NEWLEY HOTELS CASE

Newley Hotels was created 20 years ago to serve the upper end luxury market for travelers. Their goal is to be in the second tier of luxury hotels but to offer lower prices than the first tier and thus provide an excellent "value" for customers. About 70% of the customers are business people and 30% are vacationers and others on personal trips. The company serves mainly the western half of the United States but is expanding to become nationwide. Annual revenues are about $800 million and the system employs about 9,000 employees - fulltime and parttime. Two years ago, the CEO appointed a Director of Quality Management who reports directly to the CEO.

Based on market research, customers view Newley hotels as providing highly satisfactory services, although there are some continuing complaints about reservation services and housekeeping. The company received a site visit for a state quality award, but did not achieve the award.

Currently, the emphasis in the quality effort is on the purchase of goods and services from outside suppliers. Major purchases include facilities, furniture, fixtures, equipment, food, and beverages. Minor purchases include operating supplies such as toilet items, uniforms, paper products, and cleaning supplies. Outsourcing is used for some services such as preventive maintenance, landscaping, and pest control. Suppliers are selected on their ability to meet requirements on time. knowledge of how their products are used by the hotel, and cost.

Evaluation of potential suppliers are made through visits to supplier facilities, review of data from suppliers, and interviewing other customers of a supplier. Although upper management emphasizes the importance of partnership relationships with suppliers, many Newley suppliers believe that the relationship is more adversarial due to Newley using threats of switching suppliers to obtain a lower purchase price. Multiple suppliers are used but a trend is developing toward single source suppliers. Control of supplier quality is mainly accomplished through receiving inspection on a spot check basis. About 10% of purchased items are rejected.

The CEO of Newley plans to outsource several additional functions - the call center reservation service, housekeeping, and information technology. She believes that this will reduce complaints and also reduce costs.

The CEO has asked the Quality Director and the Purchasing Director to (1) recommend changes in the approach to supplier quality and (2) present ideas about outsourcing the three functions. How should the two Directors proceed?