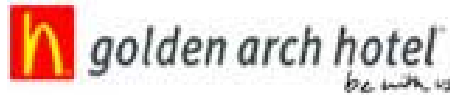


STEFAN MICHEL



McDONALD'S ADVENTURE IN THE HOTEL INDUSTRY

In spring 2001, McDonald's Corporation opened its first hotel in the Swiss town of Rümlang. The 211-room, four-star Golden Arch Hotel, situated close to Airport Zürich-Kloten, was followed in the same month with the opening of a second hotel in the town of Lully. Heading this project was Urs Hammer, longtime chairman of McDonald's Switzerland. Hammer hoped the hotels would continue "the spirit of McDonald's hospitality philosophy." Jack Greenberg, CEO of the McDonald's Corporation, viewed Hammer's concept as a way forward for the company—since McDonald's competed in many saturated markets with its restaurant business, diversification was a promising way for future growth.¹

McDonald's

The McDonald's story began in 1954, when a self-employed salesman named Raymond Kroc sold a popular milkshake mixer in Southern California. Oddly, many of his clients referred to his product as the mixer that the McDonald brothers used in San Bernardino. As the number of these references increased, Kroc asked himself why the McDonald brothers were so well known and what was their secret? He decided to find out by driving down to San Bernardino. The "secret" was a restaurant on the outer limits of the city.

Through observation, Kroc noticed that many of the customers had come from far away (far being, of course, more than 25 miles!—remember, this was 1954), and the reason they came was uncommon for the time: hamburgers, cheeseburgers, French fries, a soda, and a milkshake made with the same mixer that Kroc himself sold. Kroc questioned some of the customers in the restaurant and discovered that the reason they came was that they could get the freshest burger and fries all at one price (think Value Meals and Happy Meals). Also, what impressed Kroc during his visit to the restaurant was that the food was served in a clean environment and it provided "fast and friendly" service—the service was so quick that none of the customers had to wait in line.

¹ <http://www.leisureopportunities.co.uk/newsdetail.cfm?codeID=180>, dated Spring 2001, accessed Nov 13, 2004.

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The author thanks Nancy Stephens, Professor at Arizona State University, for sharing her pictures and her experience, and Daniel Deutscher, hotel expert, for providing benchmark financial data. The following graduate students at Thunderbird, The Garvin School of International Management, translated part of the case from German to English: Trevor Bundy, Patrick Häberli, Gian McCoy, Oliver Sanders, and Bjorn Van den Berghe.

Impressed with the consistent quality and taste, day or night, that the McDonald system provided, Kroc offered the McDonald brothers the chance to open more restaurants. His original intent was to make more sales with his mixers, but the McDonalds refused his offer under the auspices that they didn't want to leave San Bernardino. Kroc was still so convinced that this system of food service would work that he offered to buy the rights to the McDonald brothers' concept and open his own restaurants under their name.

Kroc then left San Bernardino with the first McDonald's franchise contract in hand. One year later, he opened his first McDonald's Family Restaurant in Des Plaines, California. The success of the restaurants is one for the history books, as in the following years McDonald's popped up everywhere in the country and became an American icon.

The first McDonald's openings outside of the U.S. began in 1967 with Canada, Japan, Holland, Australia, and Great Britain. In the 1970s, there was continued success with restaurants opening in Germany, Hong Kong, Sweden, the Far East, and Latin America. With the fall of the Iron Curtain in 1989, McDonald's expanded into Eastern Europe in Russia, Poland, Hungary, and the Czech Republic. As of 2005, McDonald's Corporation operates more than 30,000 quick-service restaurant businesses under the McDonald's brand in 122 countries around the world.^{2,3} Every five hours a new franchisee joins the McDonald's chain.⁴

In 1976, McDonald's began to build its base in Switzerland. Today there are 142 McDonald's restaurants there. The Swiss affiliate has grown so much in the last 29 years that it now has 7,200 full-time employees. There are approximately 1.62 McDonald's for every 100,000 citizens in Switzerland, versus 4.72 restaurants per 100,000 in the USA. Financial analysts have determined the market to be saturated in America, and it is a major concern in Switzerland as well. The Swiss head office of McDonald's is based in Crissier (VD). The CEO, Urs Hammer, is well recognized by the public at large, because he comes from a well-known Swiss hotelier family.

In every country, one of the main concerns is the relationship that McDonald's builds with its neighbors, local communities, and clubs. Children play an important role in the McDonald's corporate plan: One quarter of all restaurants have a built-in "Playland" where children can play freely and parents can host birthday parties for their children. The restaurants incorporate a family atmosphere where the McDonald's clown, Ronald McDonald, plays an important educational, as well as an entertaining, role.

Altered Market Circumstances

In 1965, McDonald's held its IPO (Initial Public Offering) on the New York Stock Exchange. Today, their stock is an essential part of the Dow Jones index and is also exchanged in Tokyo, Toronto, Paris, Frankfurt, and London. Since 1990, one can buy and sell McDonald's stock in Zürich, Basel, and Geneva. Within a few months—between November 1999 and February 2000—the stock declined from \$48 to \$32 per share. Why was there such a decrease in price share? The financial analysts surmised that McDonald's in the U.S. had reached market saturation. Martin Huber, CFO of McDonald's Switzerland and General Manager of the Swiss corporate office, concluded that every opening of a new McDonald's restaurant intruded upon the revenues of other restaurants already in operation.

As a result, McDonald's decided to pursue a "diversification" strategy: In pre-selected countries, General Management would develop core competencies, the purpose of which was 1) to build more profit and revenue-winning restaurants, and 2) to develop these core competencies for use as a model throughout the corporation. This "competency center" in each country would share its acquired knowl-

² <http://en.wikipedia.org/wiki/McDonald's>.

³ <http://www.fifa.com/de/marketing/partners/index/0,1355,21,00.html>.

⁴ See http://www.wemweb.com/chr66a/sbr66_museum/sbmcDonalds_history.html for historic details and pictures.

edge with other restaurants so that new products or services could be implemented to generate new growth.

The Swiss Strategy

McDonald's Switzerland, along with its CEO Urs Hammer, chose to pursue the "hotel" venture, and in 1999 received the green light from the executive board in Chicago. In the spring of 2001, two hotels with associated restaurants were scheduled to open. Alongside the centerpiece of this study (the hotel in Zürich-Rümlang), a second hotel was being constructed in Lully, near the A-1 interstate stretch Yverdon-Payerne.

