

Case Study

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The Seacrest Lodge

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INTRODUCTION

The business finance is a wider term which includes various aspects of financial management of the business organisation. The financial management includes monitoring, controlling, and reporting of the financial transactions and information to users of the accounting information (Chernov., 2020). This also includes management of the loans and investments related to the business. The purpose of the report is to analyse the financials information of the business. The organisation considered for this report is the **Seacrest Lodge**. The report includes the analysis of the past performance of the Seacrest Lodge for three financial years, identification of the reasons behind the decline in the profitability of the business, and development of comprehensive turnaround strategy to improve the financial health and restore the image and reputation of the Seacrest Lodge business as a vacation destination.

MAIN BODY

Analysis of the past performance of the Seacrest Lodge for three financial years.

ITEM	2021	2022	2023
Revenue	£1,200,000	£1,100,000	£950,000
Operating Expenses	£900,000	£950,000	£1,100,000
Net Income	£300,000	£150,000	-£150,000

Income Statement in GBP (Assignment brief)

The revenue from the operations of the business organisation was £ 1,200,000 and in the year 2021 it was £ 1,100,000, which means that it decreased by 8.33%. The overall revenue or the sales of the organisation was highly affected due to an increase in the completion of the Seacrest Lodge business in the market. This decreased the sales and affected the revenue of the organisation in a negative way (Pandey, 2021). The revenue of the organisation was further decreased to £ 950,000 in the year 2023. The increase in the competition in the market has highly affected the growth of the sales and revenues of the organisation (Bapat., 2020). The operational cost and expenses of the business organisation is increasing per year by £ 50,000 and £ 150,000 respectively. The

operating expenses of the organisation is £ 1,110,000. This increase in the expenses of the organisation has resulted in losses for the Seacrest Lodge business. The business organisational has witnessed a net loss of -£ 150,000 in the year 2023. However, the business recorded profits in the past year as there was low competitor and low operating expenses in the business organisation.



Average room rate (ARR)

- 2021: £260
- 2022: £240
- 2023: £210

Another reason for the low performance of the revenue is the decrease in the average room rate every year from £ 260 in the year 2021 and £ 210 in the year 2023. This represents the performance of the business in the market (Asmin et. al., 2021).

Occupancy Rate:

- 2021: 65%
- 2022: 60%
- 2023: 50%

The occupancy rate of the business organisation is decreasing every year from 65% in the year 2021 to 50% in the year 2023.

Asset/Liability	2021	2022	2023
Cash and Equivalents	£100,000	£80,000	£20,000
Accounts Receivable	£50,000	£40,000	£30,000
Property and Equipment	£2,000,000	£2,000,000	£1,800,000
TOTAL ASSETS	£2,150,000	£2,120,000	£1,850,000
Accounts Payable	£30,000	£40,000	£50,000
Long-term Debt	£1,500,000	£1,500,000	£1,500,000

TOTAL LIABILITIES	£1,530,000	£1,540,000	£1,550,000
EQUITY	£620,000	£580,000	£300,000

Balance Sheet in GBP (Assignment brief)

On the other hand, the balance sheet in the business organisation is used for the purpose of evaluation and analysis of the financial position of the business in the market. The total current assets of the business organisation which includes the cash and cash equivalents and accounts receivables are decreasing every year. The long term assets of the business organisation are constant for the year 2021 and 2022 but further decreased in the year 2023 (Moyle et al., 2020). The cash and cash equivalents of the Seacrest Lodge business has decreased due to a decrease in the average room rate from £ 260 in 2021 to £ 210 in 2023. Therefore, the total assets of the business organisation are decreased from £ 2,150,000 in the year 2021 to £ 1,850,000 in the year 2023. The current liabilities of the business organisation which includes the accounts payables is increasing every year by £ 10,000. Meanwhile, the long term liability of the business organisation is constant from the past three years. This lead to the overall increase in the liabilities of the business organisation by £ 10,000 (Önder & Gunter, 2020). In addition to this, the value of the equity shares of the business organisation is decreasing every year. This is because the shareholders of the business are selling their shares in the organisation and also due to decrease in the values of the shares prices of the business in the long term period. The value of the equity shares of the Seacrest Lodge business has decreased by 51.61% in the year 2023 as compared to the year 2021 (Sakshi et al., 2019).

