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Case Study: The City Hotel Turnaround Strategy

Introduction

The financial performance of the City Hotel, which is situated in an urban location, has significantly declined in recent years. Revenue, occupancy rates, and customer satisfaction have all declined at the hotel, which contains a restaurant, bar, and event spaces. The hotel owner is worried about the company's future because of these problems, and he has consulted a consultant to see if a turnaround plan could help bring the business back to life. The purpose of this report is to evaluate the hotel's present financial status, pinpoint the causes of the profitability drop, and suggest a workable turnaround plan to improve the hotel's standing and financial stability.(Kotler, Bowen & Makens, 2017)

Financial Performance Evaluation

It is crucial to examine important aspects of the hotel's financial status, including revenue patterns, expenses, profitability, liquidity, and solvency. An in-depth grasp of the difficulties the hotel is now encountering and suggestions for possible solutions will be provided by the assessment of these areas during the previous three years.(Kotler, Bowen & Makens, 2017)

Revenue Trends:

- **2021:** £5,248,290 ● **2022:** £5,307,480
- **2023:** £2,325,440

As opposed to 2022, the hotel's revenue has drastically decreased in 2023, falling by almost 56%. This dramatic decline suggests that the hotel has experienced a substantial decline in revenue, which may be due to a number of reasons. A more thorough examination shows that this drop in revenue may be caused by internal problems like poor service quality or ineffective marketing, external economic factors, heightened competition, or a fall in the demand for hotel services.(Hayes, 2018) (Taneja, 2020)

Cost Trends:

The hotel’s costs also show significant fluctuations over the three years, which contribute to its financial difficulties.

- **Cost of Goods Sold (COGS):**
  - 2021: £411,600
  - 2022: £401,510
  - 2023: £176,250

In 2023, there is a notable decline in COGS, which is probably due to lower sales of food and drink, which is consistent with the decline in revenue. A significant drop in COGS can mean that fewer people are using the hotel's dining options or other services, which would lower expenses but also imply a decline in business volume.(Jones & Lockwood, 2013)

- **Employee Costs:**
  - 2021: £1,724,760 ○ 2022: £1,770,700
  - 2023: £1,233,160

The hotel may have lowered worker levels as a result of declining demand, as seen by the considerable decline in employee costs in 2023. Although this can offer temporary financial respite, it may also lead to a drop in service quality, which could worsen customer satisfaction and prolong the economic collapse.(Hayes, 2018)

- **External Expenses:**
  - 2021: £1,894,720 ○ 2022: £1,675,410
  - 2023: £1,071,030

The hotel has cut back on external expenses, such as maintenance, utilities, and general overheads. Although this can be viewed as a step in the right direction for cost control, it may also indicate a lack of funding for essential property upkeep or advertising campaigns that could draw in new clients.(Jones & Lockwood, 2013)

Profitability:

- **Operating Income:**
    - 2021: £664,160
    - 2022: £674,730
    - 2023: -£1,218,850

The hotel had severe financial difficulties in 2023 when its operating income went negative. An essential measure of the hotel's capacity to run its business profitably is operating income. The company's inability to make enough money to pay for running costs is reflected in a negative operating income, which has an immediate effect on the company's overall financial stability.(Todorovic, Pejovic & Milinkovic, 2020)

Liquidity and Solvency

The liquidity and solvency positions of the hotel provide valuable insight into the company's ability to meet short-term obligations and manage long-term debt.

- **Current Assets and Liabilities:**
    - 2021: £1,891,970 in current assets vs. £1,957,360 in current liabilities
    - 2022: £1,965,340 in current assets vs. £2,107,750 in current liabilities ○ 2023: £1,285,880 in current assets vs. £2,014,600 in current liabilities Potential liquidity issues are indicated by the hotel's persistently higher current obligations than current assets. The hotel may find it difficult to meet its short-term obligations if the financial slump persists, as seen by the widening gap between current assets and current liabilities in 2023. This problem is serious and suggests that in order to avoid going bankrupt, the hotel might need to think about restructuring or getting more funding. (Taneja, 2020)

- **Equity:**
    - 2021: £2,152,750 ○ 2022: £2,472,200
    - 2023: £1,334,370

The hotel's equity dropped by almost 46% between 2022 and 2023, which is a worrying development. This suggests that the hotel is exhausting its financial reserves and has suffered significant losses. The hotel's financial situation could become even more complicated if the unfavorable trend persists because it may be harder to get financing or undertake future investments.

