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Executive Summary

Fixed costs remain the same in total. However, variable costs change with sales quantity. Harriot hotel has a higher proportion of fixed cost in its current cost structure. It caused it to experience heavier losses due to drops in the customer check-ins. Therefore, It is suggested that the company reduces Employees' wages expense, interest on loans. Also, it should offer higher discounts, should focus on cheaper but popular channels like Social media for advertising, and must maintain its core services.

Introduction

The report makes a thorough cost analysis of Harriot Hotel, a renowned multinational company. at first, defines fixed and variable cost. then, it classifies the given costs into either fixed or variable or semi-variable, mix, cost items. Also, it analyzes the given current cost structure of the company. Besides, it suggests the areas where costs can be cut to assist the company in the survival at the current economic stagnant situation stemming from lockdowns and restriction of people's movements for curbing the spread of Covid-19 disease. Hopefully, this report will assist the readers in understanding the ways to improve efficiency by cutting costs in pressing situations.

The analysis of the cost structure of Harriot Hotel with suggestions regarding cost-cutting options with necessary justifications

Given the cost Structure of Harriot Hotel,

Projected Cost Breakdown for UK Division		
Item (£m)	Value	As a percentage of revenue
Revenue	60,000	
Employees' wages	15,000	25%
Advertising cost	7,000	12%
Interesent on loans	10,000	17%
Housekeeping and cleaning supplies	5,000	8,3%
Customer discounts	8,000	13,3%
Stationeries used in front desk and restaurants	3,000	5%

First, let us come to the discussion of the concept of the classification of costs. Costs can be classified based on their propensity to move with quantities produced and sold (Eliotte, 2020). Based on these criteria costs can be classified into fixed costs, variable costs, and mixed costs. Fixed costs are the costs that remain fixed or constant at a certain level of production. The total amount of fixed cost remains constant irrespective of the number of goods produced or sold (Norren, 2020). But the per-unit fixed cost of a cost item changes with the level of production and sales. In contrast, variable costs are those cost that changes with the level of production units and level of sales. The total amount of variable costs changes with the changes in the number of goods produced or sold. But the per-unit variable cost remains fixed (Brewer, 2020). The mixed costs are the costs that have characteristics of both fixed and variable costs.

In the given cost structure of Harriot Hotel, the employees' salary can be classified into a fixed cost. The interest on the loans can be classified as a fixed cost as well. Stationaries displayed in front of desks and restaurants can also be classified as a fixed cost. Because these costs remain constant irrespective of the customers' check-ins in the hotel.

In contrast, costs like Customer discounts can be classified into variable ones. Because, as the number of new customers increases, the hotel becomes Crowded. So, to attract new customers, the hotel's management may require offering higher discounts. Besides, in case very few customers are checking in, the management may require offering higher discounts to its customers (Peter, 2020). Also, the Housekeeping and cleaning supplies can be classified into variable costs as well. Because, with the increased number of customer check-ins, the company will have to provide higher housekeeping and cleaning supplies.

But costs like advertising can be classified into mixed categories. Because this cost item may contain a fixed amount proportion to constantly promote the firm's services to its customers. Also, this cost may contain a portion of the amount which is incurred by the company only if it wants to grow or to capture a higher market share.

Through the classification, it can be said the firm's cost structure contains a higher proportion of fixed costs and a lower proportion of variable costs. Nearly 47.50% of the cost as a percentage of revenue was fixed cost. In contrast, nearly, 22% of costs as a percentage of revenue was variable cost. According to researchers, a higher proportion of fixed cost in a company's cost structure escalates the company's operating leverage. Companies with higher operating leverage experience

higher surges in their profitability in response to surges in the revenue and higher decline in the profitability in response to declines in revenue (Chen, 2018). As Harriot Hotel's cost structure had a higher proportion of fixed cost as a percentage of revenue than variable cost, it has experienced a higher decline in profit due to decline in revenue stemming from drops in customer check-ins due to lockdowns and restriction of people's movements for curbing the spread of Covid-19 disease (Mathew, 2021).

So, to survive and lower its operating leverage in this economic down-turn situation, Harriot Hotel must try to reduce its fixed cost items first. The first item that the company may try to reduce is employees' wages. It is possible to reduce this cost item in the current situation easily. Because there is a tightness in the labor market due to worldwide economic recession and downturn. Statistics will prove this fact. In October 2020, there was 782,000 payrolled employees were sacked between March 2020 to September 2020 (ONS, 2021). Besides, nearly, the number of new jobs created in 2020 dropped by nearly 350,000 units (ONS, 2021). These data show tightness in the UK labor market.

So, the first action in the pursuit of lowering the firm's fixed cost to lower its operating leverage so that the company experiences fewer drops in the profitability in response to changes in the drop of customer check-ins in the company's restaurants and hotels should be to employees' wages costs in the cost structure of the company. The company can do it in various ways. It can go for lay-offs of some employees. Or it can reduce the wages of current employees instead of layoffs. The first option will be more logical. Because drops in wages enhance dissatisfaction among employees for the management which may purge them to exhibit inefficient and distortive behaviors (Garrison, 2020). In the implementation process of layoffs, the firm must make sure it sacks only unproductive employees. In other words, layoffs should be made solely based on merit and productivity.

Besides, the business may offer higher discounts at current economic conditions to enhance its revenue. The logic behind this suggestion is that the pandemic has significantly reduced people's income levels. According to ONS, 2020, nearly 12.5 million UK residents experienced drops in their income level. So, to survive this sort of tight situation, people have chosen to shuffle their cost behaviors which include drops in recreational activities. So, Harriot Hotel should offer higher discounts to its customers to enhance its sales.

Another activity that requires enhancement is advertising. As the firm still wants to expand its businesses in this pandemic situation as well, it must advertise its new hotels, its services, key features, core value, etc. But it does not mean the company should arbitrarily enhance its advertising costs. It must be efficient in this item. It should go for cheaper channels for advertising. For example, it can advertise its services through social media. Because it is the most popular channel for social gathering and recreation. In 2020, nearly 45 million UK residents, which is nearly 66% of the total population, have used Social media and the average cost of advertising per campaign in social media is just £266 (Jack, 2021).

The firm should reduce its other fixed cost interest on loans. The company is surely paying higher interest on loans brought before the pandemic. Because before the pandemic in 2019, the average effective loans were 1.41% to 2.10% but currently due to the pandemic business loans are being offered at 0.25% to 0.75% (BOE, 2021). It is suggested to pay its current loans and raise new loans at a lower interest rate which will reduce another fixed cost item interest on loans.

Housekeeping and cleaning services cannot be reduced due to their adverse effect on the customers' response to the company's services. Besides, it is one of the core services of the company or any other hotel company (Ronny, 2021).

As per the stationeries displayed at the front desk and restaurants, they are a very small proportion of the current cost structure of the company. It is only 5% (Maier, 2021). If those stationaries are of such nature as sanitizers or health safety items, then the company should no way reduce the costs incurred on items. Besides, if these items are of such nature that it enhances the beauty of the hotel and restaurants, it is strongly suggested not to reduce the costs on these items.

Conclusion

Harriot Hotel is currently experiencing a heavier decline in its profitability due to its higher operating leverage stemming from the higher fixed cost in the cost structure. So, the firm must reduce fixed costs like Employees' wages, interest on loans. It must advertise its services through social media due to it being cheap. It must maintain its good quality of housekeeping and cleaning services and must offer higher discounts to expand.

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