

Jahanara Case Study

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Financial Management for Hotel Industry: Case study of Seacrest

Lodge

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TABLE OF CONTENTS

Introduction	3
Discussion.....	3
Analysis of financial performance over three years.....	3
Identification of key reasons for declining profitability	6
Development of comprehensive turnaround strategy.....	7
Conclusion	9
Reference List	10

Introduction

The Seacrest Lodge's survival is seriously faced problematic situation, by the sharp drop in revenue, occupancy rates, and customer satisfaction that has occurred recently. In a coastal market that is increasingly competitive and dominated by newer, more contemporary resorts, the lodge finds it difficult to stay appealing in the face of changing guest tastes and obsolete facilities. In charge of assessing the lodge's future, this evaluation seeks to identify the underlying reasons of its downfall by examining its financial performance. With an importance on creating a thorough turnaround plan, the goal is apparent: to strengthen the lodge's financial position and reestablish its standing as a top holiday spot in the face of difficult market conditions.

Discussion

Analysis of financial performance over three years

Evaluation of the revenue, profitability, and operational efficiency in the hotel sector demands a thorough analysis of the financial performance of Seacrest Lodge over the last three years using key performance indications (KPIs) (Alvarez *et al.*, 2021). Out of all these key performance indicators, revenue per available room (RevPAR) is particularly noteworthy as it provides information about how well the lodge can maximize room occupancy and prices to generate income. Following the deduction of operational expenditures, the profitability per room is further disclosed by gross operating profit per available room (GOPPAR) (Botta, 2019). Because it shows the percentage of revenue kept in profit, operating profit margin (OPM) offers a quick look into operational efficiency.

The lodge's overall financial health and performance in relation to its equity and assets are further described by Return on Equity (ROE) and Return on Assets (ROA), which provide understandings on owner profitability and asset usage, respectively (Bello and Sensini, 2020). A more comprehensive knowledge of The Seacrest Lodge's financial trajectory and possible turnaround solutions may be obtained by conducting a comprehensive study of these KPIs.

Year	RevPAR	GOPPAR	OPM	ROA	ROE
2021	£169	£39	25%	14%	48%
2022	£144	£20	14%	7%	26%
2023	£105	-£25	-16%	-8%	-50%

Figure 1: Financial performance analysis for three years

(Source: Self-created in MS EXCEL)

The Seacrest Lodge's financial performance has significantly declined over the last three years, as the table demonstrates. The hotel is not making enough money from the rooms that are available, as seen by the declines in GOPPAR and RevPAR of 38% and 164%, respectively. The hotel is neither profitable, efficient, nor appealing to its owners, as seen by the sharp declines in the OPM, ROA, and ROE (Dimitrios *et al.*, 2020). The hotel cannot pay its operational coexists out of its income in 2023, as evidenced by its net loss. The hotel has had an 80% decrease in cash and equivalents, suggesting that it is experiencing liquidity issues and may encounter challenges in meeting its debt obligations.

The primary causes of Seacrest Lodge's lowering financial performance are the fierce competition from more recent, contemporary resorts in the coastal sector, changes in consumer tastes, and the hotel's obsolete facilities and deteriorating level of service (Lai and Wong, 2020). Lower demand, lower occupancy rates, cheaper room prices, and reduced customer satisfaction for the hotel are the outcomes of these variables. The hotel must put in place a turnaround plan that will take care of these problems and strengthen its financial position. Several potential tactics include:

Modernizing and refurbishing the hotel's amenities and services to satisfy clients and compete with other establishments. Improving the staff's motivation and training, building the company's online reputation and presence, and providing individualized and value-added services are all ways to improve the quality of services and the client experience. Through lowering the operating costs and raising operational efficiency through process simplification, automation or outsourcing of some tasks, and performance monitoring and improvement utilizing data and technology (Metaxas and Romanopoulos, 2023). Evaluation of new income and profit streams by expanding the range of goods and

services offered, forming agreements and collaborations, and making the most if the hotel's special qualities and location.

