sri Lanka is similar to equity money as it helps to find a partner who is ready to invest and join the business (Segot, 2010).

Debt financing refers to where someone borrows money by getting credit and then pays it back through a loan plan. There are several ways to find credits; they are loans, term lenders, leasing and asset-based lending. Loans can be taken for two reasons; one is to start a business and the other one is to run the business. Before getting a loan an hotelier should make sure that the business start-up or expansion generates enough profit to meet the goals. If an hotelier has a feasibility analysis and business plan ready then he/she can start looking for a lender to get a
loan. Many lending institutional are available such as banks (local banks, foreign banks, saving banks and merchant banks), finance companies and BOI, but due to unawareness of unclassified hoteliers, they lose best offers from lenders. At the same time hoteliers do not consider the factors that need to be analysed before getting a loan. Those factors are interest rates, time period to settle the loan, purpose of loan, loan type and provided loan amount (Damayanthi and Rajapakse, 2008).

The newly started business operates in a low information and highly uncertain environment. More specifically, there is a need to understand how financial service providers offer finance (Mbonyane, 2006). Damayanthi and Rajapakse (2008) indicate that there is a financial information gap between the financial intermediates and entrepreneurs in Sri Lanka while evaluating loan applications. Due to low information they tend to lose the most suitable funding. The Board Of Investment (BOI) of Sri Lanka offers many facilities to the entrepreneurs. One of the facilities they offer through their website is ‘Partnership Finder’ where entrepreneurs can search for investors in local and in foreign for their business. However, many entrepreneurs in Sri Lanka are not aware of this.

Jayasiri and Weerathunga (2008) indicate that hotels have limited knowledge regarding the availability of financial services in Sri Lanka and the only solution that is available for them to easily find information regarding the funding is e-Banking. Through e-banking, hoteliers can gather information about loans and financial services provided by a bank. Hence, if hoteliers want to compare the loan facilities in the market, he/she has to login to all available e-banking sites, which will be a time consuming task. At the same time, all banks and other financial services providing companies do not have a website, therefore e-banking cannot be considered as an effective solution for information search (Mohammadi and Mohamed, 2010; Nooraie, 2012).

Hoteliers do not search for information since they have to spend more time and cost in order to visits all financial service providers physically to know their services. By selecting the wrong fund they may result in spending more money due to wrong interest rate which will not suit them to pay much more than they have borrowed. Additionally, if the period to pay back the loan is short then they will not get the opportunity to earn the proper income since they have the burden to settle the loan; this will lead to failure in future. At the same time the business should be able
to cover all their expenses (such as market research, purchase of land and property) with the loan. So it is important for a business to get appropriate funding.

**Methodology**

**Research Approach**

**Inductive research approach**

Inductive reasoning works by moving from specific observations to broader generalizations and theories. Informally it is known as the “bottom up” approach. Conclusion is likely based on premises. It involves a degree of uncertainty. In an inductive approach, it begins by collecting data that is relevant to the project. Thus when researchers take an inductive approach, they start with a set of observations and then they move from those particular experiences to a more general set of propositions about those experiences.

**Fact Finding Techniques**

Different techniques were used to conduct the analysis in a proper manner. Those techniques were used to bring out the knowledge, facts and records to provide information system based solution.

<table>
<thead>
<tr>
<th>Technique Used</th>
<th>Justification</th>
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<tbody>
<tr>
<td>Literature survey</td>
<td>In order to learn past mistakes and eliminate the repetition literature survey has been carried out throughout the project process. It was useful to understand the broad context of the project and enhance clarity of uncertain areas (i.e. main causes of business failure) that existed initially in the project.</td>
</tr>
<tr>
<td>Questionnaire</td>
<td>Questionnaires were the most effective technique to gather the large amount of data from geographically dispersed people within a short time period.</td>
</tr>
<tr>
<td><strong>Sampling method</strong></td>
<td>Convenience Sampling</td>
</tr>
</tbody>
</table>
Both hotelier and customer questionnaire were distributed. The author was able to get contacts of the hoteliers and started distributing it through emails and the author visited hotels to get the questionnaire filled. Similarly questionnaire was distributed to local and foreign tourist through Google docs. Questionnaires were distributed among hoteliers of unclassified hotels and both local and foreign tourists. Though questionnaires were distributes to 50 hoteliers and 100 tourists, only 28 hoteliers and 63 hotel customers filled it. Thirty-nine local tourists as well as 24 foreign tourists filled the customer questionnaire. Face-to-face and online questionnaire were conducted.

