Mak Tim Resort

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ABSTRACT

The case presented the challenging problems in managing a family business. Discussion relates on how to ensure the business will continue to grow and how to ensure that the organization will successfully move from the entrepreneurial phase to the growth phase.

BACKGROUND

Mak Tim Resort was a family business ran by Zainal and his wife Raihan. The land on which the resort was built was owned by Fazil, Zainal's father. Fazil had initially started the accommodation business informally, on the same piece of land by renting out 2 rooms in his house. Back then, it was known as the Mak Tim Homestay. Fazil had 9 children, but only Zainal had shown interest in the plans that Fazil had for the land. Fazil had inherited the 3-acre land from his late father, and he had indicated that under no circumstances should the land be sold. The land was fringed on one side by white sandy beaches and the South China Sea, and on the other side was a narrow village road. There were a few traditional village houses and a wide open well-maintained grassy area that separated Mak Tim's resort from the main west coast trunk road.

ACCESSIBILITY AND LOCATION

Mak Tim Resort was located at Kampung Cherating Baru (New Cherating Village) about 45 kilometers to the north of the town of Kuantan, on the coastal road to Kuala Terengganu. The access road to the resort was shared with the 5-star 5 storey Legend Hotel, which had recently open for business. The resort, located about 100 meters behind the Legend Hotel, was not visible from the main road and its small indistinctive signage could barely be seen. In addition, there were numerous food stalls along the main road that distracted travelers from the signage. These stalls sold local delicacies and rice dishes at prices ranging from RM3 to RM8 per meal, and therefore were able to attract any visitors or travellers. Guests from Mak Tim resort would often take the short stroll to those food stalls, rather than having their meals at the resort's restaurant.

THE BUSINESS MODEL

Upon the demise of Fazil in 1992, the land title was passed to Zainal. Zainal had a discussion then with his 8 siblings and they decided that any family members could build a chalet house on the land, using their own funds, but it would be managed by Zainal. For that service, Zainal would charge a 5% fee of the revenue collected for operating costs. Well before Fazil's death, all the children had moved out from the family house, except for Zainal and his wife and 2 sons. They had stayed on at Fazil's request since he was quite close to Zainal's young sons.

In 1993, Zainal began the resort business by building 3 units of chalet houses. Each unit had 2 family rooms. The 3 wooden houses had a front porch and basic room furniture. The chalet houses were built by local skilled craftsmen who had intricately design the wooden panels of the window and door frames according to Malay traditional patterns. Zainal and Raihan were very proud of the design concept for it provided the distinctiveness of Mak Tim Resort from other resorts in the area. Guests had often admired these wood carvings and Raihan would proudly show an article written on the chalet design in a popular architectural magazine.

Each unit, including the furnishings, cost RM60,000. Zainal had also built an extension to the family house for used as office cum reception area. This cost him RM5,000, but he had not included this in as capital cost as he felt that it was for his own family benefit. Two years later, he added another 6 units of chalet houses, each costing also RM60,000, and a 50-seat restaurant that cost RM50,000. By 1997, there were a total of 15 units of chalet houses, 4 guest houses which cost RM25,000 each for building and furnishing, and an outdoor grill area costing RM45,000. The later development was funded through the revenue generated, and also from funds contributed by two of Zainal's brothers. Each gave RM60,000 for building two units of chalet houses and the furnishings. So Zainal, as agreed upon earlier, had indicated that the revenue, after the deduction of all expenses, would be prorated and given to the two brothers.

Since starting the business, Zainal had made countless offers to his other siblings to fund the building of more chalet houses. He had even segmented the land area so that each sibling would get a sea front area for their chalet houses. Except for the two brothers, the others had not taken up the offer, mainly because they were not financially stable to do so. After several discussions with his wife and the two brothers, a decision was made that the other 6 siblings would also be given a share of the income. Zainal suggested, and it was agreed, that 30% on the net income would be deposited as Retained Earnings in Zainal's Fixed Deposit Account. The balance of the net profit would then be equally divided among the siblings, including Zainal and the 2 brothers who had invested. They had also agreed that Zainal would be paid a salary of RM8,000 and his wife would get RM6,000 per month.

THE PRODUCT

The Mak Tim Resort had 15 chalet houses with 30 rooms, and 4 guest houses. The following were the breakdown of the different types of units and the number for each type.