Year	Revenue	Fixed Cost	Variable Cost	Total Cost	Profit	Total Assets	Total Liabilities	Liquidation
2021	£1,200,000	£600,000	£300,000	£900,000	£300,000	£2,150,000	£1,530,000	£620,000
2022	£1,100,000	£750,000	£150,000	£950,000	£150,000	£2,120,000	£1,540,000	£580,000
2023	£950,000	£850,000	£250,000	£1,100,000	£-150,000	£1,850,000	£1,550,000	£300,000

Figure 2: Costing parametric of the hotel

(Source: Self-created in MS EXCEL)

The company's revenues decreased from £1.2 million to £950,000 in the three years between 2021 and 2023. Nevertheless, variable expenses varied during this time, rising from £300,000 in 2021 to £150,000 in 2022 and then rising again to £250,000 in 2023, while fixed costs increased dramatically, from £600,000 to £850,000. The company's profitability fell quickly from a profit of £300,000 in 2021 to a loss of £150,000 in 2023 as a result of these trendies in expenses exceeding the fall in sales. The overall assets and liquidation value decreased as a result of the increasing expenses and decreasing margins (Mueller and Sensini, 2021). The data shows that the firm has been having increasing financial difficulties over the past three years, demanding quick action to reduce expenses and either stabilize or increase sales and profitability.

Year	Fixed Cost Ratio	Variable Cost Ratio	Breakeven Revenue	Breakeven Output	Margin of Safety	Liquidation Value	Liquidation Cost	Recovery Rate
2021	75%	25%	£1,200,000	4,615 units	0%	£620,000	£1,530,000	40.50%
2022	86.40%	13.60%	£1,100,000	4,583 units	0%	£580,000	£1,540,000	37.70%
2023	115.80%	-15.80%	£950,000	4,524 units	0%	£300,000	£1,550,000	19.40%

Figure 3: Costing parametric of the hotel

(Source: Self-created in MS EXCEL)

The information reveals alarming patterns in the cost structure and break-even indicators of the business between 2021 and 2023. Over 11 percentage points was the increase in the fixed cost ratio and over 40 points was the decrease in the variable cost ratio. This means that the cost structure become much more inflexible and challenging to control (Murimi *et al.*, 2021). It required fewer sales in 2021 compared to 2023 to earn a profit,

as breakeven revenue and units decreased in the interim period. There was no buffer for income deficits, as evidenced by the zero margin of safety throughout. At last, throughout the course of the three years, the liquidation value and the liquidation cost recovery rate decreased progressively, indicating that creditors would receive a lowlier share of the assets in the event of a liquidation. All things considered, the patterns indicate a business with growing weaknesses, a strict cost structure, and a declining capacity to withstand adversities or slumps in sales. It would be wise to take immediate action to address these problems.

Identification of key reasons for declining profitability

Year	ARR Change	Occupancy Rate Change	Operating Expenses Change
2021	N/A	N/A	N/A
2022	-7.70%	-7.70%	5.60%
2023	-12.50%	-16.70%	15.80%

Figure 4: Reasons for declining in profitability

(Source: Self-created in MS EXCEL)

The Seacrest Lodge's statistics from 2021–2023 indicates worrying declining patterns. Falling hotel rates are indicated by the ARR, which decreased 7.7% from 2021–2022 and 12.5% from 2022–2023. Comparably, occupancy rates decreased by 7.7% and 16.7% during comparable times, indicating a decrease in the number of rooms reserved. However, despite the decline in income sources, operating expenses increased by 5.6% and 15.8% over that time, indicating uncontrolled spending. The resort's declining profitability can be attributed to a mix of rising costs and declining key revenue measures. The hotel has not been able to reduce costs or boost efficiency, as seen by the large growth in operating expenses (Rusmingsih *et al.*, 2021). Due to these reasons, the hotel's net income in 2023 was negative, indicating that it is not profitable. A number of variables, some connected to the external environment and some to the internal management, can be blamed for the Seacrest Lodge's declining profitability. Some of the potential causes are:

Geopolitical and world events

The travel and hospitality sectors have been badly hit by the COVID-19 epidemic, which has resulted in a decline in demand, travel restrictions, and worries about health and safety. The revenue and expenses of hotels can also be impacted by other events like wars, inflation, and climate change (Motta and Sharma, 2020). For instance, the war in Ukraine has raised inflation and energy coexists, which may have an impact on the hotel's operational costs and the spending power of its customers

Rise of virtual meetings

In addition, the pandemic has sped up the use of digital technology like videoconferencing, which may cut down on business travel and meetings. This may have an impact on the demand for auxiliary services including food and beverage, catering, and events, as well as one of the hotel industry's most profitable divisions.