**Interviews**

One-to-one interview method is an ideal method to validate facts; thus it was chosen. Assists in clarifying the doubts in the problems regarding failures encountered in literature survey and questionnaire.

**Sampling method – Convenience Sampling**

People, who are in the areas of marketing, finance, location selection and hotel business were chosen according to the convenient sampling. Also hoteliers who run the business under crisis and who are running the hotel for more than ten years were considered for interview.

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**Survey Analysis**

**Unclassified hotels that faced difficulties**

As per the literature, hotels in Sri Lanka are facing a high rate of business failure and this was revealed through the industrial survey. Seventy nine percent (79%) of the responses rated that they went through major difficulties which would have lead the business towards failure.
Difficulties faced by unclassified hoteliers

Hoteliers requested to rate the difficulties they faced in starting up and during the first year of their business. According to literature review the main reasons for failure included inappropriate selection of source of funding, ineffective media selection for advertising, selecting wrong location and poor service quality.

Advertising plays a significant role in the hotel business. It is essential to do proper advertising to run the business successfully. Forty-three percentage (43%) of the hoteliers strongly agreed that they faced difficulties while selecting appropriate advertising media for their hotel and 21% of the respondents agreed to this.

In the hotel business, location is important for the success of a business. According to the survey 39% of the responses strongly agreed that they faced many difficulties due to improper location. While considering source of funding, 36% of responses strongly agreed that they faced difficulties in getting appropriate funding.

Additionally, according to this survey 39% of them strongly agreed that they are facing difficulties because of employees. Opportunities for hotel employment are high but industry lacks in proper trained employees to maintain the hotel and treat the customers in a professional manner.
Figure 8. Reasons for business failure

General problems faced by hoteliers while selecting location for hotel

Figure 9 General problems faced by hoteliers while selecting location for hotel
General problems faced by hoteliers while selecting advertising media

Figure 10. General problem faced by hoteliers while selecting advertising media

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting adequate information regarding all available medias</td>
<td>82%</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Unable to get expert’s opinion or advice</td>
<td>36%</td>
<td>21%</td>
<td>15%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Selecting a suitable communication media to attract customers</td>
<td>57%</td>
<td>32%</td>
<td>7%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Having not much knowledge in the current trends</td>
<td>32%</td>
<td>43%</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

General Problems while selecting funds for the hotel

Figure 11. Difficulties while selecting funding

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting adequate / sufficient information on all available loan products</td>
<td>61%</td>
<td>4%</td>
<td>7%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Unable to get expert opinion or advice</td>
<td>68%</td>
<td>25%</td>
<td>14%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Inconvenience in visiting all the loan providers</td>
<td>64%</td>
<td>7%</td>
<td>4%</td>
<td>25%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Customer expectation regarding staff of the hotel

![Expectation from customers](image)

**Requirements**

**Functional Requirements**

The functional requirements of the IT solution are gathered after analysing the industry survey results.

**Table 2. Functional requirements**

<table>
<thead>
<tr>
<th>Functional requirement and description</th>
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</thead>
<tbody>
<tr>
<td><strong>The user should be able to monitor their business performance</strong></td>
</tr>
<tr>
<td>- The System should provide an evaluation form for hoteliers which contain the details of revenue, customer base, customer satisfaction level and employee satisfaction level of the business</td>
</tr>
<tr>
<td>- The system should calculate the respond and provide the status of the business whether it is towards the success or failure</td>
</tr>
<tr>
<td><strong>The user should be able search and compare about available locations with consultant’s advice.</strong></td>
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</tbody>
</table>
- The system should provide a form to the user containing the following details such as area, city, budget preference and area preference for location.
- The system should be able to provide advice while the user fills the form.

The system should suggest an appropriate location to build a hotel with the details of price, area, address of the location, attractions surrounded, competitor analysis, infrastructure, industry growth rate and the possibility of success.

<table>
<thead>
<tr>
<th>The user should be able search and compare about available hotel advertising media with consultant’s advice.</th>
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<tbody>
<tr>
<td>- The system should provide a form to the user containing all the details that are related to hotel marketing communication such as type of hotel, budget preference, mode of advertising, targeted country, month of advertising and ad campaign media.</td>
</tr>
<tr>
<td>- The system should be able to provide advice while the user fills the form.</td>
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</tbody>
</table>

Finally the system should provide an appropriate hotel advertising media solution, budget preference of selected media, targeted audience, the benefits of it and the efficiency as a result of comparison.

<table>
<thead>
<tr>
<th>The user should be able search and compare about available loan products with consultant’s advice.</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The system should provide a form to the user containing all the details that are related to loan such as amount, interest, duration and pre-condition.</td>
</tr>
<tr>
<td>- The system should be able to provide advice while the user fills the form.</td>
</tr>
</tbody>
</table>

Finally the system should provide an appropriate loan solution as a result of comparison.

