

## **MESRA HOTEL: THE CHALLENGES IN MAKING A DREAM INTO A REALITY**

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### **1.1 Introduction**

On March 14, 2016, Salina Johan, the owner, cum the general manager of Mesra Hotel, looked out of her office window in disbelief as the rain continued to pour. Thunder and lightning did not seem to bother her. It was already 7 pm and her mind continued to wander. She was thinking about her delayed hotel project. The contractor just called to inform that the project could not be continued unless she paid the progressive payment before the end of the month. Everything seemed perfect before this. Good economic conditions and terrific businesses made her confident that the hotel construction would be completed as planned. Unfortunately, now her life turned upside down. The hotel project had been beyond schedule. The contractor in charge kept asking for more money. "I only have two weeks to prepare the money" sighed Salina Johan. The initial cost of building the hotel was RM950,000. Payments were made based on the progress of the work done. Until now, she had paid more than 60 percent of the costs involved. She was very confident that the project would run smoothly. In addition to the amount allocated for the building, she had also put aside RM50,000 for contingency expenses. Additionally, another RM500,000 for the hotel room furniture, lighting and other hotel necessities. She had invested all her savings to the project. In fact, she had also used cash from her other businesses, a grocery store and a 15-room motel, for the project. "Why things do not happen as what I've planned?" sighed Salina Johan in frustration. Everything had become expensive. The supplier charged her higher price for grocery products and hotel's necessities; using the implementation of goods and services tax (GST), inflation and depreciation of Ringgit Malaysia as excuses; while the motel guests had decreased for about 40 percent. "What should I do? The income from the grocery store and motel has decreased, the price of products has increased and now I am running out of cash to pay the contractor for the hotel project" she said, feeling depressed as the rain was.

## **1.2 The Hotel Background**

The history of Mesra Hotel began with the establishment of Mesra Motel in 2005. Renting a three-storey building owned by a cooperative known as MOCCIS (Malay Officers Cooperative Credit and Investment Society) in Jalan Ipoh, Kuala Lumpur, the motel had started its first operations in October 2005. Located in one of the most exciting commercial sections of the city, which was very suitable for business and leisure, the motel had been the choice of many customers. To rent the building, Mesra Motel had to undergo a bidding process. Its first attempt was successful, and it managed to get a two-year contract with a rental amount of RM25,000 per month. The motel had to undergo the bidding process every two years and had managed to get the contract for four times. Salina and her husband, Armizi Zulkifli, spent about RM50,000 for renovation and decoration of the motel; all using their own cash. However, in 2013 Mesra Motel failed to get the contract, and as a result, in May 2013, Mesra Motel had to close down its operations in Jalan Ipoh. Nevertheless, Salina Johan and his husband were not discouraged with the situation. After a long discussion, they decided to bring the business operations of the Mesra Motel to their home town; in Kedah.

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, Mesra Motel started its first operations. Operated in a single storey building, the motel 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 had spent about RM450,000 for the motel, and again, she used her own cash. Salina never liked financing from financial institutions as she always felt that financial institutions charged high interest on financing and it was such a waste of money to pay the interest.

The Mesra Motel was located close to the main road and surrounded by village houses and a few residential areas. The motel was six kilometres away from Alor Setar city center, two

hundred fifty meters from Alor Setar government hospital and three kilometres 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. The good business performance of Mesra Motel, coupled with high sales of their grocery store at the time had inspired Salina and her husband to expand their motel operations. They were very confident that with all the cash and assets that they had, they would be able to realize their dream, to have their own hotel. This time, they decided to build a two-storey budget hotel on a nearby land owned by Salina's husband. 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. 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, Salina had changed the registered name of the Mesra Motel to Mesra Hotel.

### **1.3 The Management**

As a family-owned business, Mesra Motel was managed mainly by Salina and her husband. Nevertheless, most of the time Salina was the one who handled everything as her husband was busy with their other business which was a grocery store. Located at the center of Alor Setar, the grocery store had been operating for more than twenty years. It offered various goods, especially those imported from the middle-east countries such as dates, beverages and spices. The profit from the grocery store had been one of the main sources of fund for Salina and her family all these years. Other businesses that they had include a few shop houses and lands, which they rented to individuals and companies. Salina, with the help of two staffs, responsible for the management of the shop houses and lands.

In managing Mesra Motel, Salina hired four employees. Aged from 35 to 60 years old, they were responsible to do maintenance and cleaning jobs. While, Salina focused more on matters related to reservations and documentations. However, one of the employees would replace Salina at the reservation counter everyday from 11 am to 2 pm as she had to go back home to do household chores. Routinely, Salina would be at the motel from 9 am to 11 am and from 2 pm to 7 pm. After 7 pm, one of the employees would replace her at the reservation

counter. However, she often faced difficulties to find employees who were willing to stay for the night shift. None of the employees had formal education, training or working experience of hotel or hospitality industries. In fact, neither Salina nor her husband had formal education or training in hotel and hospitality services. As most of her employees were from the nearby village and did not receive tertiary educations, 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, when they handled the night shift. Further, they were also often on leave for reasons such as attending a family gathering, wedding ceremony, funeral and other family activities.

In promoting her motel, Salina used several social media 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.