Competition and customer preference

There are a number of more reticent, contemporary resorts nearby, making the beachfront market extremely competitive. The Seacrest Lodge's failing level of service and obsolete facilities may have cost it its competitive advantage and market share (Zhang *et al.*, 2021). Customization of evaluations suggest that the hotel has fallen short of the expectations and desires of its customers, who may now want more individualized, eco-friendly, and value-added services.

Poor pricing and management of revenue

It's possible that the Seacrest Lodge neglected to put into practice an ideal and dynamic pricing and revenue management plan, which could have helped to optimize the income and profit from the available rooms. The potential underpricing or overpricing of hotel rooms is depending upon the state of the market and the specific client categories (Ezzaouia and Bulchand-Gidumal, 2020). It's also possible that the hotel passed up chances to cross- and upsell its offerings, including its events, restaurant, bar, and spa.

Development of comprehensive turnaround strategy

Differentiation

In order to convey its advantages to prospective clients and reflect its new character, the lodge needs also change its branding and marketing materials. By providing a distinctive and superior good or service, the lodge may raise its average room rate (ARR) by twenty

percent. Assuming that there are 100 rooms and the occupancy rate stays at 50%, this will mean an increase in income of £420,000 in 2024.

Customer experience

The lodge must make investments in employee retention, motivation, and training if it is to increase client happiness and service quality. To improve the visitor experience, the lodge should also make use of technology. Examples of this include providing digital concierge services, smartphone check-in, online booking, and smart room amenities. In order to find and fix problems and raises service standards, the lodge should also ask for and address evaluations and comments from its customers. To promote recommendations and return business, the resort should also put in place loyalty plans and rewards. The resort can enhance customer happiness and service quality to improve occupancy by 10%. If the ARR stays at £252 (after the 20% rise) and there are 100 rooms, this will translate into an increase in income of £378,000 in 2024.

Revenue management

To increase sales and profitability, the resort must optimize its distribution and pricing tactics. By providing additional services and goods including food and drink, spa and wellness, events and catering, and merchandising, the lodge may further diversify its sources of income. Additionally, by enhancing its website, online presence, and digital marketing initiatives, the lodge should decrease its need on online travel against (OTAs) and boost direct reservations. By expanding its sources of income and streamlining its pricing and distribution tactics, the lodge may raise its income by 10%. If the occupancy rate is 60% and the ARR is £252 (after the 10% rise), this will lead to a £378,000 increase in revenue in 2024.

Cost control

Through the implementation of cost-cutting strategies and efficiency enhancements, the lodge must lower its operating costs and increase its cash flow. The lodge has to undertake a thorough cost assessment to find areas where it may cut expenses, better agreements, or outsource non-essential work. To guarantee prompt payments and collections, the lodge should also keep an eye on and manage its inventory, accounts payable, and accounts receivable. The lodge may save operational costs by 10% by putting cost-cutting and efficiency-boosting initiatives into place. Assuming that

operational expenditures are £1,101,863 in 2023 and the inflation rate is 5%, this will lead to a reduction in expenses of £110,186 in 2024.

Conclusion

In a vinery competitive coastal region, The Seacrest Lodge confronts major issues due to diminishing revenue, occupancy rates, and customer satisfaction. A careful examination of its financial performance indicates that, in order to stop its declining trend, strategic action is urgently needed. Through the implementation of a thorough turnaround plan that emphasizes distinction, optimization of revenue management, boosting customer experience, and strict cost control measures, the lodge may endeavor to strengthen its financial health and reclaim its status as a top vacation destination. To safeguard The Seacrest Lodge's sustainable future and negotiate the complexity of the hospitality industry, immediate action is required.

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Jahanara Case Study

GRADEMARK REPORT

FINAL GRADE

GENERAL COMMENTS

63 / 100

PAGE 1

PAGE 2

PAGE 3



Comment 1

The opening line lacks specificity and does not provide a clear roadmap for the evaluation. The citation is mentioned, but without additional context or details, it appears disconnected from the main content.