<table>
<thead>
<tr>
<th>The user should be able to view the offers related to hotels.</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The system should allow the hotel user to view the offers such as hotel workshop offer, equipment deals, etc. from the system. Additionally customers should be able to download e-books related to the hotel industry.</td>
</tr>
</tbody>
</table>
The user should be able to add new records and manage records.

- The system should allow the marketer/ real estate dealer/ finance providers to enter their offers such as available location and loan. The consultant should be able to analyse the records and approve it in order to save in database.

**Business Solution**

Problems such as select wrong location, poor service quality, ineffective media selections for advertising and inappropriate selection of sources of funding were found as major reasons for hotel business failure. These problems occur due to poor decision making which is caused by lack of knowledge.

Selecting suitable location is the most crucial factor for the hotel success. While taking decision on location the hotelier should consider the market price of the location. If the location is worth than the market price then it is ideal to choose it. Infrastructures need to be focused while making decision and competitor analysis should be carried to reduce the risk in business.

The below diagram denotes the factors that needs to considered while deciding on location selection.

*Figure 13. Conceptual model for location decision*
While considering the media selection for advertising, hoteliers should consider the media which will attract more consumers in low cost. More advertising campaigns need to be carried out during peak seasons and basic promotions need to be done in off-season to attract Sri Lankan tourists. Target audience of the hotel should be focused while making decisions on advertising media. The below diagram illustrates the factors needed to be considered while selecting an advertising media.

**Figure 14. Conceptual model of advertising media**

Making a proper decision on funding is essential for a hotel. It is always good to choose the loan product which provides low interest rates (less than 5% is ideal) and a long payback period (more than 20 years is ideal) so the hotelier will be able to settle the debt in the long term and can earn some profit every month. While selecting a loan product, it is always good to choose the loan product which is specialized for hotels or SMEs. The loan amount should be utilized effectively to obtain 100% benefit. The below diagram specifies the factors which need to be considered in selecting the source for funding.
All departments in a hotel should improve in order to provide high quality services to the customers. If hotel's departments do their job in proper way then it will lead to good service quality. The following model will illustrate the possible way in improving the quality. Figure 12 will demonstrate the conceptual model of high quality service.
Figure 16. Conceptual model of high quality service

**Hotelier**
- Hire appropriate staffs
- Provide hospitality training
- Provide the basic facility such as cleaned room, H/C water, television, restaurant and Internet
- Refurbish the hotel once in every eight years
- Monitor customer expectation
- Gather feedback from customers
- Evaluate the management to ensure the service
- Evaluate performance level of employees
- Empower employee to make decision in worse situation

**Front Desk Personal**
- Give warm welcome to guest
- Provide necessary information on request
- Arrange transportation service and trips
- Respond immediately for problems
- On-call service for 24X7
- Gather feedback from guest
- Be polite and respect guests

**Housekeeping**
- Clean twice a day
- Inspection of the guest room and maintain quality
- On-call service for 24X7
- Provide basic requirements such as Soap, Shampoo and towel
- Offer laundry, dry cleaning, and shoe polishing facility
- Provide high secure service
- Be polite and respect guests

**Food and Beverage Service**
- On-call service for 24X7
- Provide traditional foods in the morning to attract foreign and local tourists
- 100% availability in menu
- Clean environment Service with smile
- Be polite and respect guests
- Make sure about the stocks in store
- Deliver food within 15 minutes

High quality service
The effect of good decision making will lead to selection of suitable location for hotel, effective media selection for advertising, high quality service and appropriate selection of source of funding which will lead the hotel to success. Figure 13 will illustrate the overall conceptual diagram for hotel success.

**Figure 17. Overall conceptual diagram for business success.**

**Conclusion**

In summary, this study examined the rate and the causes of business failure in unclassified hotels in Sri Lanka. Through in-depth literature survey, interviews and questionnaire, it was found that there is a high rate of business failure in unclassified hotels in Sri Lanka. Poor decision making which triggered by lack of knowledge and high operational cost and time is considered as the main cause for business failure. As a result of poor decision making hoteliers end up selecting the wrong location, inappropriate source of funding, ineffective media for advertising and provide poor quality service. In order to resolve this problem IT and business solutions have been proposed intending to reduce the failure rates among unclassified hotels. The proposed solution focuses on providing sufficient knowledge to hoteliers with low
operational cost and time in order to make good decision which may lead to business success.

Reference