The crucial factor in deciding to pursue the hotel strategy and create a synergy with the already existing restaurant and catering business was the fact that CEO Urs Hammer came from a hotelier background. The Swiss General Manager had presented the McDonald's hotel concept to the corporate headquarters in Chicago three years before and got the nod to establish the world's first McDonald's Hotel. Should the Swiss managers succeed, there was the chance that they could manage operations of this strategic business unit for the entire corporation, from Switzerland.

Rümlang, a small town on the fringe of Zürich, was chosen as the first location. Zürich was on the upswing, and its hotel managers were thrilled to ride the wave of success. Their occupancy rates were high, and there was much diversity. Young people considered Zürich trendy, while older people enjoyed its culture and businesses. Almost overnight, Zürich, long classified as moderately interesting, for a long time became the destination for trendy insiders. Suddenly, guests were coming and the prices were paid.⁵

Even more promising was the airport area. The national airline SWISSAIR, focusing on a growth strategy by acquiring many smaller European airlines, used the Airport Zürich-Kloten as a hub. The hub, in turn, generated more demand for hotel beds by tourists, business travelers, and airline crews. A major expansion of the airport was likely to increase its capacity by 50% in the first decade of the new millennium.

The Hotel Project

With a 32 million CHF (Swiss Franc)—about \$26 million USD—investment, the Swiss subsidiary of McDonald's formulated a strategy to open a middle-class hotel in Rümlang. When the hotel opened its doors in March 2001, the five-story building featured 211 rooms, along with a 170-seat drive-through McDonald's restaurant open 24 hours a day (very unusual in Switzerland). The restaurant was separated from the hotel so that only hotel guests had access to the hotel building. The plans also included a 110-car underground garage, as well as a 40-car above-ground parking lot.

Hotel Division executive Stefan Döni explained that with regards to competition, not only was the hotel competing with other four-star hotels like the Mövenpick and Hilton, but also with the world's fastest-growing hotel group, the Accor-Group. Döni was so convinced that the hotel would be a success that he and his team adopted the McDonald's service standards for their hotel, with high priority given to room cleanliness.

Two types of rooms were offered: room type I offered an oversized king-sized bed (200cm x 200cm), and room type II offered two oversized single beds (200cm x 140cm) (see Exhibit 1). The price range was set from 150 CHF to 200 CHF (\$120 USD to \$160 USD) per night. To ensure efficient luggage handling, McDonald's developed a custom-made trolley for both hotels. In accordance with the McDonald's restaurant philosophy, the hotel crew would consist of a similar, permanent, employee pool that could implement the consistent service standards for every task in order to better serve the

⁵ Ein Hotel in Zürich müsste man haben, NZZ (2000) 5 August, S. 41.

guests. The motivational job rotation principle would therefore replace the traditional hotel industry-applied job specialization and hierarchy system.

Because of the different peak-period demands for restaurants and hotels, the synergy effect would also be used to assign employees different positions and tasks. In order to bypass the rush of the check-in and check-out process, guests would have the opportunity for self-check-in. Through the simple use of a credit card, the guest would have the opportunity to check in and out of the hotel at the airport terminal. In total, there would be nine meeting rooms with the possibility of being transformed, due to a foldable-wall technology, into a larger 30-person conference room.

To provide optimal comfort for guests, management decided against saving on beds and mattresses. Due to this, future McDonald's hotel guests would lie in comfort on the same beds and mattresses as guests of the world-famous, five-star Quellenhof Hotel in Bad Ragaz. What made the room layout unique was the "curved wall," which bestowed the room with a special atmosphere and design. The "curved wall" was a one-piece, ready-to-use design that would be patent-protected by McDonald's Switzerland.

One feature of the hotel room design was a futuristic shower that projected into the bedroom. While it made the room look bigger, from the inside the glass tube was claustrophobic. Originally, the tube was completely transparent, but after guests complained about the lack of privacy (e.g., two businessmen sharing a two-bedroom or a family traveling with teenagers), the glass was frosted⁶ (see Exhibit 2).

The Market

The nearest hotel was a family-owned Airotel Rümlang (5 km from the airport, three stars), with 34 rooms and no airport shuttle. The room rates were 120 CHF (\$96 USD to 170 CHF (\$137 USD)). A more significant competitor was the Allegra Hotel in Kloten, since it competed in the same price range, but Allegra was closer to the airport (2.2 km), had more rooms, fewer (but larger) meeting rooms, and a fine-dining restaurant. It was owned by the Wohlgemuth family who owned and operated several hotels in the Zürich airport market. Another hotel they operated was the 44-room, four-star Airport Hotel Glattbrugg.

Very close to Golden Arch's property was the Mövenpick hotel (1.5 km from the airport) with three restaurants and large meeting rooms. Mövenpick offered a frequent-guest rewards program and operated more than 50 hotels around the world. A direct competitor was Novotel, which was located directly at the Autobahn between Zürich-Airport (3km) and Zürich downtown, close to several major business centers (e.g., Headquarters of Zürich Insurance, General Motors Europe, World Trade Center, and the Textile & Mode Center). Several other new projects had been recently announced. One hotel was to be built directly at the airport, with many conference facilities already built nearby.

In the Zürich region (city of Zürich and the airport area), there were 17 new hotels, as well as two extensive enhancements planned, currently under construction, or already finished (see Exhibits 3 and 4). Within three years, the 7,500 hotel rooms were to be supplemented by around 3,000 more rooms, or a 40% increase.

By far, the largest increase in hotel rooms has emerged on the Zürich-Airport axis. The hotel chain Accor alone contributed 738 rooms to this additional volume. Of these, 457 rooms were put into operation at the beginning of May next to the Technopark near downtown Zürich. The building would contain an IBIS-Hotel (two stars), an Etap-Hotel (three stars), and a Novotel-Hotel (four stars). An additional 281 rooms were being built at the World Trade Center in Seebach (Ibis, Formule 1). Besides

⁶ Bernstein, Fred, "Want Fries with that McDonald's Room?" Washington Post (2002) September 1, S. E 05.

the four new projects, the first Women's Hotel was being built in Zürich downtown and the exhibition hotel, Turicum, was being planned.

