

FINANCIAL MANAGEMENT FOR THE HOTEL INDUSTRY

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Introduction

The assessment at present is subjected to conduct an in-depth analysis as well as comparison of two prominent players within the hospitality industry. These two companies are Singapore-originated and Hong-Kong-headquartered hospitality organisation Shangri-La Hotels and UK's one of the largest hotel chains Travelodge Hotels. Thus, by focusing on these two companies, the objective of the report is to analyse their respective approaches towards financial management, considering different critical areas that has impact of both hotels' financial performance as well as sustainability.

Comprehensive Business Report and Critical Appraisal of Financial Management Strategies and Practices

In context of the present comprehensive business report, the focus would be on critical appraisal of Shangri-La Hotels and Travelodge Hotels' financial management strategies and practices accordingly.

Total Revenue

In context of total revenue generated by the organisations, it is seen that in the FY2023, Shangri-La Hotels have generated 2141.79 Million USD of revenue. On the other hand, Travelodge Hotels has generated total revenue worth 1035.2 Million GBP (shangri-la.com, 2024). As the currencies of the hotels are different, thus, as of present, if Shangri-La Hotels' total revenue is converted from USD to GBP, it would be seen that Shangri-La Hotels has generated total revenue worth 1706.79 Million GBP. Significantly, by comparing both hotels' total revenue for the latest financial year, it is evident that Shangri-La Hotel's revenue margin is higher compared to Travelodge Hotels (travelodge.co.uk, 2024). That means compared to Travelodge Hotels, Shangri-La Hotels has been able to generate higher sales over the years to have higher revenue margin.

Total Revenues (FY2023)

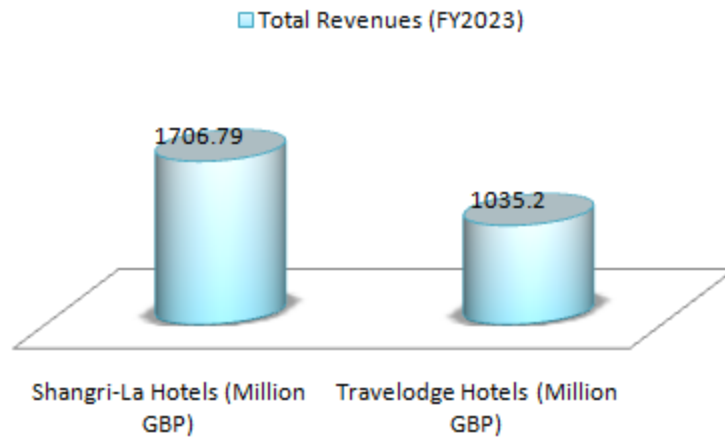


Figure 1: Total Revenues

(Source: Author's Creation)

Significantly, in this context, it can be stated that this declining revenue trend of Travelodge Hotels compared to Shangri-La Hotels and rising growth of Shangri-La Hotels' total revenue valuation has been driven by several factors such as; selling pricing of the services, customer demand over the years and cost factors as well (Ali and Anwar, 2021). Thus, in this context, it is found that average price of a hotel room in Shangri-La Hotel in UK is around 500 GBP to 800 GBP and above per day. On the other hand, Travelodge Hotel's average price of a room per day is around 30 GBP to 35 GBP (travelodge.co.uk, 2024). Therefore, the significant differences in pricing of Shangri-La and Travelodge hotels have exhibited that Shangri-La Hotels follow ***“Premium Pricing”***.



Figure 2: Premium Pricing Strategy

(Source: intelligencenode.com, 2024)

On the other hand, Travelodge Hotels follow **“Budget pricing”** to generate value. Therefore, in the case of Travelodge hotels, room prices are determined by demand. The more demand there is, the more likely it is that the price of a room will increase (Venigandla *et al.* 2023). This pricing strategy has clearly denoted that market is no longer in equilibrium position. This is certainly because; Travelodge Hotel's quantity demand for hotel rooms might have exceeded the quantity supplied. This has led shortage or increase in prices. However, compared to Travelodge, in case of Shangri-La Hotels, it is to be found that the hotel follows Premium Pricing for their luxury hotels specifically being the tallest hotel in Western Europe and first high-rise hotel in London. The perception behind Shangri-La Hotel's pricing is followed by **“Constant Elasticity of Demand”** (Fridstrøm and Østli, 2021). That has denoted that price changes in hotel rooms would not have any changes or effect on quantity demanded. That is certainly because; Shangri-La Hotels focuses on value creation through luxury experience particularly targeted at high-income group of customers.