Table 1: Types and Number of Units

Types of Accommodation	No of units
1 double bed with fan	6
1 double and 1 single bed with fan	4
1 double bed with air conditioning	8
1 double and 1 single bed with fan	12

2 rooms each with 1 double and with fan and a kitchenette	2
2 rooms each with 1 double and with air conditioning and a kitchenette	2

All rooms at the resort were equipped with a television set, a lounge set, a writing table, and a chair. The bathroom had amenities such as bath towels, bath soap, and shampoo. At the chalet houses' front porch, there were 2 chairs and a table. There was no laundry service and guests could opt to send their clothes to a nearby Laundry shop. Mak Tim Resort did not provide any recreational facilities or services, but guests could easily, for small fees, rent boats, jet ski, hang glider, or buy kites at several nearby beachside makeshift stalls. These stalls were operated by enterprising village youths. They would even, if the weather was good, take guests for snorkeling or deep sea fishing trips, at minimal fees. These youths were excellent tourist guides and they were quite fluent in a few foreign languages. During the late evening and night they would often sat by their stalls, strumming their guitars and singing along with guests from surrounding resorts or hotel.

The resort had a 50-seat restaurant which opened from 7:30 am to 10:00 pm, and it had a small outdoor annex that could cater for maximum 100 customers. The restaurant was rented out to a local catering company for RM1,200 per month. The restaurant's tenant had the flexibility to decide on the type of food and prices to be charged, but Zainal determined the operating hours to ensure that his resort guests would have the food and beverage services, if they wanted.

THE RESORT OPERATION

Zainal was responsible for the finances, accounts, maintenance, landscaping works, and security. The only 'security' worked often required was chasing away strayed goats that had wandered onto the resort area from neighbouring villages. The major daily ground maintenance work required was the removal of the fallen coconut tree leaves. Raihan handled all administrative tasks including reservations, reception, special requests from guests, and also housekeeping tasks such as assignment of employee/s duties. Zainal and Raihan would discuss and decide on major issues. One full-time employee did all the housekeeping work. During peak season, the resort would hire a part time maid to help with the cleaning and housekeeping tasks. Local villagers were readily available to work part-time, and many had work experience in cleaning chalet houses. The employee was paid RM4 for cleaning each chalet house. Zainal and Raihan had the help of their two sons during the busy weekends. During weekdays, they studied at a college in Kuantan.

SALES AND OPERATING COSTS

The room rates ranged from RM80 to RM400, and the average annual occupancy rates ranged from 40% to 70%. The room rates would remain fixed regardless of monsoon or dry seasons. Mak Tim Resort usually had 4 foreign backpacker guests who would stay for half a year, and they would occupy 4 double bed rooms with fans. Each paid RM10,000 for the duration of their stay.

Table 2: Room Rates and Occupancy Rates

Types of accommodation	Room Rates	Annual Occupancy Rates
1 double bed with fan	RM80	60%
1 double and 1 single bed with fan	RM100	60%
1 double bed with air conditioning	RM130	70%
1 double and 1 single bed with fan	RM200	40%
2 rooms each with 1 double and with fan and a kitchenette	RM300	70%
2 rooms each with 1 double and with air conditioning and a kitchenette	RM400	70%

All transactions were on cash basis. Zainal had not set up a proper accounting system, and since every transaction was on cash basis the only recording made were for cash received and cash payment. The resort incurred the following monthly expenses:

- Electricity, water and utility expenses at RM10 per day for every occupied room
- Labour cost: Full-time employee RM800.00 per month
  Part time employee at RM4 per unit of the chalet house, estimated at 10% of occupied rooms
- Cleaning supply costs RM300 per month
- License and assessment rent RM1500 per year
- Other expenses were estimated at 10% of Revenue
- Income Tax rate at 15%
- Zakat Payment at 5% of Net Income

CUSTOMER ANALYSIS

Eighty percent of customers were family groups that stayed in the chalet houses and guests rooms over the weekends from Friday to Sunday. Thus, on weekends, the Resort’s average occupancy would be about 90%. It would be full-house if not for the no-shows or last minute cancellations. Another 10% were customers who were members of associations, clubs, NGOs, schools, or other organizations. The minor customer segments were mainly individual travelers. Eighty-five percent of the customers were Malaysians, mainly from cities of Kuala Lumpur, Johor Baru, and Ipoh. The remaining guests were from Singapore, and a few backpackers from Australia. The guests usually arrive by car. It took about 3 hours driving time from the capital city of Kuala Lumpur and 5 hours from Singapore to get to the resort. The average family groups consisted of 5 members whose ages ranged from 3 to 45 years. On weekdays, the average occupancy rate would be about 50%, with the majority of customers staying for only a night, stopping by for a night’s rest before resuming their business trip to the north or south. Over 40% of the weekday customers were repeat customers.

