

Palapa Politics

by SHERYL E. KIMES

A 350-room Caribbean hotel has extremely high demand for its 92 beachfront palapas. It can offer these palapas to guests on a first-come, first-served basis or it can charge the guests a daily rental fee. The question becomes one of the trade-off between revenue maximization and customer satisfaction.

Keywords: Palapa; tourists; Caribbean

Maria Martinez, the director of recreation at the Caribbean Palms Resort, shook her head as she hung up the phone after yet another call from a guest who was upset about not being able to rent a beachfront *palapa* (see Exhibit 1). The hotel provided the palapas (small, thatch-roofed, open-air huts) as a service to its guests, but it seemed that the palapas caused more problems than they were worth. It was midmorning, and Maria decided to walk down to the towel hut next to the pool to try to clear her head.

As she approached the towel hut, she noticed a long line of people. Normally, the towel hut was responsible just for distributing and collecting beach towels, but recently its staff had also assumed responsibility for palapa reservations. A number of the customers in line were clearly agitated, but she noticed that the towel hut personnel were quietly and patiently working their way through the line. Palapas had a long history at the Caribbean Palm Resort, and no matter how she organized it, there always seemed to be customer com-

plaints about the palapas. She shook her head again and wondered what she should do.

The Island

The Caribbean Palms Resort is located on an island in the southern Caribbean (see Exhibit 2). The island is a popular vacation destination and attracts more than five hundred thousand tourists per year. The majority of tourists come from the United States and Canada, but the island also attracts many Northern European visitors and a fair number of tourists from South America.

The island is famous for its reliably sunny, warm weather, its gentle trade winds, and its beaches. Most of the hotels have good beach access, offer towels and chairs to guests, have food and beverage facilities, and offer various water sports activities. Most also provide palapas for guest use.

The palapas are in high demand because they provide some privacy and also provide protection from the strong Caribbean sun. Most hotels offer the palapas on a first-come, first-served basis, and many guests wake up early (some even before 5:00 a.m.) to claim a palapa for the day. The claiming process is usually informal, with many guests simply leaving their towels or other personal items on the palapa chairs and tables to indicate that the palapa is taken. At times, this has led to problems because other guests have removed the original customer's belongings and claimed the palapa as their own. Not surprisingly, this

**Exhibit 1:
Palapa**

has led to conflict, and in some cases, security personnel have had to intervene to settle disagreements.

The Caribbean Palms Resort

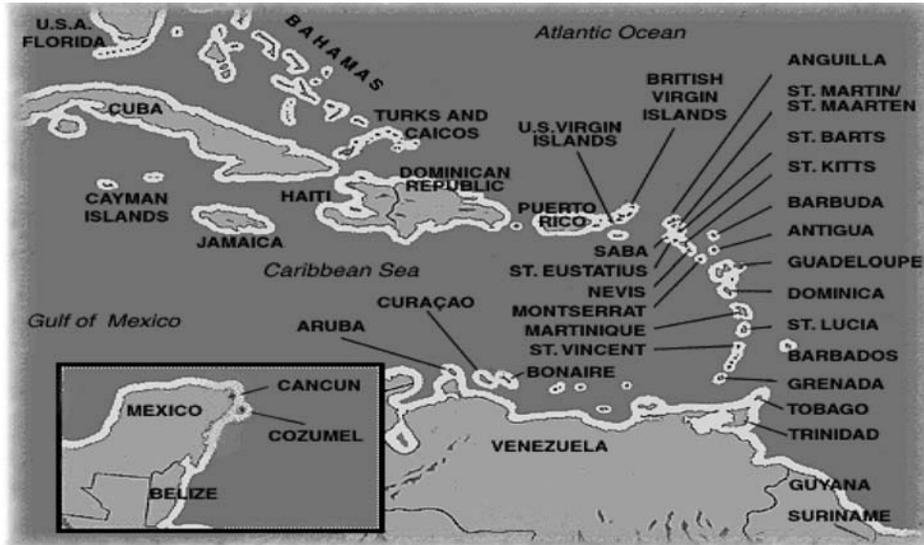
Since it opened in 1990, this 350-room property has been considered one of the most successful hotels on the island. Located directly on the beach, the resort offers a full-service hotel in a beachfront setting. A variety of activities, including golf, wind surfing, and scuba diving, are located within a short distance of the resort.