Thus, by comparing both hotels' pricing in context of economic terms of elasticity, it is to be stated that shortage of quantity demanded for hotel rooms have reduced the sales of Travelodge Hotels in the latest financial year (Albuquerque *et al.* 2022). On the other hand, comparatively, Shangri-La Hotel's emphasis on constant and no effects on quantity demanded of hotel services have increased the sales. Therefore, with lower sales, Travelodge Hotel's revenue growth has declined compared to Shangri-La Hotels, which has higher revenue in the latest financial year.

Market Position

Following the discussion above, it is further to be found that Travelodge Hotels operates across UK, Ireland and Spain in Europe with over 500 hotels. On the other hand, it is found that Shangri-La Hotels operates across 78 destinations around the world with over 100 hotels and resorts (travelodge.co.uk, 2024). Thus, considering the market operations of both the organisations, it is evident that Shangri-La Hotels operate in large-scale on worldwide basis, whereas, Travelodge Hotels operates across selected countries in Europe.

Differentiate Aspects	Shangri-La Hotels	Travelodge Hotels
Market Share	2.71 Billion Dollar or 2.764 Billion GBP	704 Million GBP
Customer Demographics	Male and Female both Business Travellers, Young Professionals and Millennial (Higher income group)	Male and Female both Business Customers, Leisure Guests
Brand Perception	World-class premium service, beautiful architecture and design alongside finest dining with luxurious experience	Convenience of location, comfortable and good value, budget-friendly services

Figure 3: Comparison in Market Positioning

(Source: Author's Creation)

Now, considering the market position factors mentioned above, it is to be seen that Shangri-La Hotels has higher market share compared to Travelodge Hotels at present (Lanzolla and Markides, 2021). This is certainly because during the latest financial year Shangri-La Hotels has gained higher market capitalisation compared to Travelodge Hotels. The major reason behind this could be the wider and diversified market operations and availability of Shangri-La Hotels compared to Travelodge Hotels. As Shangri-La Hotels and its services are available in wider market prospect across different countries in the world, therefore, only selected presence of Travelodge Hotels across Europe has contributed to lower market share (Jaas, 2022). Moreover, if the customer demographics of both hotels are considered then it could be found that the target customer bases are different. Shangri-La Hotels mainly targets individuals from high income group due to which the hotel also follows premium pricing. Whereas, on the other hand, Travelodge Hotels focuses on low-budget services for customers while considering good value and budget pricing for target customers. Thus, the brand perception of customers for Shangri-La Hotels has emphasised upon world-class premium services and luxurious customer experience that is worth the higher price paid by the guests (Kumar *et al.* 2020). On the other hand, Travelodge Hotels gain competitive advantage over Shangri-La Hotels only in context of its convenient location in each city of UK

where brand perception is focused on good value for budget-friendly hotels. However, despite having convenient in location advantage, Travelodge Hotels is observed to have so far limited and restricted market position and existence compared to Shangri-La Hotels. The market development strategy of Shangri-La Hotels has therefore further contributed to its higher market position compared to Travelodge Hotels that has focused on penetrating the market (Yeshitila *et al.* 2020).

Growth Potential

- **Expansion Strategies**

It would be significant to analyse the growth potential of Shangri-La Hotels and Travelodge Hotels in the hospitality industry. In this context, it is found that Shangri-La Hotels has focused on **"Market Development"** as market expansion strategy (Jelonek *et al.* 2022). This growth strategy for expansion of market is highly attributable for the organisation to guide their efforts in such a way that it would grow business and drive market development. Contextually, it is found that in international market, for expansion, Shangri-La Hotels always has been leveraging the scope of localisation to build up strong communication with local target customer base (Banka *et al.* 2022).



Figure 4: Ansoff Matrix

(Source: corporatefinanceinstitute.com, 2024)

For example; in UK market, Shangri-La Hotels has focused on British heritage and culture as well as tradition in architecture and design to be suitable to target customers in UK. In this way,

Shangri-La Hotels has been rapidly expanding its market development scope across the countries. On the other hand, being budget-focused organisation, Travelodge Hotels has always been focusing on low-risk strategy for market expansion. Thus, this hotel has considered low-risk "**Market Penetration**" as expansion strategy (Tien, 2020). This strategy has helped Travelodge Hotels to gain visibility in the UK market with the core focus being on offering good value to target customers. With the affordable rooms in good conditions Travelodge Hotels has targeted to expand its market.