FINANCIAL ANALYSIS RATIO

- **CURRENT RATIO = CURRENT ASSETS / CURRENT LIABILITIES**
 - **2021** £2,150,000 / £1,530,000 = 1.4
 - **2022** £2,120,000 / £1,540,000 = 1.37
 - **2023** £1,850,000 / £1,550,000 = 1.19
- **QUICK RATIO = (CASH & EQUIVALENTS + ACCOUNTS RECEIVABLE) / CURRENT LIABILITIES**
 - **2021** £150,000 / £1,530,000 = 0.09

- **2022** $\text{£}120,000 / \text{£}1,540,000 = 0.07$
- **2023** $\text{£}50,000 / \text{£}1,550,000 = 0.03$
- **DEBT-TO-EQUITY = TOTAL LIABILITIES / TOTAL EQUITY**
 - **2021** $\text{£}1,530,000 / \text{£}620,000 = 2.46$
 - **2022** $\text{£}1,540,000 / \text{£}580,000 = 2.65$
 - **2023** $\text{£}1,550,000 / \text{£}300,000 = 5.16$
- **RETURN ON ASSETS = NET INCOME / TOTAL ASSETS**
 - **2021** $\text{£}300,000 / \text{£}2,150,000 = 0.13$
 - **2022** $\text{£}150,000 / \text{£}2,120,000 = 0.07$
 - **2023** $-\text{£}150,000 / \text{£}1,850,000 = -0.08$
- **RETURN ON EQUITY = NET INCOME / TOTAL EQUITY**
 - **2021** $\text{£}300,000 / \text{£}620,000 = 0.48$
 - **2022** $\text{£}150,000 / \text{£}580,000 = 0.25$
 - **2023** $-\text{£}150,000 / \text{£}300,000 = -0.5$

(Datarails, 2023)

Identification of the reasons behind the decline in the profitability of the business.

There are various reasons behind declining profitability in the business organisation which are in accordance with the practical world and the current economy. They are described below as:

- **Wrong pricing policies and strategies** – it is important for the business to charge correct prices from the customers. It is important to stay competitive in the market and to attain profitability with growth and sustainability in the Seacrest Lodge business (Seifzadeh et. al., 2020). This helps the business in providing different growth opportunities for the future. Charging of high prices from the customers will result in decreasing the sales of the organisation. Therefore, it is very important for the business to set the appropriate pricing of the business as this highly affects the market of the Seacrest Lodge.
- **Increasing overhead cost and expenses** – the overhead costs of the business includes the costs related to the insurance, rent and rates, salaries and wages,

depreciation and much more (Shabbir & Wisdom, 2020). This results in affecting the profits of the Seacrest Lodge business. Therefore, it is important for the businesses to provide for the necessary expenses and to manage the expenses related to the business. The overhead cost and expenses of the organisation includes various types of direct and indirect expenses and these business expenses must be analysed and evaluated for improving the profitability of the organisation (STAFF., 1998).

- **Effect of COVID 19 pandemic** – the COVID 19 pandemic has disrupted the global supply chain management system of various businesses and this has resulted in decrease in the sales and the profitability of the business organisation. The business of Seacrest Lodge was highly affected by the impact of the pandemic as this falls under the category of the tourism business industry. The COVID 19 pandemic resulted in imposition of lockdown and social distancing (Fridson & Alvarez, 2022). Therefore, this resulted in decrease in the profitability and sales of the Seacrest Lodge business organisation.  3
- **Inflation** – inflation is an important economic factor that affects the growth and development of the businesses. This is due to an increase in the long term cost of the business and decrease in the purchasing power of the general public. This results in low spending by the general public for the goods and services of Seacrest Lodge and this affects the profitability and liquidity position of the Seacrest Lodge business in the market (Bilal et al., 2022). Therefore, the business has to decrease its prices and work on its pricing strategies in order to gain a good share in the market and to achieve profitability in the market.  4
- **The geopolitical tensions** – the geopolitical tensions in the highly affects the profitability of the businesses. The Ukraine – Russia war, US – China trade war are an example of the geopolitical tensions between the countries. The removal and restriction of the trade barriers between the countries affects the long term and short term management of the business of Seacrest Lodge (Kang et al., 2020). The business must be prepared to face this geopolitical challenge during the course of the business. This is because the geopolitics have a direct impact on the growth and development of the profitability status of the business organisation.