- **Debt:**
    - The hotel’s long-term borrowings have increased in 2023, and there is a significant shift toward higher lease debt. This suggests that the hotel may be relying on debt to finance its operations, which could lead to higher interest payments and reduced financial flexibility. Additionally, the increasing debt load makes it more difficult for the hotel to absorb additional shocks or downturns in the market. (Taneja, 2020)

Key Reasons for Declining Profitability

Several key factors have contributed to the City Hotel’s declining profitability:

1. **External Economic Factors:**
    - The hospitality industry has faced significant challenges in recent years due to external events such as economic recessions, inflation, and shifts in consumer behavior. Additionally, the COVID-19 pandemic had a profound impact on the global hospitality market, and even as travel and leisure activities have resumed, recovery has been slow, with many businesses still struggling to regain their pre-pandemic performance levels.(Sullivan, 2020)

2. **Increased Competition:**
    - Both conventional hotel chains and other lodging options, like Airbnb, are becoming more and more competitive for the hotel. These rivals can entice clients away from conventional hotel stays with cheaper rates or distinctive experiences. To better stand out in this competitive market, The City Hotel might

need to review its pricing policies, marketing plans, and customer service provisions.(Sullivan, 2020)

3. **Internal Operational Issues:**
    - **Service Quality:** Outdated amenities or subpar customer service may be among the main causes of the hotel's downfall. Low occupancy rates, unfavorable internet reviews, and a decline in repeat business can all result from bad customer experiences.(Sullivan, 2020)
    - **Cost Management Issues:** Although the hotel has cut some operating expenses, inefficiencies in property upkeep, labor management, or procurement may still exist and need to be fixed to prevent cost cuts from degrading the visitor experience.(Sullivan, 2020)

Turnaround Strategy

A comprehensive turnaround strategy is essential to address the hotel’s financial difficulties and restore its profitability. The strategy should focus on the following areas:

Revenue Generation:

1. **Reviving the Brand:** The City Hotel's exposure and attractiveness to new clientele can be greatly increased by a rebranding campaign. The hotel might spend money on expert brand design, which would include updated signage that reflects the hotel's improved image, modernized interior design, and a new logo. In order to draw in online visitors, the hotel should also give top priority to updating its website and making sure it is mobile-responsive, user-friendly, and search engine optimized. Reaching a larger audience can be achieved by enhancing its online presence through search engine optimization (SEO), social media marketing, and online advertisements. Additionally, the hotel ought to actively interact with visitors by urging them to post favorable ratings on well-known review sites like Booking.com, TripAdvisor, and Google ratings.This can immediately affect client trust and bookings by enhancing the hotel's rankings and reputation. Offering loyalty programs and launching targeted promos will encourage return visitors. Special offers like discounted rates for returning customers, early-bird

promotions, or exclusive packages (e.g., "stay and dine" deals) can increase customer retention and drive both occupancy and revenue.(Wheelen & Hunger, 2012)

2. **Expanding Service Offerings:** The City Hotel can increase the range of services it offers in order to serve a larger clientele and further diversify its sources of income. Offering wellness initiatives like spa treatments, exercise packages, and yoga or meditation retreats might draw in health-conscious visitors. Foodies will be drawn in and food and beverage services income will increase if gourmet dining experiences or themed events, such wine pairings or chef's table dinners, are created. By providing specialized services like conference room rentals, team-building exercises, or hosting business meetings and seminars, the hotel can also reach the corporate market. Offering exclusive travel packages in collaboration with nearby companies or tour

operators could provide visitors a one-of-a-kind experience while bringing in extra cash. In addition to drawing in more guests, these tactics will promote longer stays, bigger reservations, and greater expenditure at the hotel overall. (Wheelen & Hunger, 2012)

Cost Reduction and Efficiency:

1. **Operational Audits and Process Optimization:**Finding inefficiencies and other cost-saving measures requires a comprehensive audit of the hotel's operations. To identify areas where procedures might be automated or streamlined, this audit should look at every department, including maintenance, food and beverage, front desk services, and housekeeping. For example, optimizing labor expenses without compromising service quality can be achieved by reevaluating worker levels and scheduling. Using time-management and scheduling software could assist cut down on overstaffing during off-peak hours.Operating costs could also be decreased by renegotiating supplier contracts and looking into alternate, more affordable providers for food, cleaning supplies, and other hotel necessities. Additionally, by making investments in energy-saving devices

like programmable thermostats, LED lighting, and energy-efficient appliances, the hotel may concentrate on increasing energy efficiency. Frequent upkeep of plumbing, HVAC, and other infrastructure can assist prevent energy waste and expensive repairs. The hotel can lower total costs and increase profitability by recognising these operational inefficiencies and making the necessary adjustments. (Gursoy, Chi & Dyer, 2010)