But even with the 3,000 additional hotel rooms, growth continued. The hotel chain Hyatt had been planning for a long time to build a convention hotel in Escherwiese, even though the project had been blocked for several years. Hotels were also planned in the consumer electronics complex in Oerlikon called Magic Park, and in the DiAx-Towers in north Zürich or in Eurogate.⁷

“The current events are blowing us away,” said Guglielmo Brentel, President of the Hotel Association. At the beginning of the year, he expected the development of 2,000 additional hotel rooms in the city of Zürich and the airport region within the next two to three years. This amount was greater than one-quarter of the then-current supply of 7,500 hotel rooms (as of January 12, 2000). Even six months later, Brentel admitted that there were actually many more: 3,000 rooms, or 40%.⁸

Business was still excellent for the hotel operators. In the city of Zürich, hotel occupancy rates in 1999 were 73%, and in the previous year 71%.⁹ The region around the airport was up to 80% capacity—like in the boom of the 1980s. According to Brentel, it would be another one or two years before the hotel managers felt the effects of the extra capacity, because contracts with the tour operators were booked in advance: “If all of the projects realize, the market will not be able to absorb them. The market might be able to assimilate 1,000 additional rooms; 2,000 under certain circumstances—if the economy continues to flourish, the airport is expanded, and a convention infrastructure is created, and if the Olympic Games take place in Switzerland.” Anything over an additional 2,000 rooms, according to Brentel, would be too many.¹⁰

It seems that managers do not learn from history. In the early 1970s, Hotel Atlantis (now Arabella Sheraton), Hotel Zürich (now Marriott), Hotel International (now Swissotel), and Hotel Nova Park (now Inter-Continental) were built. A little later, the first hotels in the airport region added to the offering with the Holiday Inn (now Mövenpick Hotel Airport) and the first part of the Hilton. Between 1970 and 1975, capacity increased by 2,500 hotel beds in the four-star category. Although it was said that the new hotels would bring new guests and businesses, the hotel bed occupancy rate dropped from above 70% to a tight 50%.¹¹

It also seems that the hotel managers overlooked another challenge in the Swiss hospitality industry. Indeed, three-, four-, and five-star hotels can be built quickly. The construction industry has the ability and capacity to build them. However, running these operations is more difficult. It takes personnel. The Swiss human resources market was dried out. It was almost impossible to find cooks and chefs. Staff for the reception desk was also rare. Domestic workers were preferred in hiring, but with so many jobs needing to be filled, who would perform the simple work? This was problematic because quite a few conservative hoteliers who *asked* for foreign labor also complained about the high ratio of foreigners. If many low-budget hotels had no staff, Zürich would not create a destination market, no matter how trendy it was. For this reason, it was suggested that those who intended to build a hotel in Zürich should be required to secure the operational staff first.¹² Reputable experts also acknowledged that this would not be possible without labor piracy, i.e., luring away staff from existing hotels.

⁷ Hosp, Janine, Bald blässt ein scharfer Wind, Tages-Anzeiger (2000) 17 Juni, S. 13.

⁸ Ibid.

⁹ Reported 59.2% occupied beds, and 74.5% occupied rooms, according to http://www.zuerich.com/about/de/statistiken/jahresstatistik_2001.pdf.

¹⁰ Hosp, Bald blässt ein scharfer Wind.

¹¹ Ein Hotel in Zürich müsste man haben, NZZ (2000) 5. August, S. 41.

¹² Ibid.

Market Analysis

Most analysts were not very convinced that this expansion fit well with McDonald's overall strategy. "I've just come back from lunch at McDonald's. But I can't imagine staying at a McDonald's hotel on a business trip," said Rene Weber at Bank Vontobel.¹³ Erwin Brunner, an asset manager at Brunner Invest AG, was more open-minded: "I usually stay in five-stars. But if there isn't one around, why not stay at McDonald's?"¹⁴ Peter Oakes, an industry expert at Merrill Lynch, was less optimistic, and "would be surprised if the Golden Arch Hotel expands to other countries." Robert LaFleur, an analyst with Bear Stearns in New York, noted that while McDonald's had a favorable brand image associated with convenience, hospitality, and cleanliness, he didn't expect the company to begin rapid expansion of hotels in the next few years. LaFleur described the Swiss venture as a blip on the radar screen for major U.S. hotel chains:

I don't see this as a competitive threat to the lodging industry. There are 38,000 hotels with about four million rooms in the United States, and this is a test in Switzerland. It will be interesting to see if this succeeds. But even if it is wildly successful, I still don't see it as any short-term or medium-term risk to hotel players in the United States. Switzerland is a small market, and the penetration of branded hotels is much lower in Europe than it is in the United States.¹⁵

Mr. Hammer, McDonald's Switzerland CEO, was a frequent traveler and knew exactly what customers wanted in a hotel. "On arrival, there will be an automatic check-in," said Beat Kuhn, manager at the Golden Arch in Rümlang. "An electronic key will give guests access to the facilities. The room will be equipped with a large bed that has three built-in motors for a variety of positions. It will also have Internet and computer facilities, with the TV screen serving as a computer screen, and a cable-free keyboard." As Urs Hammer argued: "Our restaurants serve 74 million customers in a country with a population of 7 million. If only one in 1,000 of those guests chooses the Golden Arch Hotel, the project will be a success."¹⁶ McDonald's planned to watch the progress of the hotel, but there was no plan for a widespread launch of McDonald's-branded hotels, according to U.S.-based company spokesperson Walt Riker. "Each of the 100 countries where we operate is free to unleash innovation and new ideas to develop the brand. This is an individual, innovative approach by one company in our system."¹⁷

Customer Experience

Nancy Stephens, a professor from Arizona, stayed in the Golden Arch Hotel in 2001. She was surprised that she had never heard about McDonald's move into the hotel industry before she actually gave a guest lecture in Switzerland. She recalls her stay at the Golden Arch:

The beds go up and down electrically, like a hospital bed. The green part of the hotel room floor was hard as rock and extremely uncomfortable, even a bit painful, to walk on. The bar, downstairs behind the lobby, is cold and unwelcoming. It feels like a lounge in a small city airport. Plastic all the way. The only bar snacks were chicken McNuggets and party mix (pretzels, nuts, etc.). The bar has large windows looking out on a scene of green grass and trees. I found it more suggestive of having a picnic than having a drink in a bar. Not the right ambiance at all. The rooms are somewhat noisy, being located right by the airport. The Internet keyboard is wireless, very advanced for summer 2001, when I stayed there. I believe the hotel had just opened; there weren't many people around and it had the feel of a large, empty hotel. The only food available is McDonald's, at the restaurant attached to the hotel. Furthermore, the hotel is relatively isolated. There isn't much of anything in walking distance,

¹³ Studer, Margaret, und Jennifer Ordonez, "The Golden Arches: Burgers, Fries and 4-Star Rooms: McDonald's Plans to Open Two Hotels in Switzerland, Will Business Travelers Bite?" Wall Street Journal (2000) 17 November, S. B1.

