

BA International Hotel Management

BMIH5007

FINANCIAL MANAGEMENT FOR THE HOTEL INDUSTRY

Student Name: **AURA IOANA PANTIRU**
Student ID: **2123786**

EXECUTIVE SUMMARY

This study is based on the Seaview Resort, financial performance with the year 2020, 2021 and 2022. Considering the financial performance of this organisation profitability ratio analysis and ARR analysis have been conducted concerning the financial information of this organisation. The three-year data on the firm Average Room Rate and Occupancy Rate for the three years 2020, 2021 and 2022 is provided. With the use of these data, it can be seen that the RevPAR of the firm is provided which shows a decrease from the year 2020 to the year 2021. Also furthermore the net profit ratio and the gross profit ratio are calculated to understand the firm better. This helped in the understanding of the main reason for the decline in net profit and a few more aspects of the decline in Seaview Resort's profitability. Lastly, provided comprehensive turnaround strategy for this business will be effective for obtaining most viable financial outcome of this business.

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1. Introduction

Financial management is the effective business function which deals with examining the available financial resources in the method in which greater business success and return on investment (ROI) are gained. Financial management professionals plan, manage and control the entire transaction in the business *[refer to bibliography 1]*. For conducting this report, the Seaview Resort will be considered which is located on the picturesque coastline. This report will shed light on the assessment of the financial performance of the past three years at the Seaview Resort. Also, the key reasons behind the decline in profitability will be demonstrated in this report in an efficient manner.

2. Analyse The Seaview Resort's financial performance over the past three years

Revenue per available room (RevPAR)

Revenue per available room (RevPAR)	2020	2021	2022
Average Room Rate or Average Daily Rate	£ 250.00	£ 230.00	£ 210.00
Occupancy rate	70%	65%	60%
Formula:(ADR*Occupancy rate)	175	149.5	126

Table 1: RevPar calculation for three years

(Source: Self-Created)

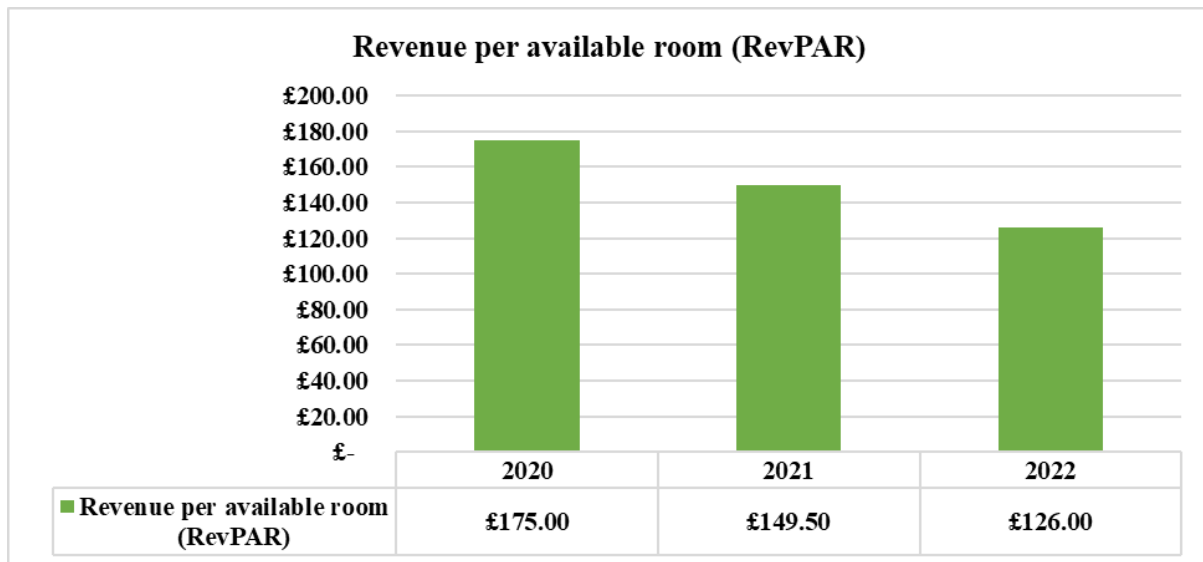


Figure 1: Graphical View of the calculated RevPar

(Source: Self-Created)

Performance measurement consists of the operational, financial and throughout effectiveness of the company. Also, in the views of Nieto-Garcia *et al.* (2019) RevPar is computed by dividing the hotel’s total guest room sales or revenue by the number of available rooms there is an alternative way of calculating the RevPar is multiplying the hotel ADR or ARR “Average Room Rate” or “Average Daily Rate” by the company occupancy rate.