Customers stayed at the resort mainly due to the convenient location and the reasonable rates. Some indicated that they liked the cleaned, open and spacious chalet’s compound which was surrounded by coconut trees. Cherating was a popular tourist destination with stretches of sandy beaches and seafront activities. The roadside area had several seafood restaurants that sold local delicacies such as fish crackers and fish cakes, and the popular grilled fish or ‘Ikan Bakar’.

At dusk, the eating places would be transformed into an outdoor food haven with multi-coloured lights, and streams of people either eating or walking about enjoying the cool, breezy night air.

COMPETITORS' ANALYSIS

Competitions were quite stiff with many resort businesses in Cherating that ran budget type to 4-star resort hotel business. There were 30 budget type resort operators along the 10-mile road stretch which extended from the old Cherating village to the new Cherating village. The number of room in each budget resort operation ranged from 3 units to 50 units. Twenty-seven of the budget resort operations were located at the old Cherating village which was located about 5 kilometers from Mak Tim Resort in the new Cherating village. The other 3 budget resort operations, with rooms ranging from 30 units to 50 units, were located in the new Cherating village, within close proximity to Mak Tim Resort. The following were information on two major competitors:

Table 3: Analysis of Major Competitors

	Resort A	**Resort B**
Product Uniqueness	20 units of chalet houses made of cement. Each unit had air conditioning appliance, television set, double bed, table and 2 chairs. Amenity provided - bath towel and soap. Car could be parked in front of the Resort. No recreational or foodservice facilities were provided.	35 units of chalet houses with two types of room, one with double bed and the other with two single beds. The wooden chalet houses were all supply with conditioning unit, a television set, a bed, chairs and table. The amenities provided are bath towel and soap. No other facilities were provided.
Room Rates	Price ranged from RM90 during off season and RM150 during regular season.	Fixed room rates from RM80 to RM100.
Pricing Strategy	Negotiable rates, depend on location of chalet houses. Those closest to the beach were non-negotiable.	Fixed Rates throughout the year.
Location	Beachfront	Beachfront, closed to food stalls and a mini mart
Operations	Owned and operated by husband and wife team who stayed at the resort. Hired one full time staff for cleaning services.	Owner lives in Kuantan, Resort ran by 3 full-time employees.
Marketing	Mainly through word of mouth and recommendation by others. Owners gave business cards.	Mainly through word of mouth and recommendation by others.
Reservation methods	Bookings can be made through telephone. Only 50% of customers made reservations, the rest were walk-ins.	Booking made through telephone. About 70% of customers made reservations, the rest were walk-ins.

THE FUTURE OF MAK TIM RESORT BUSINESS

Mak Tim Resort had been facing stiff competition and a steady increase in operating cost which had slowly eroded the profit margin. Additionally, like any other seafront resort properties, Mak Time Resort had to spent substantial amount of money for building upkeep and maintenance, and very soon Mak Tim Resort would need to spent at least RM40,000 for major repair works. Zainal and Raihan were thinking of removing the wood carving panels and replaced them with aluminum panels so as to save replacement cost, but that would eliminate the resort's unique identity. Another point that they have been discussing a lot lately was on whether they should employ a professional manager to manage the resort because, for the last 15 years, they had hardly any quality family time and had missed numerous family gatherings and celebrations.

QUESTIONS:

1. Discuss the Business Model
2. Do you believe that the Investment and the Return on Investment for the Resort are sufficient?
3. Discuss on the benefits that each of the following derived from the business:
   - Zainal
   - Each of the 2 brothers
   - Each of the other 6 siblings

4. What are the various alternatives for increasing the revenue of Mak Tim Resort? Evaluate the costs and benefits for each alternative.
5. Suggest the possible marketing Plan for the Resort.