

University of Wales
Trinity Saint David

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LEVEL 5

Management Accounting
Cost-cutting strategies for Harriot Hotel

ASSESSMENT 1

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Introduction

As literature reveals, Management Accounting is concerned with gathering and analysing monetary and other data, then communicating this information to those who are implementing business decisions (Atrill, et.al, 2018, p. 16).

In other words, Management Accounting is concerned with the planning, coordinating, and control of funds. It involves such activities as budgeting, costing, investment appraisal, and the management of cash flow and general contribution to strategic decision making.

Management Accounting plays a key role in the wider action of management control. It is mainly useful as a control instrument for three reasons.

Firstly, the information delivered offers management one of the few handful methods strategies for measuring the effect the impact of decisions and the organisation's operations. Secondly, management accounting incorporates the data from all the operations of the business and empowers management to view operations as an entire unit.

Lastly, it manages the control of finances that is vital to a company's survival (Needle, 2010, p. 517).

Research has found that a strong connection exists between great management, cost accounting practices, and financial fulfilment. Fixed cost and variable cost are characterized in terms of cost behaviour in the face of a shift in the volume of activity. While a fixed expense can frequently be an indirect expense and a variable cost can frequently be a direct expense (Atrill and McLaney, 2018, p. 114).

The current COVID-19 crisis has paralysed the worldwide travel industry and provided chances to break, reorientate and rethink (Lew et al., 2020). Besides, will be noted as one of the most challenging times in modern history, described by a high level of uncertainty.

This essay will have a closer look at the management strategies in regard to cost strategies in the hotel industry and the COVID-19 context, and strategies to reduce expenses in the business year of 2021, to decrease projected losses, and to keep up the market-leading position.

Harriot Hotel

Harriot Hotel was established in 1941 by John D. Brockville. Over the years the hotels have grown to be a strong competitor within the global industry with key performance in Europe, Asia, the Americas, and Africa. Their consistent development has been because of a forceful extension system financed by loans from significant global banks. The CEO of Harriot, Jim Trulley has declared during the yearly general meeting, which was held at a virtual conference: “This has been the worst year ever for us as a business”. In this context, crises can exacerbate existing inequalities. The environmental change emergency influences the climate, wellbeing, and prosperity of low-pay countries (Venn, 2019).

The travel industry area may have not been adequately ready for pandemics of such measurements as COVID-19 (Gössling et al., 2020). Also, the high affectability to hazard occasions makes the travel industry especially delicate when pandemics happen (Novelli et al., 2018).

This has been the situation in 2020, as the total number of international tourist arrivals has dropped by 65% between January and June, because of the COVID-19 outbreak (UNWTO, 2020).

Hotels and facilities are viewed as the fundamental areas that transform local epidemic outbreaks into a pandemic and the preliminary point for the import of an imminent worldwide pandemic (Hung et al., 2018).

Within the UK, unessential travel was first discouraged on 16 March 2020, preceding a nationwide lockdown was reported on 23 March 2020. Occupancy in each English area decreased pointedly at the start of the pandemic, with room occupancy in the West Midlands at just 17% of accessible rooms in open accommodation businesses in April 2020, contrasted with 71% the earlier year.

London saw the most vulnerable recovery of room occupancy of any English locale in the summer of 2020, with only 20% of rooms involved in July 2020 contrasted and 90% around the same time in the anterior year. Moreover, this is a notable reversal and suggests that the loss of international tourism has been felt most severely in the capital (Roberts. 2021).

Specific techniques have been aimed travel and hospitality industries to ensure business survival. These include decreased expenses and charges for the travel industry organizations across a few areas; tax relief for domestic airlines; and targeted measures to boost the domestic travel industry after the crisis (Duarte Alonso et al., 2020).

Also, research suggests that hotels are progressively changed to discover approaches to decrease costs without sacrificing quality, great management, and cost bookkeeping practices are related to the positive success of the hotels (Vij, 2012).

Leaders have begun to utilize modern techniques in management accounting, like activity-based costing, the balanced scorecard, six sigma, target costing, benchmarking, and value chain analysis (Vij, 2012).

