The Patel Motel - A Tale of Entrepreneurship

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The Early Days

Harishbhai Patel[1] landed in America in the city of Houston in 1986, but his and his wife Ilaben Patel's journey in the states truly started in Boston, where in 1986 they went in search of jobs.

In Boston, Harishbhai and Ilaben worked multiple jobs simultaneously, with an average pay of $3.50/hour. They worked multiple shifts daily. Ilaben worked back-to-back shifts at TJ Maxx and BJ's Wholesale Club. Harishbhai worked at McDonald's, cleaning the store in the morning from 8 am to 12 am. He then cleaned dishes in a restaurant from 12 pm to 4 pm, and then did cleaning and stocking in a grocery store from 4 pm till closing.

In the beginning of 1990, the couple initiated a plan to buy a working Dunkin' Donuts (DD) franchise in Houston. By this time, they had saved around $5000 from their daily grind. The owner of the franchise (also a Patel) wanted to sell because of his personal issues with Dunkin's policies and agreed to provide a personal loan of $50k to the couple. Harishbhai and Ilaben sent a major part of their savings to the DD's owner, packed all their belongings in their 1980 Ford Granada, and started for Houston. As luck would have it, their car broke down in Maryland. With great difficulty, they had to convince a motel owner to keep their stuff. They then boarded a bus to Houston.

In Houston, the family had no place to call home. In the beginning, they stayed with their relatives. Their DD store was about 25 miles from where they were staying. The doughnuts business is tough – it involves supplying doughnuts in the morning to multiple eateries and offices daily. Bakers work during the night shift and deliveries start at 4 am. The employees at the DD included one driver, two bakers, one front-desk employee, and two servers. Within a couple of days of starting the business, the morning shift driver as well as one of the afternoon shift front-desk employees quit their jobs. Harishbhai explained "...whenever a new owner comes in, older employees would like to get better deals. Quitting temporarily is standard". Harishbhai didn't know the city, but he started making deliveries, getting up at 2:30 am to reach the store in time.

[1] This case was written by Prof Anupam Agrawal at Texas A&M University and Anushka Agrawal, undergraduate student at Rice University, for academic discourse in a classroom. The case does not depict effective or ineffective handling of any business situation. email: anupam@tamu.edu.

Ilaben started manning the 2 pm to 10 pm shift, in addition to overseeing the store and suppliers. There were many issues in deliveries and service. Customers were angry, and complained often.

Slowly, things came under control. The older employees returned, deliveries were streamlined, and the business started making some money. After two and a half years of hard work, with no outings or holidays, Harishbhai and Ilaben paid off their original loan and then sold off the DD business for $75K to a willing buyer. They then invested the proceeds from the DD franchise sale in another business – a local Deli, which specialized in making gourmet sandwiches. The Deli owner, unfortunately, cooked up the finances, and presented a rosy picture of the business. Harishbhai still says, "Selling the profitable DD for $75K and buying the not-so-great deli at $150K were both wrong decisions. Hard work is an essential ingredient of success, but margins matter". Doughnuts and coffee, both are made from scratch, and the cost of goods sold is less - 25% net margins are the norm in a DD franchise. Margins in the deli/sandwich business - where bread and other ingredients are bought as ready-mades - are much lower than those in the DD kind of business. A local, non-franchise deli business also attracts less customers compared to a branded franchise. The couple sold the deli business in 1995 at a loss. At this point in time, their savings were all gone, and they literally had no money, except for a house.

Harishbhai and Ilaben once again started doing odd jobs at hourly rates. Then in 1996, three relatives of Harishbhai and their families came to Houston. Together, the four families started a PC motherboards manufacturing unit – interestingly, the families had no experience in manufacturing. A known businessman in Detroit, who ran a bigger, older PC motherboards manufacturing unit there, invested with a majority stake in the business. The Houston facility acted as additional capacity. The four husbands worked day and night in the factory, with only one additional employee. Meanwhile, Ilaben and the three other spouses continued to work on odd jobs. Unfortunately, the manufacturing business never took off. The majority partner started booking losses of the parent unit on the new unit. The situation got so bad that paychecks of all the spouses were going into the firm. This went on for about two and a half years. The business had to be shut down. It was 1999, and the couple, once again, had no money. Relationships with family and friends soured.

Harishbhai and Ilaben slowly started again. Harishbhai did odd jobs at hourly rates, including working the night shift. Ilaben started making food items at home, waking up at 4 am in the morning. Harishbhai would then deliver her food items after he was back from his night shift. Ilaben also started providing pickup and drop-off services for kids (many times she would combine these rides with picking and dropping off her kids).

Starting the Motel Business

The urge to get into a business remained strong. In July 2003, Harishbhai made a trip to Champaign, IL, where a friend who was running a Dairy Queen franchisee offered to look for businesses.