¹⁴ Ibid.

¹⁵ Zuber, Amy, "McD Eyes Hotels on the Swiss Horizon," Nation's Restaurant News 34 (2000) 49, S. 1-2.

¹⁶ Studer und Ordonez, "The Golden Arches: Burgers, Fries and 4-Star Rooms."

¹⁷ "Swiss McDonald's to Open Two Hotels," 2000, www.cnn.com/2000/TRAVEL/NEWS/11/17/leisure.McDonald.s.reut/, November 17.

making one a captive market for McDonald's food or forcing one to spend money on a cab to a restaurant, which would be expensive in a fairly non-urban location. As I think about this hotel visit in retrospect, the entire feeling was one of oddity and discomfort. It just felt off and I'm not sure I can say exactly why. Maybe it's the sum of all my particular memories. I don't think of it as anywhere I would want to return.

Fred Bernstein liked the experience when he stayed at the Golden Arch in Lully. After visiting the Swiss National Exhibition, he was looking for a room and learned that the rate was 180 CHF (\$120 USD). When he asked whether there was a better rate available, the receptionist offered the post-9 p.m. walk-in rate of 83 CHF (\$55 USD) since he did not have a guaranteed booking for a higher rate:

For \$55 USD, we weren't expecting much. But the room, though garishly painted, was exceedingly cheerful. Large windows, excellent air conditioning, and comfortable furniture made the room seem like a bargain. Better yet, at the touch of a button, the beds (twins pushed together) adjusted to every conceivable position. Plus, there was an Internet access, via the TV, with a wireless keyboard—so I could lounge in bed and answer e-mail. There were subtle reminders that we were in a McDonald's hotel, including headboards shaped like the Golden Arches, but I found them witty rather than cloying.¹⁸

Upendra Dixit, an Indian businessman who lived and worked in Germany for five years, recalls his only experience at the Golden Arch Hotel in Lully:

One long weekend, we were traveling towards Lausanne from the Interlaken area escorting my father-in-law. We had left Stuttgart in the morning, spent time at the Rhine Falls at Schaffhausen, then the best part of the day in the Interlaken and Jungfrau region. Late evening we were heading for Lausanne where we wanted to spend the night. The next day, we had a plan to spend the morning there and head out to the Zermatt region. At the Bern junction of the two highways coming from Basel and Interlaken, our car had an accident with some construction barricade material and was damaged. We were shaken up after experience and wanted to stop for the night. We came across our familiar McDonald's restaurant on the highway at Lully and stopped for dinner. Till then, despite our several visits, we had not noticed the hotel, which was quietly situated to the side. The signage was not that prominent. This time we did notice it and felt that it was a good place to stop. First, the Golden Arch Hotel was immediately associated in the mind with the McDonald's brand. We expected that the hotel would be one to two stars, matching the McDonald's brand image. We noticed that the hotel was unusually quiet, with not much activity and few cars parked outside. One concern for the family was safety. Was it safe to stay on the highway with so few people around? When we entered the lobby, it was very quiet with no activity and no one at reception. This was different from McDonald's restaurants where there was immediate service. So for the family, this was a very unwelcoming experience, especially since we were all a bit upset after the accident. While we had no intentions to do much that evening, and it was already late, we noticed that there was not much that could really be done there, so it was ideally a bed-and-breakfast kind of place for an evening's stay. All this had an association with a certain price expectation. When we finally rang the bell and got someone to come to the reception desk, we were told the tariffs would be around 150 CHF (\$120 USD), which was a very high and upper-class hotel range. We were also told that we needed three rooms for five people. We felt that this was too high compared to our expectations. Given the low occupancy, there was little effort to sell the rooms to us and the front-desk person was not very friendly or welcoming either. Thus, we decided not to stay there and continued on to Lausanne where we had a miserable experience in the other direction with Formula 1 hotel, but that is another story.

Daniel Deutscher, owner of DEKA Treuhand, a hospitality consulting firm in Frauenfeld (TG), was very surprised when he learned that the Golden Arch Hotel was positioned as a four-star hotel:

In Switzerland, McDonald's restaurants are perceived as cheap fast-food places, while a four-star hotel means luxury. In order to receive four stars (by the Swiss Hotel Association (www.swisshotels.ch), you have to provide at least two hot meals and room service from noon to 2.30 p.m. and from 7:00 p.m. to 9:30 p.m. It would have never crossed my mind that a McDonald's restaurant would qualify as a four-star hotel. They should have positioned the hotel in the three-star range or built a second, fine-dining restaurant in addition to a hamburger place.

¹⁸ Bernstein, "Want Fries with that McDonald's Room?"

Mr. Deutscher was also very surprised when he learned that the chosen brand name was “Golden Arch.”

While in the English-speaking world, the term “Golden Arches” is easily identified as McDonald’s logo, it does not translate into the German language. Most Swiss people do not know how to translate “arches.” Even worse, the word is pronounced similar to the German word for posterior.

Segments

A typical airport hotel served several segments simultaneously, and Golden Arch would be no exception. The largest segment was made up of groups that were booked by tour operators and airlines. Tour operators booked airport hotels for outgoing guests (people living in Switzerland, Southern Germany, and Eastern Austria using Zürich Airport as their take-off base) and incoming guests (people from all over arriving in Zürich). Group business was usually strong in the summer and over the weekends. Average room rates were just a little bit higher than 100 CHF (\$80 USD) and most rooms were occupied by two guests, driving the cost per guest and night down to 50 CHF (\$40 USD).