The comprehensive turnaround strategy to improve the financial health and restore the image and reputation of the Seacrest Lodge business as a vacation destination are as follows –

- **Internet revolution** – the use of the internet is a requirement for businesses in the modern day world as this provides the growth opportunities to the business around the world (Khan, and et. al., 2021). The internet revolution includes development of sales through online booking and by providing online services to the customers. This internet revolution will lead to increase in the sales and brand image of the Seacrest Lodge business.
- **Online promotion and marketing** – online promotion and marketing is closely related with the brand reputation and brand image of the Seacrest Lodge business organisation (Wang et. al., 2021). The increase in the sales and promotion techniques will result in increasing the sales in the business and increasing the needs and requirements of the business. The online promotion of the business will increase the sales of the business and will also increase the sales in the long term (Mehralian., 2022).
- **Development of personal touch with the customers** – it is important for the businesses in the tourism sector industry to develop a personal touch with the customers of the business to improve the sales and brand image of the organisation at the ground level. The Seacrest Lodge business should form connection with the customers of the business as this will help the business in increasing its reach at the wide level and will also increase the sales and profitability of the business organisation (Johnston & Sheehan, 2020).
- **Advices from the industry experts** – the Seacrest Lodge business should take advices form the industry experts which are related to the business development and development of brand of various businesses. The valuable advice from the industry experts will help the business in increasing the sales the reputation of the Seacrest Lodge organisation to stay competitive in the vacation destination market (Yiu et al., 2020).

- **Improving of Public relations** – the improvement of the public relations is closely related to the maintenance of the personal touch by the Seacrest Lodge business with the customers. The public relation will help the business in developing their brand image and sales in the long term period (Barauskaite & Streimikiene, 2020).
- **Development of cost cutting methods** – the cost cutting method is another important technique for increasing profitability of the Seacrest Lodge business as this will control and decrease the extra cost and expenses related to the business and this will decrease the costs related to the business (Chen et. al., 2020).

CONCLUSION

The above report concludes the need and importance of the economics and finance in the business organisation. The business of Seacrest Lodge has witnessed a decrease in the revenues and the net profits of the organisation. The operating expenses of the business organisation are increasing and this has resulted in decreasing the net profits. In addition to this, it is concluded that the current assets and the non – current assets of the organisation are decreasing and the current liabilities are increasing. This increases the burden of the organisation. There are many factors affecting the profitability of the business and the business such as the COVID 19 pandemic. Inflation. Pricing strategy and much more, and the businesses must find out ways to increase its profitability and business reputation in the market to achieve growth with sustainability.

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GRADEMARK REPORT

FINAL GRADE

GENERAL COMMENTS

43 / 100

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Comment 1

The explanation of the revenue decline is clear, but it lacks depth. Could have been provided a more detailed analysis of how increased competition specifically impacted Seacrest Lodge's revenue. Additionally, include more academic references to support the argument and explore other potential factors contributing to the revenue decline.

PAGE 4



Comment 2

While the explanation highlights the increase in expenses leading to losses, it lacks an in-depth analysis of specific cost categories contributing to the rise in operating expenses.

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Comment 3

While the impact of the COVID-19 pandemic is well-stated, Could have considered providing more specific details about how lockdowns and social distancing measures directly affected Seacrest Lodge's operations. Additionally, ensure correct and complete citation for "Fridson & Alvarez, 2022" to maintain academic integrity.



Comment 4

The explanation of the impact of inflation is comprehensive. However, could have been considered providing more examples or specific strategies that Seacrest Lodge could implement to mitigate the effects of inflation. Additionally, ensure correct and complete citation for "Bilal et al., 2022" for academic credibility.

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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 engagement with literature in this assignment was limited. To enhance this skill, more diverse academic sources could have been incorporated, and their perspectives critically evaluated. Additionally, a deeper analysis of relevant literature could have strengthened the foundation of the arguments. Connecting ideas from different sources would have demonstrated a more comprehensive understanding of the topic.

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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.



The demonstration of knowledge and understanding was adequate, but there was room for improvement. Strengthening the grasp of key concepts by delving deeper into the subject matter

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would have been beneficial. Exploring more nuanced aspects of the topics discussed and providing examples that showcase a more profound understanding could have added depth to the arguments.

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 cognitive skills exhibited in this assignment were satisfactory. To enhance this aspect, more critical analysis and synthesis of information could have been employed. Challenging assumptions, considering alternative perspectives, and articulating thoughts with greater clarity would have contributed to a more insightful and analytical discussion of the subject matter.

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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.



The practical application of knowledge was somewhat lacking in this assignment. To improve practical skills, incorporating real-world examples or case studies that illustrate the theoretical concepts discussed could have been beneficial. This would not only have enhanced the relevance

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of the arguments but also demonstrated a practical understanding of how theoretical concepts apply in various contexts.

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.



The transferable skills demonstrated in this assignment were minimal. To develop this aspect, highlighting how the skills acquired in the assignment can be applied in different contexts would have been valuable. Emphasizing the broader implications of the concepts discussed and showcasing how the skills learned can be transferred to real-world scenarios would have underscored the practical value of the skills developed through academic engagement.

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