Table 1 provided above showcases the calculation process carried forward for calculating the RevPAR for the Seaview Resort for 3 years 2020-2022. For Figure 1 provided above it can be seen that in the year 2019, the RevPar of the firm is computed to be at 3175, which seems to have mitigated in the year 2021 at £149.50 and further declined to reach the year 2022 at £126. The decrease in RevPar in regards to this firm depicts that the ARR and occupancy rate or both are going on a downward trend and making a loss for the firm.

This sudden dip in the firm RevPar depicts the rise in competition, a requirement to perform proper renovations or a shift within the market demand of the resort industry. This information also highlights the areas of pinpoints and success sectors which might require innovation or attention (Siteminder, 2022).

The ways to improve the firm RevPar are provided below:

- ***Implementing smart revenue management in the firm***

The resort is suggested to sell the rooms to its correct guest, at the correct price and time can be considered as smart revenue management and is a good strategy for raising the RevPAR. It also depicts that the firm is needed not just to set prices as demand and supply depict, but also to adopt proper technology tools that allow for managing smart upselling and occupancy smart pricing (Roomdex, 2023).

- ***Balancing ADR and Occupancy Percentage***

The firm can work a bit with the ADR to get a bit more sales or revenue compared to if they had 100% occupancy at a mitigated rate. Also, the firm can work on its highest yield per fulfilled room stay having features such as room type upselling (Roomdex, 2023).

3. Identify the key reasons behind the decline in profitability

3.1 Profitability Ratio (PR)

Gross Profit Ratio (GPR)

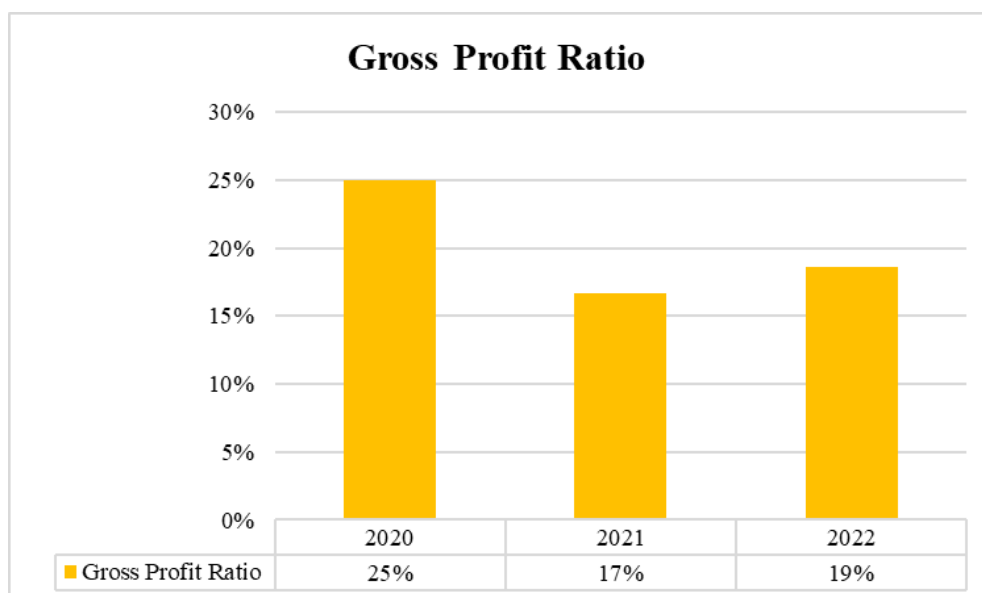


Figure 2: GPR

(Source: Self-Created)

In regards to authors Nariswari and Nugraha, (2020) GPR is measured through the leftover percentage of the company's sales if the firm did pay for its goods. It also assists in measuring the level of efficiency a firm has in making money from the services or products it provides.

In regards to figure 2 provided above it can be seen that the GPR of the firm is calculated for the years 2020, 2021 and year 2022. In the year 2020, it can be seen that the firm GPR is at 25% which went down in the year 2021 to 17%, but it managed to rise in the year 2022 to 19% **[Referred to Appendix 1]**. In the year 2021, the firm GPR did mitigate, which means that the firm is showcasing inefficacies and also that lowering its prices to raise its sales has hurt its financial stability. On the other hand, the rise in the year 2022 shows the firm managed to be a bit more efficient and financially stable in comparison to the year 2021. A few of the reasons why the firm might have got a mitigation in its GPR in the year 2021 can be due to its lower prices, higher level of expenses, mitigation in sales and rise in the cost of goods sold which was vice versa in the year 2022.