Airlines needed rooms for their crews and for layovers. Accommodating airline crews was a tricky business. First, crews liked to stay at the same hotel whenever possible, and, therefore, there were usually long-term relationships between the individual hotels and the crews. Second, airlines often had contracts with hotel chains to accommodate their employees in the same hotel chain around the globe. Third, it was important that the captains and co-pilots have better rooms than flight attendants, e.g., suites versus standard rooms. Crew members also liked hotels with a certain level of dining options.

“Layovers” were passengers who missed a flight or who had to stay close to an airport once a flight had been cancelled or delayed. Airlines usually paid less than 100 CHF (\$80 USD) for layover rooms, and flexibility was crucial. The hotel could get a phone call at 5 p.m. asking whether they could take 60 layovers for that night. If they only had 30 rooms left, the airline might check with another hotel that could accommodate more passengers in order to reduce complexity.

A third subsegment of this group was long distance buses, driving from the Netherlands, Scandinavian countries, or Germany to France or Italy. They chose hotels in close proximity to the Autobahn. Golden Arch was only one kilometer away from the Autobahn.

The second largest segment was business travelers. They paid a higher average price than groups, but companies usually got a 20% discount off the rack rate (official room rate). Key accounts were large companies that had settled high-volume contracts with certain hotel chains. For example, German technology company Siemens had a contract with Choice Hotel group for 100,000 rooms per year. Golden Arch was close to Zürich Messe (exhibition area), which generated additional bookings during exhibition time (when occupancy rate was high everywhere and rates were going up). Because of the small-to-medium sizes of the meeting and conference rooms, Golden Arch was not able to host larger conferences, which was considered a fast growing market for four- and five-star hotels.

The third group was frequent individual travelers (FIT), who usually paid the highest price. Because Switzerland is a small country and most travelers could drive to the airport easily, there was not much outgoing business. Therefore, individual travelers were guests from mainly Europe, the United States, and Asia.

Profit Model

There are two main profit drivers to consider in this kind of hotel property: occupancy rate (number of rooms sold of percentage of number of rooms available), and average revenue per room. Since most of the costs are fixed, profit maximization leads to a similar result as revenue maximization. Based on industry benchmarks, an occupancy rate of 72% (ranging from 78% in August to 65% in January) was

forecasted. The breakdown by segment (based on rooms, not on guests) was 31% business, 42% groups (paying the lowest rates), 21% individual tourists (paying the highest rates), and 6% others (see Exhibit 5 for details). Based on this breakdown, an average room rate of 128.78 CHF (\$103.52 USD) was projected, resulting in room revenues of 7,134,500 CHF (\$5,735,129 USD) per year (Exhibit 6).

On the cost side, fixed costs were roughly 360,000 CHF (\$289,389 USD) per month. Since room cleaning and laundry were outsourced, variable costs per room were 34.13 CHF (\$27.43 USD), additional variable revenues (conference rooms, minibar, phone, parking, etc.) were 11.97 CHF (\$9.62 USD), resulting in a net variable cost per room of 22.16 CHF (\$17.81 USD). Furthermore, credit card commissions averaged 1.97%, and travel agency commission averaged 2.73% of total revenues. Another 1.09% went to debtor write-offs, flowers, decorations, newspapers, magazines, etc. (see Exhibit 7 for cost details).

Based on the volume of the building, the hotel part was nine times larger than the restaurant part, resulting in an investment of 28.8 million CHF (\$23.15 million USD); 20% was equity, 80% was financed by a three-year mortgage for 3% per annum. The standard depreciation was 5% per annum of the nominal investment. The projected profit before taxes of 1,165,566 CHF (\$936,950 USD) would lead to a 20.24% annual return of the 5.76 million CHF (\$4.63 million USD) investment in a country with almost no inflation (see Exhibit 8 for a cost breakdown).

Exhibit 1 Pictures of the Golden Arch Hotel in Rümplang



Front with Golden Arch logo



Hotel (left) and McDonald's restaurant (right)



Hotel entry with Golden Arch airport shuttle bus



Lounge



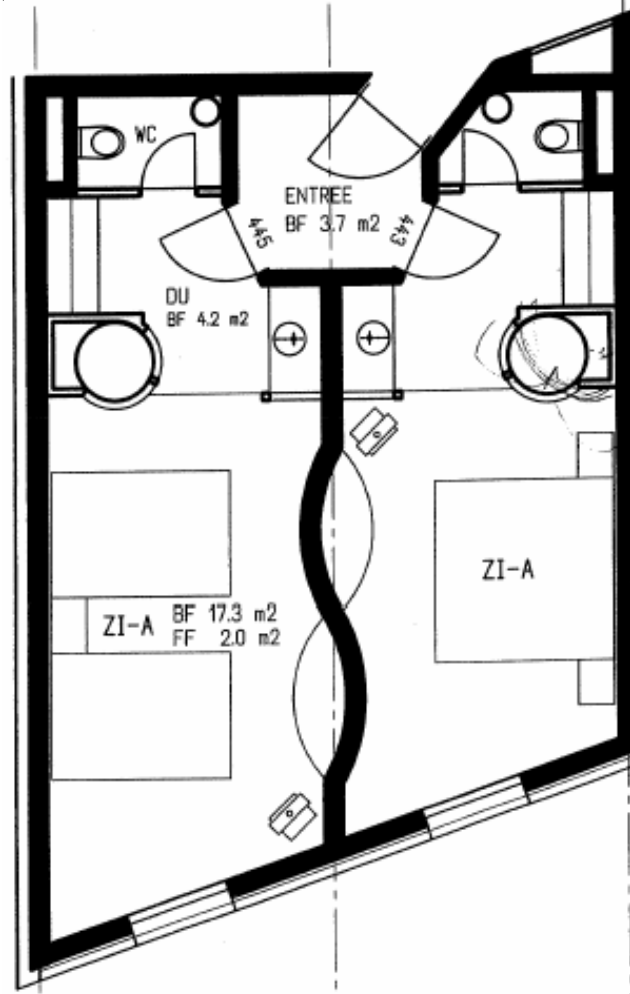
"Sleeping under golden arches"