2. **Outsourcing Non-Core Services:**Reducing overhead expenses and increasing operational efficiency can be achieved by outsourcing non-core services including IT support, cleaning, laundry, and security. The hotel can avoid the expenses of recruiting and training internal employees and better handle demand swings by collaborating with outside service providers who are experts in these fields. Instead of keeping a full-time laundry staff and spending a lot of money on equipment, the hotel can pay for services as needed by outsourcing laundry. In a similar vein, hiring security services can guarantee expert, 24-hour surveillance without requiring long-term, inside employees. While upholding excellent standards in areas like cleanliness, security, and technical support, this strategy can also free up the hotel to concentrate on its primary business of providing hospitality and guest services. The hotel can increase efficiency and cut operating costs by lowering the number of full-time staff members working on non-essential duties. This will enable better resource allocation for improving the guest experience and increasing profitability. (Gursoy, Chi & Dyer, 2010)

Customer Experience Enhancement:

1. **Improving Service Standards:** Investing in employee training to improve customer service standards is a crucial component of the hotel's turnaround plan. To guarantee that every visitor receives outstanding service, staff members should receive training in emotional intelligence, conflict resolution, and hospitality best practices. Adding personal touches, like keeping track of visitors' preferences or providing tailored amenities, can

make an impression and encourage repeat business. Furthermore, putting in place a method for promptly and effectively handling visitor complaints can transform bad experiences into good ones, improving internet evaluations and encouraging return business. Restoring the hotel's reputation and drawing in new business will be made possible by its stellar service record.(Barros & Machado, 2010)

2. **Facility Renovation:** Another crucial element in enhancing the visitor experience is updating the hotel's amenities. A more pleasant atmosphere can be produced by updating guest rooms with modern furnishings, modern design, and modern technology. Improvements like soundproofing, contemporary restrooms, and better lighting will boost visitor pleasure. In addition to lowering operating expenses, making investments in sustainable practices and eco-friendly amenities—like water-saving fixtures and energy-efficient lighting—will draw in eco-aware clients. Furthermore, modernizing public areas like restaurants, event spaces, and lobbies can differentiate the hotel from rivals and make it a popular choice for both business and leisure travelers.(Barros & Machado, 2010)

Financial Restructuring:

1. **Debt Refinancing:** The hotel should look into debt refinance options to ease the financial burden. Renegotiating loan conditions to lengthen payback periods, obtaining reduced interest rates, or maybe turning some debt into equity could all be part of this. The hotel can free up cash flow by lowering its total debt load, which can then be used for necessary upgrades or reinvested in operations. The hotel can stabilize and expand with the help of a well-structured refinance arrangement, which can give the company much-needed liquidity and improve cash flow management during the recovery stage. (O'Fallon & Rutherford, 2011) (Wheelen & Hunger, 2012)

2. **Improved Cash Flow Management:** The hotel's financial turnaround depends on improving cash flow management. The hotel should make quick receivables collection a top priority in order to settle unpaid bills from patrons and clients as soon as possible.

Additionally, controlling inventory levels can save money by preventing waste or overstocking. The hotel must also concentrate on cutting back on wasteful spending and maintaining operating costs within reasonable bounds. The hotel will be in a better position to withstand financial difficulties and make investments that promote long-term success by increasing cash flow visibility and control. (O'Fallon & Rutherford, 2011)

Conclusion

Declining income, increased operating costs, and decreased customer satisfaction are just a few of the major financial issues the City Hotel is dealing with. The hotel could, however, recover and prosper with a well-thought-out turnaround plan that emphasizes improving the visitor experience, increasing operational effectiveness, diversifying revenue streams, and reorganizing its financial structure. To protect the hotel's future viability and repair its reputation in the cutthroat hospitality sector, the owner must take immediate action to solve the main problems causing the bad performance. The City Hotel may resume its profitable and long-term success trajectory with prompt action and a well-defined strategic plan.(Williamson, 2010) (Taneja, 2020)

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