

BMIH5007 Financial Management

Risk Management & Financial Strategies

HOSPITALITY
AND
TOURISM
MANAGEMENT

Man Geni Addysg Uwch yng Nghymru
Where Higher Education Began in Wales



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Register



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Where Are We Now?

Module:	Contemporary Themes for the Hotel and Hospitality Sector
Week	Lecture Topic
1	Induction
2	Introduction to the Module, Financial Terminology, and assessment overview
3	Introduction to Supply, Demand & Price Setting Market Position
4	Key Characteristics of the Hospitality Industry and Financial Management Implications Role of Finance Manager and Finance Team
5	Cost structure Assessment one (1) support
W/C 28th Oct	READING WEEK-NO CLASSES / MID-SEMESTER BREAK
6	Introduction to budgeting and Working Capital Management
7	Risk Management and Financial Strategies
8	Revenue Management
9	Balance Sheet and Income Statement
10	P&L and Financial Stability Break even analysis
11	Module Feedback

Recap-What did we learn last week?

Budgeting

Recap

Budgeting Activity ...

James needs help developing a budget.



Today's Objectives

1. Risk Management within the Hotel Industry
2. Types of Financial Risks in Hotels
3. Strategies to Mitigate Financial Risks
4. Profit & Loss (Income) Statement
5. Assignment 2

Introduction to Risk Management

What do you know about risk management?

Introduction to Risk Management

Risk Management is everywhere



What is Risk Management?

A financial risk management process is a series of steps undertaken to identify potential financial risks, assess their severity, and identify how they can be managed.

(Corporate Finance Institute 2023)

Risk Management in hotel

In the hotel industry, risk management involves identifying and addressing potential risks that could impact a hotel's financial performance and reputation.

For instance, a hotel might face the risk of a decrease in occupancy rates during the off-season due to unfavourable weather conditions or economic downturns. Effective risk management would involve planning for such scenarios and taking proactive measures to minimize the financial impact.

Introduction to Risk Management

“The only alternative to risk management is crisis management -- - and crisis management is much more expensive, time consuming and embarrassing.”

Introduction to Risk Management

“Without good risk management practices, hotels cannot manage their resources effectively. Risk management means more than preparing for the worst; it also means taking advantage of opportunities to improve services or lower costs.”



IGNORE
ME AT YOUR
OWN RISK

The Risk Management Sequence



Assessing and quantifying the risk

Identifying
the risk

Assessing
and
quantifying
the risk

- Analysing the current financial situation
- Brainstorming financial risks in a workshop setting
- Using previous financial stress events as reference
- Interviewing internal and external parties and experts
- Using pre-determined financial risk checklists

Defining strategies to manage the risk

Defining
strategies
to manage
the risk

- **Risk avoidance:** includes the elimination of activities which may expose the party to risk.
- **Risk reduction:** includes mitigating potential losses or the severity of losses.
- **Risk transfer:** includes transferring risk to a third party.
- **Risk retention:** includes accepting responsibility for a given risk.

Implementing & Monitoring a Strategy

Implementing
a strategy to
manage the
risk

- Reflect the nature of the risk
- An understanding of the current situation
- The risk should be fully understood

Monitoring the
effectiveness
of the strategy
in managing
the risk

- Continuous monitoring as current risks may change
- Effective reporting, ensuring risk is being managed appropriately

Types of Financial Risks in Hotels

- **Market Risks:** associated with changes in market conditions that can affect a hotel's revenue and profitability.
- **Operational Risks:** arising from internal processes, turnover rates, systems, or human error that can disrupt hotel operations and financial stability.
- **Financial Risks:** associated with the hotel's financial structure and debt obligations.
- **Regulatory & Compliance Risks:** related to the hotel's adherence to local, national, and international regulations and standards.



Strategies to Mitigate Financial Risks

- **Insurance:** transferring the financial risk of certain events or losses to an insurance company in exchange for premium payments.
- **Diversification:** the practice of spreading revenue sources across multiple streams to reduce reliance on a single source of income.
- **Financial Planning:** involves creating a comprehensive financial strategy that includes budgeting, forecasting, and risk mitigation plans.
- **Operational Controls:** procedures and protocols put in place to minimize operational risks and financial losses.

Essential!!!!

Financial Analysis Ratios

- Current Ratio
- Quick Ratio
- Debt-to-Equity Ratio
- Return on Assets
- Return on Equity

Assessment 2

DEADLINE: Tuesday 10th December 23.59

2000 words Report

Written Business Report – 2000 words (+/- 10%)

Case Study: The Midland Haven Hotel

Introduction: The Midland Haven Hotel with restaurant, bar and event facilities located in the Midlands, was once a thriving destination for vacationers seeking relaxation and luxury. However, in recent years, the hotel has experienced a decline in revenue, occupancy rates, and customer satisfaction. The owner, is concerned about the future viability of the business and has enlisted your expertise to assess if the business can be salvaged through a turnaround strategy.

Market Analysis:

- The midland market is highly competitive, with several newer, more modern resorts in the vicinity.
- Customer preferences have shifted.
- The Midland Haven Hotel's customer reviews indicate declining service quality and outdated amenities.

Scope and Objectives: The primary objectives of this assessment are to:

- Analyse the Midland Haven Hotel's financial performance over the past three years.
- Identify the key reasons behind the decline in profitability, taking into consideration, real-world events and the current economy.
- Develop (if possible) a comprehensive turnaround strategy to revitalise the hotel's financial health and restore its reputation as a premier vacation destination or most viable financial outcomes.

Assessment 2

DEADLINE: Tuesday 10th December 2024 by 23: 59
2000 words Report

Report structure:

- ✓ Title/Cover page
- ✓ Acknowledgement of Generative AI use
- ✓ Executive Summary
- ✓ Table of contents
- ✓ Introduction
- ✓ Main body (with all the individual subheadings)
- ✓ Conclusion
- ✓ Recommendations
- ✓ Reference list

Any questions.....?

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I look forward to seeing you next week.

If you have any questions in the meantime,
please send an email from your student
account

e.wavei@uwtsd.ac.uk

Next week.....

Revenue Management

Please have a look at the material on
Moodle, which will be made available
this Friday.