Shower outside of the bathroom

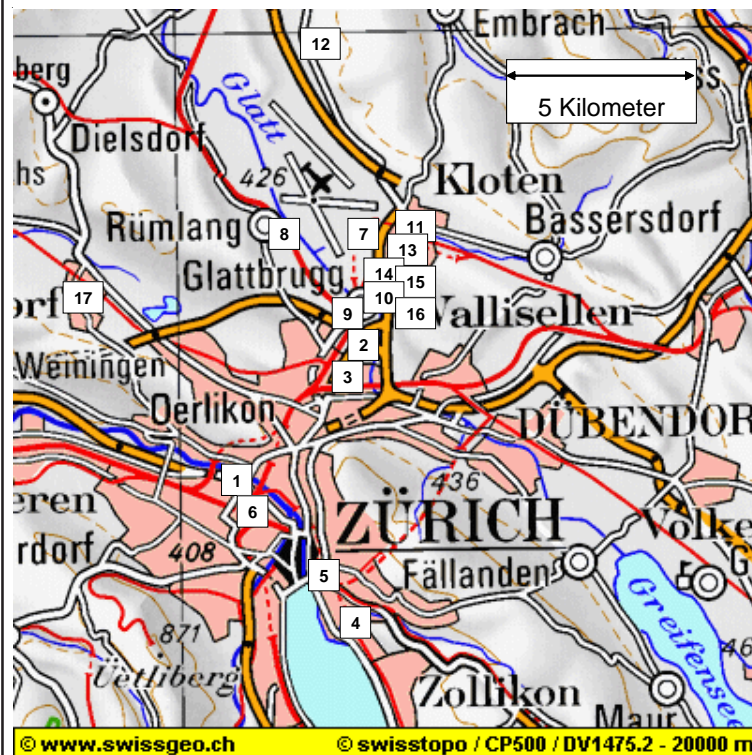
© Pictures by Nancy Stephens, 2001

Exhibit 2 Floor Plan of the Golden Arch Hotel in Rümlang



Floor plan of two rooms

Exhibit 3 New Hotels, Planned Extensions, and Planned Hotels in the Zürich Airport Area



Zürich Area

- 1. Novotel***, Ibis**, Etap*, 457 rooms
- 2. Ibis**, Formule 1*, World Trend Center, 281 rooms
- 3. Turicum***, 250 rooms
- 4. Women's Hotel, 27 rooms
- 5. Bellerive au Lac****, 51 Zimmer
- 6. Stadthotel***(*), 20 Zimmer

Airport Area

- 7. Flughafen Airport Hotel**** (at the airport), 300–350 rooms
- 8. Golden Arch****, 200 rooms
- 9. SAP Hotel***, 50 rooms
- 10. Astron***(*), 140 rooms
- 11. Allegra***, 132 rooms
- 12. Kopf*** Bülach, 34 rooms
- 13. Hilton****, plus 100 rooms
- 14. Mövenpick****, plus 50–100 rooms
- 15. Seminarhotel, 300 rooms
- 16. Airport Park****, 245 rooms
- 17. Business Hotel****, 180 rooms

Status as of June 2000

- 1, 5, 11, 12: recently opened
- 2, 4, 8: in construction phase
- 13, 14: extension planned
- 3, 6, 7, 9, 10, 15, 16, 17: development planned

Source: Hosp, Janine, Bald bläst ein scharfer Wind, Tages-Anzeiger (2000) 17. Juni, S. 13

Exhibit 4 Statistical Data

Zurich's Hotel Industry Since 1950

<i>Year</i>	<i>Number of Hotels</i>	<i>Number of Beds</i>	<i>Utilization</i>
May 2000	102	10,130	59.5%
1999	99	9,516	58.7%
1995	98	9,654	50.8%
1990	104	10,193	57.8%
1985	112	10,397	61.8%
1980	119	10,629	58.1%
1975	125	10,931	53.9%
1970	133	8,489	72.9%
1965	124	7,548	41.4%
1960	126	7,107	75.9%
1955	128	6,914	67.8%
1950	105	5,074	73.8%

Source: Bundesamt für Statistik, Bern und "Ein Hotel in Zürich müsste man haben," NZZ (2000) 5 August, S. 41.

City Comparison Hotel Industry May 2000

	<i>Number of Hotels</i>	<i>Number of Lodging Nights</i>	<i>Number of Beds</i>	<i>Utilization</i>
Basel	40	53,804	3,855	45.0%
Bern	32	50,624	2,796	58.4%
Geneva	92	176,295	10,380	54.8%
Lausanne	37	58,084	3,700	50.6%
Lugano	72	95,669	5,979	51.6%
Luzern	52	107,225	5,364	64.5%
Zurich	102	186,777	10,130	59.5%
Airport Region ¹	20	58,672	3,142	60.2%

¹ Bassersdorf, Dietlikon, Kloten, Lufingen, Niederhasli, Oberglatt, Opfikon(-Glattbrugg), Regensdorf, Ruemlang, Wallisellen, Winkel.

Source: BFS.