The two friends looked around for many businesses, but nothing clicked. As luck would have it, Harishbhai offered to help a lady at a gas station. The lady was having trouble with her credit card. The two started talking and the lady told him to contact her friend who was looking to sell the local motel (Super 8 of Champaign). The call to the Gujarati owner (also a Patel) turned out to be the opportunity that Harishbhai was seeking. The owner agreed to sell after a few conversations, and also agreed to provide a good faith loan. The deal was finalized in September 2003.

Harishbhai started working alone in Champaign, living in one room in the motel. Ilaben moved to Champaign in December. It was the middle of the school year, and one of their kids was in high school while the other was in elementary school. Both kids had to start afresh in Champaign, picking up new friends and teachers mid-year. It took some time for their Houston house to sell, and the family did not have any place to stay in Champaign. So Ilaben also started living in the motel, along with the kids.

There were four employees: "John" who used to manage the night shift, a Gujarati couple who managed the housekeeping and backup for front-desk, and a front desk employee in the day shift. Harishbhai manned the morning shift along with managing the breakfast (which started at 6 am).

The "housekeeping couple" is a fairly common theme in Patel motels – a recently immigrated Gujarati family would take up such a position, wherein they would not have to spend on housing, and would not need a car for going to work. After a few years, the couple would save enough to invest in a new business. For the motel owners, having a familiar couple managing the housekeeping is reassuring. Costs are low, reliability is high, and non-stop work is guaranteed. Is this legal? Harishbhai says "Yes, hard work is legal. Such couples are legal immigrants into the US. But I agree, it is not for everyone".

When Ilaben came, she took over the managing of the front desk. "Many times, I worked from 6 in the morning to 10 in the night. We had four rooms to ourselves. Two connecting rooms for us, one room for the housekeeping couple and one room for a kitchen. We would provide the grocery and the other couple would cook, and we all would eat together". Ilaben's statement provides a clue as to how the setup works in the long-term – there is a strong, almost family-like bond, between motel owners and their housekeeping employees.

The above setup is also instructive to see how a typical Patel-led motel works. Typically, it is a mom-and-pop operation. When a family purchases a motel, they may live there for some time. Even if they do not, many family members would do stuff ranging from cleaning rooms to checking in guests. Usually, a full-time housekeeping couple would be employed. The biggest costs of running a motel is labor. The Patel lean operating model helps keep costs down, and profits go towards acquiring new businesses.

This is not quite as easy as it sounds. There are no holidays, weekends are busier, and outings are minimal. Ilaben reminisces, "It is not a good idea to raise kids in a motel. If given a chance, I would never do it again. We had not planned for a long-term stay in the motel, but it took a lot of time for us to finalize our home in Champaign". The Patels moved out of the motel in March 2007. Very interestingly, the "housekeeping couple" also moved out of the motel, into the Patel's home and lived with them for three years! In 2009, the housekeeping couple moved to Dallas. A new couple was inducted into the motel service (the new couple had their own house, so they did not stay at the motel or with the Patels).

After the Patels moved to their own house, the daily schedule was somewhat more predictable. Harishbhai would go in the morning to manage the breakfast and relieve John. Ilaben would go to the motel at around 8 am along with the housekeeping couple, after dropping off kids to their schools. She would return in the afternoon, pick up kids, and manage the household, often going back to the motel in the evening.

Running the Motel

The operational cost of running a motel involves five main heads: labor, utilities, consumables for cleaning and laundry, and renovations. The motel had 60 rooms. With 4 rooms to themselves, and 1 room in a buffer or repair state, the motel usually had 55 "rentable" rooms the year round. The core measure of motel revenue is the average daily rate (ADR), which is the average daily revenue received per rentable and occupied room (i.e., revenue earned / number of rooms sold). Champaign is a college town, and the occupancy is seasonal. Football and graduation weekends would pack the motel, but average occupancy hovered around 70%. Between 2004 and 2008, the ADR was about $69, and after that it slumped to $52 till 2013. From 2013 the ADR increased again and reached $65 in 2016.

On a daily basis, there were six people working at the motel – John in the night shift, the housekeeping couple, Ilaben for the morning shift and backup at the front desk, a regular worker for the afternoon shift (2-10 pm), and Harishbhai, who now concentrated on supplies, maintenance and upkeep. During the day, Ilaben would do the laundry. Harishbhai learned plumbing ("too costly to call a plumber") and electricity repairs, and also did painting and gardening.

When Harishbhai took over the motel, it was running at a loss. Average yearly revenue was around $400K. The motel needed lots of renovations. "Around $60k-$70K per year goes into renovating a motel. We started renovating the bathrooms first. The next year it was the carpets. Then the furniture. Followed by the mattresses and the roof." Since the hotel was a franchise, the headquarters would have their own update lists, which usually requires motel owners to change things such as comforters and headboards, among others.