**1.4 The Financial Information**

The financial resources of Mesra Motel came mainly from Salina and her husband’s own assets. Her monthly income which came from the grocery store and the rented assets such as shop houses and lands allowed her to start and run her motel business without any loans from the financial institutions. After operating for almost 3 years, the motel had started to grant return to Salina. The types of rooms offered by Mesra Motel and the rates were as follow:

Room Type	Number of Rooms	Price (Nett)
Family room	10	RM130 (weekday) / RM140 (weekend)
King-bed room	1	RM120 (weekday) / RM130 (weekend)
Queen-bed room	1	RM100
Single-bed room	3	RM70

All room rates were not inclusive of breakfast. However, breakfast would be served upon request and charge will be imposed on the breakfast.

Salina started her Mesra Motel business with RM500,000 capital. As of end of 2015, the value of Mesra Motel building was about RM800,000, while the value of the motel equipment was about RM21,000. The motel owned one computer at the counter, with the current value of about RM200 and a washing machine and dryer with the value of about RM6,000. Further, there were machines and other outdoor facilities with the value of about RM4,500. In the meantime, the motel also had receivables from a few government and private offices, which cost about RM7,500 and inventories of RM17,250. The motel owned RM97,300 in its bank account and RM7,540 in its petty cash. At the same time, the motel also owned other payables, which cost about RM15,430. The provision for taxation of the motel was RM17,500 and its deferred taxation was RM25,400.

The net sales of the motel for 2015 was RM286,800. The motel spent RM45,000 for staff salaries, RM5,000 for advertising, RM13,500 for electricity and other utilities, RM15,200 for insurance, RM3,500 for printing and stationeries and RM15,000 for other expenses. The motel also spent RM11,000 for repairing (i.e., rooms, washrooms, washing machine and television) and air-conditioner maintenance.

### **1.5 The Mesra Hotel Project**

The construction of Mesra Hotel started in June, 2015. The estimated cost was approximately RM950,000 and agreement was made that payments must be made based on the work progress. In addition to the RM950,000 for the building, Salina had also allocated RM50,000 for contingency. The new hotel would have 46 rooms, comprised of 18 single rooms, 10 twin rooms, 16 queen rooms and 2 king rooms. The hotel would also have a dining room which could accommodate 15 people at a time. The first phase of the construction went smoothly, and Salina paid the contractor according to the contract they had agreed. However, problems started to occur during the second phase when the contractor started to ask more than what had been estimated. The contractor used rising prices of construction goods as an excuse for the higher cost. The problem had become worse in the third phase of the construction when

more money was needed for flooring, roofing, piping, wiring and other construction works. At the same time, the economy was slowing down, the existing motel received less customers, the income from the grocery store decreased as the supplier charged them higher prices for grocery products, and income from the shop houses reduced as some of the shop houses were vacant. The decreased in the income had caused Salina to unable to pay the contractor. As a result, the hotel project had been suspended. The contractor was reluctant to continue with the work unless Salina paid them the progressive payment. At that time, the costs had exceeded the original estimation where Salina had paid the contractor more than the progress, i.e., under the contract Salina had to pay RM712,500 when the work progress was 75 percent, however, now Salina had paid RM800,000 for 75 percent work progress. The reasons given by the contractors were constructions' goods price had increased due to the GST and depreciation of Ringgit Malaysia.

In order to resolve the issue, Salina and her husband had no other choice than to approach financial institutions for financial assistance. They have approached a few financial institutions for financing, unfortunately, their application was rejected due to incomplete documents. As a result, the hotel project cannot be continued. Now, it had been almost two years since the hotel being constructed; it was originally estimated to be completed in one and a half years. With the current situation, where the construction works had stopped for more than four months, Salina had no idea when the project could be completed. At the same time, she realized that there were a few budget hotels existed nearby the city center; meaning, competition would increase among the hospitality providers.

## **1.6 Conclusion**

Salina knew it was difficult for her to raise the capital in just a short period of time. However, she was not willing to give up yet. She and her husband would try their best to obtain the loan in order to ensure the successfulness of the hotel project. In addition to obtaining loans from banks and other traditional financial institutions she was also aware about the current non-traditional alternatives like crowdfunding, venture capital and angel investors. She was willing to try the new alternatives and realized that she had to act fast. She was confident that there was still hope for her hotel. As a start she must learn how to prepare the proper basic financial statements. This was important in order to articulate her business plan to the potential lenders or

investors so that she could raise the much needed capital. In addition to that, she must also identify the documents and criteria used by banks in analysing a loan application if she wanted to apply for a bank loan. Although she had no idea of how soon she could raise the fund, she strongly believed that “where there is a will, there is a way.”

## **APPENDIX A: Budget Hotels in Malaysia**

The development of the tourism industry has paved way for the proliferation of many small and medium budget hotels (SMBHs) in the country. This is due to the high percentage of foreign tourists as well as the domestic tourists. The domestic tourism expenditure has increased from 12.7% (RM40.8 billion) in 2012 to 16.7% (RM47.6 billion) in 2013 (Department of Statistics Malaysia, 2014). The high number of tourists has encouraged rapid growth of hotels in Malaysia. The growth does not only involve expensive hotels, but also other types of accommodations such as budget hotels, motels, backpackers and homestay businesses; under the small and medium business category.

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 applies 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 service and facilities. It is a new type of hotel that is a modern existence to meet demand changes in the 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 few staffs. The target market of the hotel is on middle and small enterprise business people, leisure and self-help tourists. Budget hotels normally charge low price, have small number of staff and located near to the city. Budget hotels are usually considered as the 1 star hotels because they provide lodging at a cheaper price; varies from RM50-RM100 per room or night, some with breakfast offered at this price.