Exhibit 5 Monthly Forecast of Occupancy and Rates by Segments*

<table border="1"> <thead> <tr> <th>Occ%</th> <th colspan="2">65</th> <th colspan="2">Jan</th> </tr> </thead> <tbody> <tr> <td>Rooms avail</td> <td colspan="2">6541</td> <td colspan="2"></td> </tr> <tr> <td>Rooms sold</td> <td colspan="2">4252</td> <td colspan="2"></td> </tr> <tr> <td></td> <td>%</td> <td>Rooms</td> <td colspan="2">Rate</td> </tr> <tr> <td>Business</td> <td>40</td> <td>1701</td> <td>135</td> <td>229589</td> </tr> <tr> <td>Groups</td> <td>25</td> <td>1063</td> <td>95</td> <td>100977</td> </tr> <tr> <td>FIT's</td> <td>30</td> <td>1275</td> <td>147</td> <td>187498</td> </tr> <tr> <td>Diverse</td> <td>5</td> <td>213</td> <td>100</td> <td>21258</td> </tr> <tr> <td>Average Rate</td> <td>100</td> <td>4252</td> <td></td> <td>539322</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>126.84</td> </tr> </tbody> </table>					Occ%	65		Jan		Rooms avail	6541				Rooms sold	4252					%	Rooms	Rate		Business	40	1701	135	229589	Groups	25	1063	95	100977	FIT's	30	1275	147	187498	Diverse	5	213	100	21258	Average Rate	100	4252		539322					126.84	<table border="1"> <thead> <tr> <th>Occ%</th> <th colspan="2">68</th> <th colspan="2">Feb</th> </tr> </thead> <tbody> <tr> <td>Rooms avail</td> <td colspan="2">5908</td> <td colspan="2"></td> </tr> <tr> <td>Rooms sold</td> <td colspan="2">4017</td> <td colspan="2"></td> </tr> <tr> <td></td> <td>%</td> <td>Rooms</td> <td colspan="2">Rate</td> </tr> <tr> <td>Business</td> <td>39</td> <td>1567</td> <td>145</td> <td>227186</td> </tr> <tr> <td>Groups</td> <td>25</td> <td>1004</td> <td>95</td> <td>95414</td> </tr> <tr> <td>FIT's</td> <td>17</td> <td>683</td> <td>166</td> <td>113372</td> </tr> <tr> <td>Diverse</td> <td>19</td> <td>763</td> <td>130</td> <td>99231</td> </tr> <tr> <td>Average Rate</td> <td>100</td> <td>4017</td> <td></td> <td>535203</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>133.23</td> </tr> </tbody> </table>					Occ%	68		Feb		Rooms avail	5908				Rooms sold	4017					%	Rooms	Rate		Business	39	1567	145	227186	Groups	25	1004	95	95414	FIT's	17	683	166	113372	Diverse	19	763	130	99231	Average Rate	100	4017		535203					133.23	<table border="1"> <thead> <tr> <th>Occ%</th> <th colspan="2">68</th> <th colspan="2">Mär</th> </tr> </thead> <tbody> <tr> <td>Rooms avail</td> <td colspan="2">6541</td> <td colspan="2"></td> </tr> <tr> <td>Rooms sold</td> <td colspan="2">4448</td> <td colspan="2"></td> </tr> <tr> <td></td> <td>%</td> <td>Rooms</td> <td colspan="2">Rate</td> </tr> <tr> <td>Business</td> <td>33</td> <td>1468</td> <td>145</td> <td>212831</td> </tr> <tr> <td>Groups</td> <td>33</td> <td>1468</td> <td>95</td> <td>139441</td> </tr> <tr> <td>FIT's</td> <td>25</td> <td>1112</td> <td>168</td> <td>186811</td> </tr> <tr> <td>Diverse</td> <td>9</td> <td>400</td> <td>130</td> <td>52040</td> </tr> <tr> <td>Average Rate</td> <td>100</td> <td>4448</td> <td></td> <td>591123</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>132.90</td> </tr> </tbody> </table>					Occ%	68		Mär		Rooms avail	6541				Rooms sold	4448					%	Rooms	Rate		Business	33	1468	145	212831	Groups	33	1468	95	139441	FIT's	25	1112	168	186811	Diverse	9	400	130	52040	Average Rate	100	4448		591123					132.90
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*Disclaimer: All financial figures are based on industry benchmark data for this type and size of hotel in the Zurich Airport Area. No figures have been provided by Golden Arch or McDonald's.