Most customers at the hotel are on vacation (the average length of stay is about one week), but the resort also

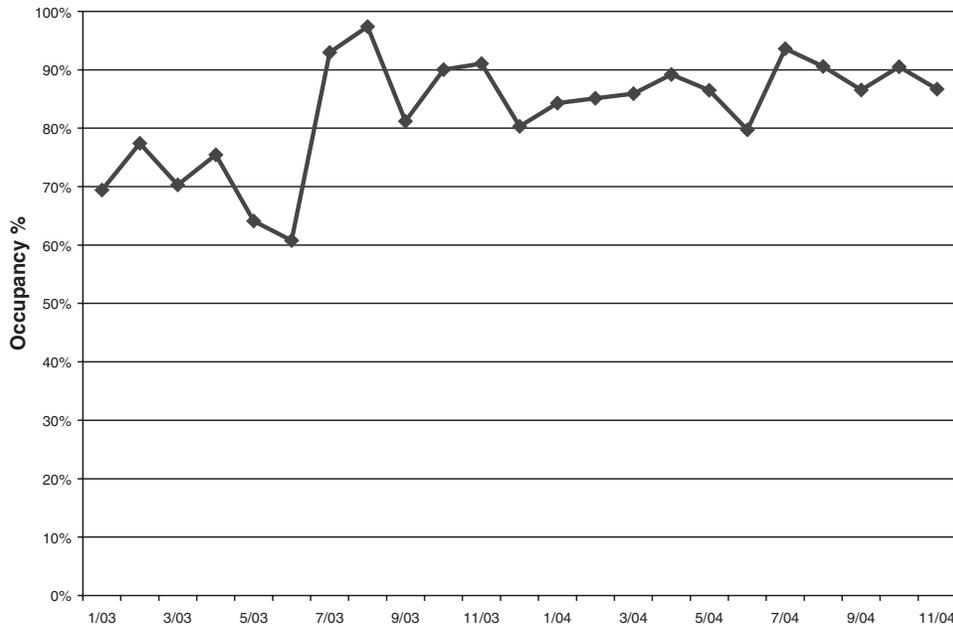
attracts corporate groups and meetings. The hotel has been fairly successful and averaged about 85 percent occupancy in 2004, with an average daily room rate of more than \$250 (please see Exhibit 3 for an overview of the hotel's occupancy). Like other hotels on the island, the resort provides free lounge chairs and towels to all guests and offers palapas, a waterfront restaurant and bar, and water-sports concessions.

The hotel has ninety-two palapas divided into six rows (see Exhibit 4 for the beach layout). Several years ago, the hotel's managers decided that since the palapas were in such high demand and the hotel was experiencing a fair amount of

**Exhibit 2:
The Caribbean**



**Exhibit 3:
Caribbean Palms Occupancy, 2003-2004**



customer conflict, the resort would charge for the use of the palapas.

Palapa Pricing Policies

Because the palapas nearest the ocean are the most popular (Exhibit 4), the hotel decided to charge \$100 per day for the use of a palapa in the first two rows. Guests could make their palapa reservation when making their room reservations, and the hotel had no problem with renting the \$100 palapas during the high season (normally mid-December to mid-April). The \$100 rental fee included not only the use of the palapa but also a fruit basket and six bottles of water. The other four rows of palapas were available at no charge, still on a first-come, first-served basis.

The rental pricing strategy worked reasonably well during high season, but the resort experienced problems. The amenity package seemed like a good idea, but many people were quite particular about when the fruit basket was delivered and often requested that their water be delivered over a period of time, rather than all at once. With those details, the beach staff felt that the additional service required was not worth the additional revenue. Moreover, guests who reserved the beachfront palapas usually reserved them for their entire stay at the hotel. The result was that although the hotel maintained a waiting list for the beachfront palapas, many customers were never able to get an oceanfront palapa. These guests were unhappy even though they could use a palapa in one of the other four rows for free. Some people still wanted an oceanfront palapa. During the shoulder season and off-season, it was more difficult to rent the beachfront palapas for the \$100 rental fee, so the hotel decided to change the pricing structure.

The following year, the hotel decided to charge a rental fee for all of its palapas.

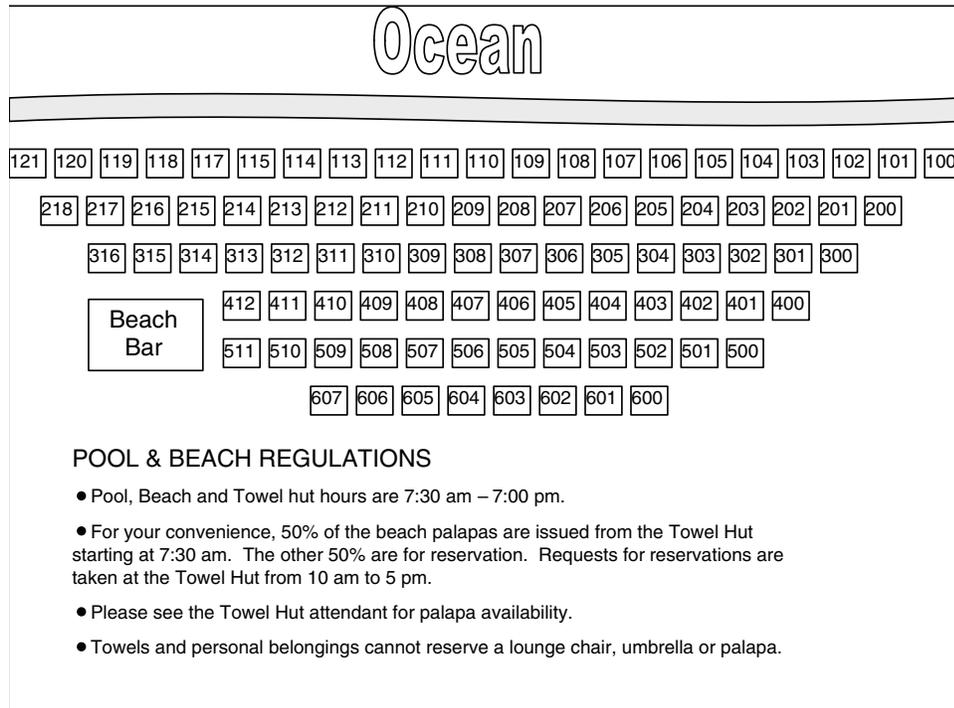
The first two rows were rented for \$50 per day, and palapas in the other four rows were rented for \$35 per day. As before, customers could make their palapa reservation when they made their room reservations, and the hotel had little problem in renting the palapas during the high season. During the low season, guests would pay the rental fee, but they often complained about the fee either during or after their stay.