Because of the tremendous decrease in demand, cost-cutting strategies will be executed in the following regions of the Harriot Hotel namely: employees' wages, advertising cost, interest on loans, housekeeping and cleaning supplies, customer discounts, stationeries used in front desk and restaurants.

Employees' wages are 25 % of the revenue, which is very high. This implies that Harriot hotels spend a quarter of their income on wages which may be controversial throughout an international pandemic. This cost item may contain both fixed and variable components as lower individuals of staff, for example, front desk area and housekeepers may be hourly paid which means variable expenses. Then again, senior individuals from staff who are paid higher might be on fixed-term contracts consequently being sorted as fixed expenses (Vij, 2012).

It would be fitting for Harriot hotels to cut down senior managers by offering them appealing redundancy packages or utilizing the Furlough scheme given at hand by the UK government.

Advertising costs are 12% of the revenue.

This expense item is fixed in nature. This cost decline by utilizing more modern marketing strategies and platforms such as Instagram or Facebook. There is no needed to be eliminated the paid promotion that is working; nonetheless, it can be beneficial to take investigate some fewer expenses alternatives (American Express, 2012). By understanding how those expenses overlap with what clienteles' requirements – empowers businesses to turn their cost-cutting strategy into a growth strategy (Kenton, 2021).

It would be recommendable for the hotel to do more network, increase social media utilization, and lower the traditional marketing advertisements.

Emphasize modernizing the marketing efforts, in a new digitalization era. Another significant factor emphasized by hotel managers in empirical studies is understanding the customer needs (Enz, 2000).

Hotel brands need to utilize an integrated focus across their various touchpoints to engage their customers. A recommendation from current clients is more likely to result in a sale than conventional marketing.

Interest on loans is 17% of the revenue.

This cost item may comprise both fixed and variable elements. Fixed costs may decrease if the bank is willing to ease the interest for a while. Besides, the cost can change in nature and become a variable cost, however, the most beneficial cost in this context of interest loans is the fixed cost.

It would be recommended for Harriet to negotiate an easy interest for the loan plan scheme due to the Covid-19, in a way to the postponement of payments for a certain period to ease the business to recover from the pandemic. As well, a decrease of half of the 17% of this cost will be positive for the hotel.

Housekeeping and cleaning supplies are 8.3% of the revenue. This item is a variable cost in nature and depends on the occupancy of the hotel.

Furthermore, in the Covid-19 context, this expense will increase to follow the Government regulations, precautions, and cleaning warnings and to ensure that the requirements are met, for a good operation of the hotel with no restrictions.

Customer discounts are 13.3% of the revenue. This is a variable cost that can increase or decrease depending on the occupancy of the Harriot hotel. To remain in the leading position in the market.

Concerning hotels, different studies have shown that activity-based costing (ABC) is better than traditional costing approaches. Various examinations have been distributed affirming this assumption (e.g., Raab, 2003; Raab et al., 2005).

Moreover, it would be advisable for Harriot to implementing insurance policies, refunds, or flexible rebooking free of charge to attract the customers, refunds. In times of uncertainty, travellers are searching for ways to make their travel cancellations with minimal losses.

Stationeries used in front desk and restaurants which is 5% of the revenue and is a variable cost in nature. This cost can be diminished by decreasing the stock costs.

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Conclusion

In summary, challenging times come with radical decisions, and this colossal decline in demand is resulting in cost-cutting strategies.

By increase, decrease or eliminate some costs, Harriot hotel confronts challenging times to find ways of reducing costs without sacrificing quality.

Also, turning this cost-cutting strategy into a growth strategy that will positively impact the business in the long term.

My recommendation for each cost item is the following:

Employees' wages - decrease cost,

Advertising cost - decrease cost,

Interest on loans - decrease cost,

Housekeeping and cleaning supplies - increase costs,

Customer discounts - increase/decrease monthly, depending on the availability of the rooms.

Stationeries used in front desk and restaurants - decrease cost.

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