Exhibit 6 Monthly Profit and Loss Forecast

GOLDEN ARCH Rümliang	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Rooms	4252	4017	4448	4494	4710	4748	5102	5102	4748	4710	4494	4579	55404
Guests	5528	5624	5782	6292	7065	7359	8673	8673	7359	7301	6966	6640	83262
Room Occupancy %	65	68	71	72	72	75	78	78	75	72	71	70	71.92
Room Average CHF	126.84	133.23	132.90	146.62	127.71	120.05	115.95	121.67	123.55	133.98	137.48	128.99	128.77
Rooms CHF	539'300	535'200	591'100	658'900	601'500	570'000	591'600	620'800	566'600	631'000	617'800	590'700	7'134'500
Conference rooms CHF	4'422	4'499	4'626	5'033	5'652	5'888	6'939	6'939	5'888	5'840	5'573	2'656	63'954
Total Lodging CHF	543'722	539'699	595'726	663'933	607'152	575'888	598'539	627'739	592'488	636'840	623'373	593'356	7'198'454
Minibar CHF	8'291	8'436	8'674	9'437	10'598	11'039	13'010	13'010	11'039	10'951	10'449	9'959	124'893
Total Food&Beverage CHF	6'633	6'749	6'939	7'550	8'478	8'831	10'408	10'408	8'831	8'761	8'359	7'967	99'914
Phone CHF	13'819	14'060	14'456	15'729	17'663	18'399	21'684	21'683	18'399	18'251	17'414	16'589	208'154
Parking CHF	11'055	11'248	11'565	12'583	14'130	14'719	17'347	17'347	14'719	14'601	13'931	13'279	166'524
Pay TV/Internet CHF	31'507	32'057	32'960	35'862	40'271	41'949	49'439	49'438	41'949	41'613	39'704	37'845	474'592
Total Revenue CHF	583'520	580'191	637'360	709'233	658'020	628'875	660'987	690'187	645'475	689'404	673'525	641'160	7'797'938
Total Revenue	583'520	580'191	637'360	709'233	658'020	628'875	660'987	690'187	645'475	689'404	673'525	641'160	7'797'938
Food & Beverage	-2'322	-2'362	-2'429	-2'642	-2'967	-3'091	-3'643	-3'643	-3'091	-3'066	-2'926	-2'789	-34'971
Direct costs third party/lodging + misc	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-2'000	-24'000
Gross Profit I	579'198	575'829	632'931	704'591	653'053	623'784	655'344	684'544	640'384	684'338	668'599	636'371	7'738'967
Salaries	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-94'788	-1'137'450
Social Security	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-11'299	-135'585
HR.Costs	-10'000	-9'999	-9'998	-9'997	-9'996	-9'995	-9'994	-9'993	-9'992	-9'991	-9'990	-9'989	-119'934
Total employee costs	-116'086	-116'085	-116'084	-116'083	-116'082	-116'081	-116'080	-116'079	-116'078	-116'077	-116'076	-116'075	-1'392'969
Gross Profit II	463'112	459'744	516'846	588'507	536'971	507'703	539'264	568'465	524'306	568'261	552'523	520'296	6'345'998
Insurance and Licence	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-8'000	-96'000
Electricity, Gas	-16'055	-16'248	-16'565	-17'583	-19'130	-19'719	-22'347	-22'347	-19'719	-19'601	-18'931	-18'279	-226'523
Water	-5'422	-5'499	-5'626	-6'033	-6'652	-6'888	-7'939	-7'939	-6'888	-6'840	-6'573	-6'312	-78'609
Cleaning third party	-97'796	-92'391	-102'304	-103'362	-108'330	-109'204	-117'346	-117'346	-109'204	-108'330	-103'362	-105'317	-1'274'292
Trash	-3'264	-3'312	-3'391	-3'646	-4'033	-4'180	-4'837	-4'837	-4'180	-4'150	-3'983	-3'820	-47'631
Office, electric, misc supplies	-4'106	-4'125	-4'156	-4'258	-4'413	-4'472	-4'735	-4'735	-4'472	-4'460	-4'393	-4'328	-52'652
Operation	-134'643	-129'574	-140'042	-142'883	-150'558	-152'462	-165'203	-165'203	-152'462	-151'382	-145'242	-146'055	-1'775'708
Advertising, Promotion, PR	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-30'000	-360'000
Credit card commission	-10'503	-10'443	-11'472	-12'766	-11'844	-11'320	-11'898	-12'423	-11'619	-12'409	-12'123	-11'541	-140'363
Commission travel agency	-14'588	-14'505	-15'934	-17'731	-16'451	-15'722	-16'525	-17'255	-16'137	-17'235	-16'838	-16'029	-194'946
Advertising, Sales	-55'091	-54'948	-57'406	-60'497	-58'295	-57'042	-58'422	-59'678	-57'755	-59'644	-58'962	-57'570	-695'311
Entertainment, Radio TV	-5'422	-5'499	-5'626	-6'033	-6'652	-6'888	-7'939	-7'939	-6'888	-6'840	-6'573	-6'312	-78'609
Accounting	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-6'000	-72'000
Consulting, Legal consulting	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-42'000
Telephone	-6'528	-6'524	-6'782	-7'292	-8'065	-8'359	-9'673	-9'673	-8'359	-8'301	-7'966	-7'640	-95'262
Administration	-21'459	-21'623	-21'908	-22'825	-24'217	-24'747	-27'112	-27'112	-24'747	-24'641	-24'038	-23'451	-287'871
Flowers, decoration	-1'459	-1'450	-1'593	-1'773	-1'645	-1'572	-1'652	-1'725	-1'614	-1'724	-1'684	-1'603	-19'495
Newspapers, Magazines	-292	-290	-319	-355	-329	-314	-330	-345	-323	-345	-337	-321	-3'899
Security	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-3'500	-42'000
Debtor write-offs	-4'085	-4'061	-4'462	-4'965	-4'606	-4'402	-4'627	-4'831	-4'518	-4'826	-4'715	-4'488	-54'586
Other expenses	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-2'500	-30'000
Misc. operations	-17'835	-17'802	-12'374	-12'302	-12'590	-12'289	-12'610	-12'902	-12'465	-12'994	-12'735	-12'412	-149'979
Operation profit b4 Mgt Fee	240'093	241'797	285'115	349'211	291'321	261'164	275'917	303'570	276'887	319'700	311'546	280'808	3'437'129
Repair and maintenance	-10'503	-10'443	-11'472	-12'766	-11'844	-11'320	-11'898	-12'423	-11'619	-12'409	-12'123	-11'541	-140'363
Gross Operating Profit	229'590	231'353	273'643	336'444	279'477	249'844	264'019	291'147	265'268	307'291	299'423	269'267	3'296'766
Mortgage interests	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-57'600	-691'200
Operating Cash Flow	171'990	173'753	216'043	278'844	221'877	192'244	206'419	233'547	207'668	249'691	241'823	211'667	2'605'566
Depreciations	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-120'000	-1'440'000
Profit/Loss before Tax	51'990	53'753	96'043	158'844	101'877	72'244	86'419	113'547	87'668	129'691	121'823	91'667	1'165'566

Exhibit 7 Cost Breakdown in Variable Costs and Fixed Costs

The variable costs and non-lodging revenue are split into three parts:

- Variable costs per room (for simplification, the variable costs per room and the variable costs per guest are not separated)
- Variable costs as a percentage of lodging revenue (not total revenue)
- Fixed costs

GOLDEN ARCH Rümlang	per Room	%Revenue	Fix per month
Conference rooms CHF	SFr. 1.15		
Minibar CHF	SFr. 2.25		
Phone CHF	SFr. 1.80		
Parking CHF	SFr. 3.76		
Pay TV/Internet CHF	SFr. 3.01		
Food & Beverage	SFr. -0.63		
Direct costs third party lodging + misc			SFr. -2'000
Salaries			SFr. -94'788
Social Security			SFr. -11'299
HR Costs			SFr. -9'995
Insurance and Licence			SFr. -8'000
Electricity, Gas	SFr. -3.01		SFr. -5'000
Water	SFr. -1.20		SFr. -1'000
Cleaning third party	SFr. -23.00		
Trash	SFr. -0.75		SFr. -500
Office, electric, misc supplies	SFr. -0.30		SFr. -3'000
Advertising, Promotion, PR			SFr. -30'000
Credit card commission		-1.97%	
Commission travel agency		-2.73%	
Entertainment, Radio TV	SFr. -1.20		SFr. -1'000
Accounting			SFr. -6'000
Consulting, Legal consulting			SFr. -3'500
Telephone	SFr. -1.50		SFr. -1'000
Flowers, decoration		-0.27%	
Newspapers, Magazines		-0.05%	
Security			SFr. -3'500
Debtor write-offs		-0.77%	
Other expenses			SFr. -2'500
Repair and maintenance	SFr. -2.53		
Mortgage interests			SFr. -57'600
Depreciations			SFr. -120'000
Total	SFr. -22.16	-5.79%	SFr. -360'681

Exhibit 8: Investment and Yearly Building Costs

Investment	SFr.	32'000'000	
Hotel	90% SFr.	28'800'000	(10% Restaurant)
Mortgage	80% SFr.	23'040'000	(20% Equity)
Interest	3% SFr.	691'200	(Mortgage interest per year)
Depreciation	5% SFr.	1'440'000	(based on the hotel investment)