Net Profit Ratio (NPR)

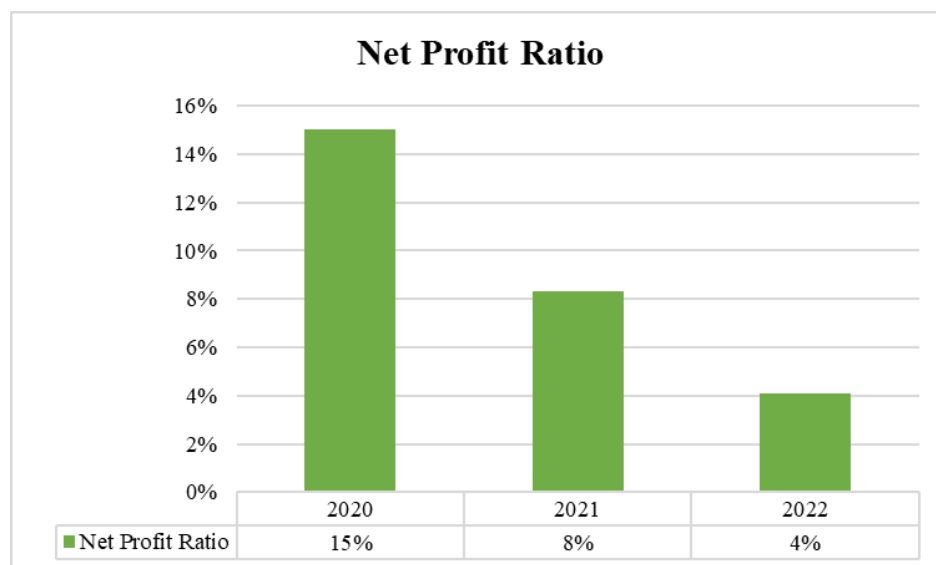


Figure 3: NPR

(Source: Self-Created)

On the other hand, in the views of Choiriyah *et al.* (2020) claim it measures the percentage in terms of each sale that remains after each of the expenses and costs that include tax, and preferred stock are deducted. Other than this a higher ratio indicates that more cash is available in the form so that it can then be invested in the latest opportunities or distributed to its shareholders (BDC, 2022).

From Figure 3 provided above it can be stated that the NPM of the firm for the years 2020, 2021 and 2022 is computed. It can be seen that the firm NPM in the year 2020 was at 15%, which went on decreasing in the year 2021 reaching at 8% and then finally decreasing to the lowest in the year 2022 at 4% [*Referred to Appendix 1*]. A lower NPR indicates that a firm utilises its cost structure in an ineffective way or can be said to have good or poor pricing strategies. Thus, it can be said that the Seaview Resorts has had ineffective management, and higher levels of costs and has also had weak pricing strategies compared to the year 2020.

3.2 Core Reason for the decrease in the firm profitability

As depicted in the analysis provided above it can be seen that the firm GPR indeed rose in the year 2022, but the firm NPR mitigated in the year 2022. A few of the reasons are depicted as follows:

- Loss of core client/customers which provides a significant amount of the firm sales
- Also, the issue with the form of accounts receivable as in the overall downturn within the economy might translate to the customers becoming slow in comparison to the usual in making the payments (Corporatefinanceinstitute, 2022).
- Also, the mitigation of the RevPar is one more core reason for its decrease in profitability.
- Then there can be issues with the delays with the production on a temporary basis mitigating the revenue and sales (Corporatefinanceinstitute, 2022).
- Other than that the firm's net cash flow is at £110000 in the year 2021 (refer to brief), this depicts the firm spending more money in comparison to the amount it is receiving in a given time.
- Company earnings have fallen, as is properly shown in the computation of the NPR. This can lead to the firm having a lower PE ratio and the investors would be interested in investing in the firm which would not have future growth (Nerdwallet, 2022).

4. Develop (if possible) a comprehensive turnaround strategy to revitalise the resort's financial health and restore its reputation as a premier vacation destination or the most viable financial outcomes

The turnaround strategy is the procedure of restructuring and conveying the firm from loss to profitability. It gives the permission to the firm to stabilise the organisational performance by increasing their productivity.