- **Market Opportunities**

Based on the market expansion of both hotels, it is to be said that both Shangri-La Hotels and Travelodge Hotels have different market opportunities (McCallum and Viviers, 2020). For instance, with market development in international market and localisation focus, Shangri-La Hotels has opportunity to generate new customer base into new markets it enters. Therefore, the opportunity of generating more sales revenue would become higher. It would also support long-term growth and generating new leads in the market. On the contrary, Travelodge Hotels with its penetration of market, the opportunity is visible in terms of having lower risk of market failure and continuous flow of maintaining the margin (Lo *et al.* 2020). The budget pricing has created the market opportunity in terms of generating good value and brand equity for Travelodge Hotel's target customers.

- **Potential Barriers to Growth**

However, regardless of core market opportunities, both Shangri-La Hotels and Travelodge Hotels are observed to face barriers to growth. For Shangri-La, potential barriers to growth would emerge in socioeconomic context of the hospitality industry in which the hotel operates (Papadopoulos *et al.* 2021). Shangri-La Hotel's market expansion strategy is based on rapid market development and entering into new market with higher wage economic status. However, the rising geopolitical conflicts across the globe and persisting inflation in global market could become major potential barrier for Shangri-La Hotel's growth (Teck and Karuppiiah, 2020). On the other hand, in case of Travelodge Hotels, it is found that the BREXIT impact and socioeconomic instability in hospitality industry due to global Covid-19 pandemic situation has created staffing crisis within the market. This staffing crisis with lack of employee's recruitment and retention would be major potential

barrier for Travelodge Hotel's market growth and could lead to poor customer services (Prakash *et al.* 2023). Henceforth, considering both hotels' potential barriers, it is to be comprehended that the management of both organisations should address these barriers or else it would adversely affect hotels' financial performance and position in hospitality industry.

Financial Commitment to CSR

Furthermore, in terms of financial commitment of each organisation to CSR initiatives, it is to be seen that Shangri-La Hotels has developed its own ESG vision by aiming at to be best-loved hospitality group (Rabaya and Saleh, 2022). That is also by hosting individuals to colourful joys of life in sustainable manner, delivering hospitality that would empower people, uplifting local communities alongside nurturing the planet. Henceforth, for this purpose of sustainability in context of "***Environmental, Social and Governance (ESG) framework***" for CSR initiative such as; environmental sustainability, social development and employee empowerment, Shangri-La Hotels has taken green loan facilities of 3.9 Billion USD (Huang, 2021). Additionally, charitable donations have been made by Shangri-La of 2.39 Million USD.



Figure 5: ESG Framework

(Source: linkedin.com, 2024)

On the other hand, Travelodge Hotel's CSR initiatives are also reflected through organisation's ESG framework. For financial commitment its is found that for environmental sustainability and responsibility Travelodge Hotel's as of 2022 has invested in Net Zero plan in terms of solar and wind projects with reduction of carbon emissions (travelodge.co.uk, 2024). Additionally, for

employee's betterment and welfare in the society, Travelodge Hotels has financial commitments such as; free financial education and providing pensions.

Thus, by comparing both organisations' financial commitment to its CSR initiatives, it is evident that being profitable organisations, Shangri-La Hotels as well as Travelodge Hotels are being able to distribute some of the profit margin to CSR agendas (shangri-la.com, 2024). These would further ensure both organisations' market goodwill and values in long-run to generate more profit and attracting potential investment.

Recommendation and Conclusion

Following the discussion above, it can be comprehended that both Shangri-La Hotels and Travelodge Hotels have different target customer base, based on which their pricing strategies and service perceptions are also different in the market. However, comparing both organisations in context of hospitality industry, it is to be said that strong and wider market presence of Shangri-La Hotels across the world and limited existence of Travelodge Hotels have contributed to higher revenue margin for Shangri-La and lower revenue trend for Travelodge Hotels.

Now, considering Shangri-La Hotel's opportunity for market growth, management is recommended to incorporate value-based pricing considering its premium and luxurious customer experience to attract more customer growth. On the other hand, to cope with shortage of staffs or employees challenge faced by Travelodge Hotels and its financial performance, management is recommended to outsource the human resources.

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