Because of the customer complaints, the hotel dropped its rental fees to \$35 for the first two rows of palapas and \$15 for the remaining four rows. Guests were still able to make their palapa reservation when they made their room reservations, and the occupancy rate of the palapas was fairly high.

The management considered charging different prices based on time of year but felt that this would be too confusing for the guests and staff. Managers were particularly concerned about how they would explain the palapa pricing policy to someone who wanted to rent a palapa for a period that had two different price levels. For example, if guests arrived on December 8 and were staying for two weeks, they might be charged one rate for the first week of their stay (during the shoulder season) but charged a higher rate for the second week of their stay (during the high season). In addition, many guests were still unable to get a palapa, despite having been put on the waiting list. Of course, these guests could still use the beach and chairs, but they were unable to reserve a palapa.

In January 2005, the hotel again decided to change its palapa rental policies. One-half of the palapas in each row were available for reservations. Palapas in the first two rows were rented for \$15 per day and all others were rented for \$10 per day. Customers could no longer make

Exhibit 4: Beach Hut Layout



their palapa reservation when making their room reservation but were required to be at the hotel before making the palapa reservation. The towel hut began taking reservations each day for the following day at 10:00 a.m. The maximum length of any palapa rental was three days, so that all guests had an opportunity to use a palapa while staying at the hotel. The line for palapa reservations starting forming at around 9:00 each morning, as guests tried to ensure that they could get their desired palapas (please see Exhibit 5 for the occupancy rates of the palapas).

The remaining 50 percent of the palapas were free of charge and were made available on a first-come, first-served basis each morning at 7:30. Guests still had to go to the towel hut to reserve a

palapa. During busy periods, lines would start forming as early as 6:00 a.m. as guests tried to make sure they could get a palapa.

Once guests had rented a palapa, they were given an “occupied” card with the palapa number on it and directed to the beach staff, who could assist them with finding their palapa, getting chairs, and placing their card in a slot on the palapa. If free palapas were left vacant for more than two hours, they became available to other guests. Not surprisingly, this sometimes caused problems because the original occupants might leave for a few hours for a meal or other activities and then return to find “their” palapa occupied by another guest.

Exhibit 5:

Palapa Occupancy Rates (in percentages)

<i>Occupancy</i>	<i>Reservations Made in Advance</i>
99.8	49.3
97.9	50.5
99.2	46.8
97.4	44.3
90.5	36.9
85.1	36.3

Some customers were upset when they could not reserve the palapa of their choice. Also, other guests who did not know about the rental policy would unwittingly take someone else's palapa. In these cases, beach staff would normally approach the "intruders," explain the rental policy, and assist them with moving to another spot. Other times, guests sitting at a palapa would get upset because other guests were sitting too close to them. As mentioned before, guests were not required to use a palapa, and many people just placed the free beach chairs on any beach space that was available.

Also, some guests complained about having to wait in line to make a palapa res-

ervation and felt that it wasted their valuable vacation time. The towel hut attendants not only handled palapa reservations but also distributed towels. Guests who just needed beach towels were sometimes forced to wait in the line with the palapa renters.

The change in responsibilities had also affected the towel hut personnel. Before 2005, they had been responsible only for distributing and collecting towels. Now, they also had to explain the palapa reservation policy, make palapa reservations, and handle the customer complaints from situations like those just outlined.

How Do You Solve a Problem for Maria?

When Maria returned to her office, her assistant handed her a stack of phone messages from customers complaining about the palapa rental policies. Clearly the new palapa policy was not working either, but what should she do? Should she just return to the first-come, first-served policy of the other hotels? Should she charge more? She slowly picked up the phone and began returning the messages.



Sheryl E. Kimes, Ph.D. is a professor and interim dean at the Cornell University School of Hotel Administration (sek6@cornell.edu).