Comment 2

While the importance of RevPAR is highlighted, the line lacks depth in explaining how Seacrest Lodge's specific performance in maximizing room occupancy and prices will be assessed. Concrete examples or challenges specific to Seacrest Lodge would have been enhanced the analysis.



Comment 3

The introduction of GOPPAR is made, but it lacks an explanation of how it specifically contributes to evaluating profitability. Providing more details on the significance of GOPPAR and how it complements the analysis would have been improved clarity.



Comment 4

While the purpose of OPM is mentioned, the line could be more specific in relating this metric to Seacrest Lodge's operational efficiency. Elaborating on what factors contribute to operational efficiency or inefficiency would have been enhanced the analysis.

PAGE 4

**Comment 5**

The mention of falling Average Room Rates (ARR) is clear, but the line could have been benefited from explaining why these decreases occurred. Offering insights into market conditions or internal factors would have been enhanced the analysis.

**Comment 6**

The statement effectively highlights the increase in operating expenses but could have been benefited from delving into specific categories or reasons behind the uncontrolled spending. Providing examples or insights into cost management would have been enhanced the analysis.

GRADING FORM: FINANCE AS2 SEPT '23

JAHANARA BEGUM**63****ENGAGEMENT WITH LITERATURE /10**

Your work must be informed and supported by scholarly material that is relevant to and focused on the task(s) set. You should provide evidence that you have accessed an appropriate range of sources, which may be academic, governmental and industrial; these sources may include academic journal articles, textbooks, current news articles, organisational documents, and websites. You should consider the

credibility of your sources; academic journals are normally highly credible sources while websites require careful consideration/selection and should be used sparingly. Any sources you use should be current and up-to-date, mostly published within the last five years or so, though seminal/important works in the field may be older. You must provide evidence of your research/own reading throughout your work, using a suitable referencing system, including 20 in-text citations in the main body of your work and a reference list at the end of your work.



The assignment demonstrates awareness of relevant literature but could have been benefited from deeper engagement. Consider integrating critical analysis and synthesis of sources to enhance the overall quality of the literature review.

6

KNOWLEDGE & UNDERSTANDING /20

Knowledge relates to the facts, information and skills you have acquired through your learning. You demonstrate your understanding by interpreting the meaning of the facts and information (knowledge). This means that you need to select and include in your work the concepts, techniques, models, theories, etc. appropriate to the task(s) set. You should be able to explain the theories, concepts, etc. to show your understanding. Your mark/grade will also depend upon the extent to which you demonstrate your knowledge and understanding. Guidance specific to this assessment: Display a clear understanding of the key reasons behind the decline in the business, along with the financial implications and create a potential solution/turnaround strategy.



There's a clear understanding of the subject matter. To further strengthen this, could have considered incorporating more specific examples or case studies to illustrate key concepts and showcase a deeper understanding.

15

COGNITIVE AND INTELLECTUAL /40

Guidance specific to this assessment: accurately analyse the financial performance of the business from the provided data and provide the financial ratios that will enable you to make informed decisions on potential turnaround strategies.



The assignment showcases cognitive abilities, but there's potential for greater intellectual rigor. Encourage critical thinking by questioning assumptions, presenting counterarguments, or exploring alternative perspectives to enhance the depth of analysis.

25

PRACTICAL SKILLS /20

Guidance specific to this assessment: you will need to consider contemporary trends and themes that are occurring within hospitality industry today, as well as demonstrating an understanding of current socio-economic realities which are currently impacting the UK.



Practical application is briefly touched upon. To strengthen practical skills, could have been considered providing more real-world examples, case studies, or scenarios that directly connect theoretical concepts to practical situations in the hospitality industry.

12

TRANSFERABLE SKILLS /10

Guidance specific to this assessment: You should write a report in a recognised format. All writing should be academic style, formal, focused, concise and subject specific. It should use a font of Arial 12 point or Times New Roman 12 point, and have 1.5 line spacing. All

graphs, charts, and figures in the main body must be clearly referenced beside or beneath. Where possible they should not be on separate pages but should be incorporated within the text.



Transferable skills such as critical thinking, research, and analytical skills are evident. To further emphasize these skills, explicitly highlight instances where these skills are applied and discuss their relevance beyond the context of the assignment.

5