Crisis Stabilisation

Most of the firms are required to go through the turnaround due to the particular crisis and it is highly relevant to the cash flow. To enhance the financial health and its reputation, the management team of the company needs to stabilise finances. Therefore, it can be stated that firms desire turnaround recovery techniques which help to achieve cost efficiencies because they are easy to integrate, need a low amount of capital, as well as their impact almost instantly (Corporatefinanceinstitute, 2023). Therefore, to enhance the financial activity of the firm, the administration team of the Seaview Resort need to eliminate intimidation from debt repayments based on the financial restructuring. Also, the administration team of the company needs to manage their cash flow by offering high discounts for early payments and requesting deposits for special or large orders which will help the company to enhance its liquid assets (Thebusinesssniper, 2023).

New Leadership

Poor leadership can be a major reason that a firm or department declines which has a significant effect on the performance of the business *[refer to bibliography 2]*. Therefore, during the turnaround circumstances, the management team of the Seaview Resort can appoint new chief executives from the outside of the firm which will help to bring innovation and unique ideas to the business enhance its financial health and restore its reputation as a premier vacation.

Stakeholder Management

A lack of clear information and transparency can be the major reason for the loss of morale (Getlucidity, 2023). Therefore, developing effective communication among employees and potential stakeholders will provide the opportunity to make an effective strategic approach which will assist in increasing the profitability of the company (Insolvency, 2023). Based on

this, the hierarchy members of the Seaview Resort will get the opportunity to attract more investors towards the firm which will have future growth. It will help the firm to increase its sales in the future period of time and also improve the net profit ratio as well.

Strategic Focus

To improve its financial health and restore its reputation as a premier vacation, the management team of the company need to make an effective strategic approach which will help to improve the entire business performance in an effective way. As per the views of Steiss (2019), a strategic approach could contribute to the positive growth of the firm by assessing the marketing position of the company. For instance, Harley-Davidson reduced its costs to protect the brand's picture by maintaining supply and demand (Corporatefinanceinstitute, 2023). Therefore, the Seaview Resort can reduce utilities and eliminate labour costs which improves the financial performance of the firm in an effective way.

Organisational Change

To restore the reputation of the company, the administration team of the firm can implement a change management process which will help to reduce the turnover rate of the employees (Idealcs, 2023). Enhancing the financial health of the company, the hierarchy members of the company can renegotiate with their suppliers for the robust deals and it will help to make changes in the business activity as well. As opined by Schulze-Horn *et al.* (2020), with effective negotiation with the suppliers, the management team of the firms can make a change in their payment options which enhances the business performance. Reducing the COGS, lower-priced suppliers and cheaper raw materials helps the company to improve its financial position in the business market (Avenir, 2023). The Seaview Resort can decrease the costs of the goods sold which will enhance the gross profit margin.

Financial Restructuring

To improve the reputation of the firm it needs to reduce its entire costs and provide its robust service at a lower cost which will help to increase the profitability of the company in an efficient manner. As stated by Kliestik (2020), the major goal of the financial restructuring is to eliminate extra headed expenses to raise the new profitability. To enhance the profitability of the company, the administration team can increase the price of their products or services which enhances the business performance as well *[refer to bibliography 3]*. Therefore, for the

enhancement resort's financial health and to restore its reputation as a premier vacation, the management team of the Seaview Resort needs to offer high discounts and increase the efficiency of the service creation which raises the profitability of the company in an effective way.

5. Conclusion

From the above discussion, it can be concluded that the Seaview Resort faces issues in its business and due to this, the management team of the company need to implement several strategic approaches which help to increase the profitability of the company in an efficient manner. Also, this company need to enhance their net profit ratio and gross profit ratio to increase the productivity and efficiency in the future period of time.

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Appendix 1: Financial Ratio for the year

Profitability Ratio	2020	2021	2022
Gross Profit Ratio			
Gross Profit	£ 1,30,000.00	£ 80,000.00	£ 80,000.00
Total Sales	£ 5,20,000.00	£ 4,80,000.00	£ 4,30,000.00
Formula: (Gross Profit/Total Sales)	25%	17%	19%
Net Profit Ratio			
Net Profit	£ 78,000.00	£ 40,000.00	£ 17,500.00
Total Sales	£ 5,20,000.00	£ 4,80,000.00	£ 4,30,000.00
Formula: (Net Profit/Total Sales)	15%	8%	4%

(Source: Self-Created)