There are several fixed costs. Mortgage and insurance costs could run up to 20% of yearly revenues. The franchise requirements for running a motel cover many aspects. There are corporate visits and franchise owners need to attend a six-monthly meetup. At the meetups, motel owners compare notes, revisit market standards, and discuss how to manage customer complaints better. Franchise fee for the motel owner is substantial, average franchise fees range from 12%-15% of yearly revenue.

Managing customer complaints is a big part of managing a motel. Complaints can range from problems in the bath to general cleanliness. “Hair is the enemy” says Harishbhai. It is important to log customer complaints, and also log customer responses to the question asked at the checkout “Was everything ok with your stay?” Running a motel is a 24-hour business, and customers come and go at all times.

An interesting aspect is related to managing customer demand during busy periods for optimal revenue management. Harishbhai says "Motel has a fixed capacity. The most optimal thing for us to do every day is to fill the complete capacity. I cannot make money from a room if it is not let out for any night. That particular night is gone for me, forever". Demand managing can involve reserving certain number of rooms at higher prices, and overbooking.

Turning Profitable and Exit

With continuous hard work, and keeping costs in check, Harishbhai and Ilaben nursed the ailing motel business back to health. The breakeven happened in 2007 (see exhibit A), and from then on, the profit stream started. The slowdown in 2008 dampened the journey, but the duo kept up their spirits and ran the business carefully.

By 2016, the duo had paid off the mortgage on the motel. They sold the motel business for $2.2 million and opted for a retired life. The new owner (also a Patel) did not have all the money for buying the business, and just as they had started their motel business, Harishbhai and Ilaben provided a good faith loan to the new owner (The interest on that loan is now a significant part of their monthly income!)

ASSETS

CURRENT ASSETS		
Chase		(10,367.76)
Illini Bank		21,980.91
Illini Bank(16)		(2,474.60)
Due From Stockholders		2,500.00
Room Furniture Advance		30,000.00
Total Current Assets	$	41,638.55
PROPERTY AND EQUIPMENT		
Intangible Assets		133,222.78
Property & Equipment		1,419,798.36
Total Property and Equipment	$	1,553,021.14
TOTAL ASSETS	$	1,594,659.69

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
City of Champaign Payables	$	-1,364.00
Hotel Operators' Occupation Tax		-1,506.00
Garnishment Payable		898.99
Payroll Liabilities		12,234.94
Salaries & Wages Payable		224.54
Total Current Liabilities	$	10,488.47
LONG-TERM LIABILITIES		
Loan from Ila Patel		15,000.00
Note Payable		1,301,114.09
Total Long-Term Liabilities	$	1,316,114.09
Total Liabilities	$	1,326,602.56
MEMBERS' EQUITY		
Additional Paid in Capital	$	312,570.53
Retained Earnings		(46,732.09)
Stock		1,000.00
Net Income (Loss)	$	1,218.69
Total Members' Equity	$	268,057.13
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	1,594,659.69

Statement of Receipts and Disbursements-Cash Basis

	12 Months Ended December 31, 2007	%
Revenue		
Service Income	782,563.64	110.29%
Sales Taxes	(73,031.78)	(10.29%)
Total Revenue	$ 709,531.86	100.00%
Operating Expenses		
Advertising	$ 4,853.00	0.68%
Amortization Expense	11,667.00	1.64%
Automobile Expense	2,662.89	0.38%
Bank Service Charges	45.02	0.01%
Breakfast	22,555.41	3.18%
Commissions	144.00	0.02%
Contract Services	7,564.30	1.07%
Contributions	222.00	0.03%
Credit Card Charges	12,735.79	1.79%
Depreciation Expense	61,693.00	8.69%
Dues and Subscriptions	622.44	0.09%
Equipment Rental	300.00	0.04%
Filing Fees	100.00	0.01%
Insurance	20,347.00	2.87%
Interest Expense	90,920.87	12.81%
Lawn Care	2,670.00	0.38%
Payroll Expenses	16,381.92	2.31%
Postage and Delivery	190.00	0.03%
Professional Fees	2,850.00	0.40%
Refund	140.68	0.02%
Repairs & Maintenance	27,729.55	3.91%
Royalty & Commission	81,010.11	11.42%
Rubbish & Pest control	520.00	0.07%
Salaries & Wages	214,576.78	30.24%
Security	979.50	0.14%
Signage	690.00	0.10%
Software Maintenance	1,470.68	0.21%
Supplies	17,343.54	2.44%
Taxes	51,264.56	7.23%
Telephone	7,223.48	1.02%
Travel & Ent	888.00	0.13%
Utilities	47,272.10	6.66%
Total Operating Expenses	$ 709,633.62	100.01%
Operating Income (Loss)	$ (101.76)	(0.01%)
Other Income		
Interest Income	$ 1,320.45	0.19%
Total Other Income	$ 1,320.45	0.19%
Income (Loss) Before Income Taxes	$ 1,218.69	0.17%
Net Income (Loss)	$ 1,218.69	0.17%