

Report Case Study: The City Hotel

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Executive Summary

The City Hotel whose location is advantageous and which it has diverse facilities is still experiencing a crucial financial downturn. The present report includes a comprehensive analysis of the hotel's financial performance from 2021 to 2023 and evidence of a trend that shows great concern in a decreasing revenue, profitability, liquidity, and solvency.

The major results of the financial analysis show that 2023 witnessed a dramatic 56% decrease in revenue resulting in an extraordinary operational loss. Besides these drawbacks, deteriorations in liquidity ratios and a steep rise in the debt-to-equity ratio, it is evident that The City Hotel is in financial distress, defying its sensible business operations and the probability of facing operational difficulties.

Internal factors contributing to the decline include potential inefficiencies in labor management through the increase of employee costs as a percentage of total income. The analysis reveals that the hotel may also have inevitable challenges with its marketing effectiveness and/or customer satisfaction which might lead to fewer guests. The external factors such as the rise in competing accommodation, a broader economic downturn, and the ongoing remnants of the COVID-19 pandemic are to blame for these challenges.

Thus, a thorough restructuring strategy that aims at the following areas has been adopted.

Revenue Enhancement: Development of new promotional programs, use of dynamic pricing strategies, and the introduction of additional revenue streams.

Cost Optimization: Better management of people, greener power saving and procurement management.

Customer Satisfaction: The strategies that hotel XYZ is employing in order to make customers happier are staff training, service improvement, and online reputation management.

Financial Restructuring: Debt restructuring and the sale of some assets to work with funds flexibility and thus decrease financial risk will be investigated.

The effectiveness of the turnaround hinges on getting the financing and the hotel having the option to restructure its operational operations. It seems that if it is impossible then options such as selling the property or changing it from some other use can be possible to minimize losses for the owner.

The City Hotel is operating in a market that constantly changes and is quite ruthless. For it to be the case in the future, among others, the hotel should fix itself to the new

market realities, go hell-for-leather with innovation, the customer's satisfaction, and right economic management.

Introduction

Despite The City Hotel's restaurant, bar, and event facilities, it keeps a leading role in the city. Yet, in the last few years, key performance indicators, such as revenue, occupancy rates, and customer satisfaction have deteriorated significantly, which is a cause for concern. This their sluggish journey has made the hotel proprietor very anxious about the future of the enterprise. Thus, this report will do a deep study of the financial performance and operational challenges of The City Hotel to get to the conclusion if a turnaround strategy is the one that can efficiently revive the business or if other measures are to be introduced.

Hospitality sectors are extremely different and exposed to a wide range of internal and external factors. As emphasized by Lockwood and Jones (2022), hotels are constantly wrestling with the issue of profitability and competition in the face of rapidly changing consumer preferences, economic factors, and technological advancements. It has been in the notice that with the rapid expansion of alternatives such as Airbnb, competition in the industry has become even fiercer in recent years (Guttentag, 2019). Furthermore, the pandemic naming COVID-19 horrifically distorted global travel and vacation in these last years of the expedition, thus, it horrendously affected hotels as well (Gössling, Scott & Hall, 2021).

A comprehensive turnaround strategy is a business transformation plan designed to ailing businesses with a goal of restoring financial health and sustainability. It is a part of a series of events that involve critically analysing the organization's financial health, operational efficiency, and market positioning to make the initial reasons for the decline the focal point and take the necessary corrective actions (Pearce & Robinson, 2013). Financial health in this operating environment consists of an organization's capabilities to make profits, reliably control cash flow, satisfy its financial obligations, and maintain a capital structure that is supportive of growth (Brigham & Ehrhardt, 2019).

This report will explore The City Hotel's financial performance over the last three years by clearly stating the trends and patterns in revenue, expenses, profitability, liquidity, and solvency. By analysing these indicators, the report will be able to identify the underlying causes of the eventual decline of the hotel being either an internal factor, such as operational efficiency and customer service quality, or an external factor, like economic conditions and competitive pressures. Based on this in-the-report analysis, if possible, a pace-setting strategy will be developed, which creates the specific solutions that will revitalize the hotel's financial health and

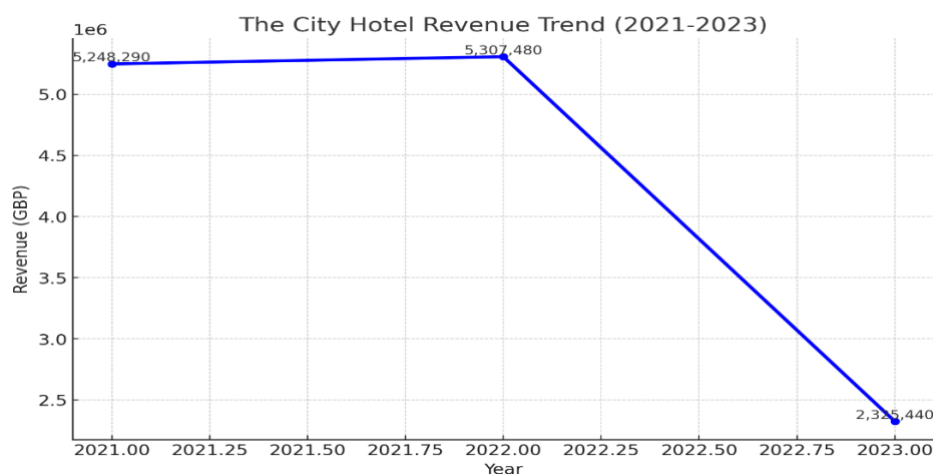
restore its reputation. In case a turnaround is not feasible, the report will also examine alternative solutions to maximize financial outcomes for the owner.

Financial Analysis

This section provides a detailed analysis of the financial condition of The City Hotel through its income statement data from 2021 to 2023. The assessment will be conducted by means of certain important financial ratios and trend analyses to evaluate the hotel's capacity to make money, expenses, and profit. The analysis will determine the financial health of the hotel; hence, it will also refer to the opposites of the excesses.

Year	Revenue (GBP)	Year-over-Year Change (%)
2021	5,248,290	-
2022	5,307,480	1.13%
2023	2,325,440	-56.17%

Trend: While the revenue gave a slight clue towards an improvement in 2022, the situation took a turn for the worse with a sharp drop in 2023. The significant amount of decline indicates a major event or change in the hotel which is why they faced difficulty in making a profit even if generating is the key to profitability.

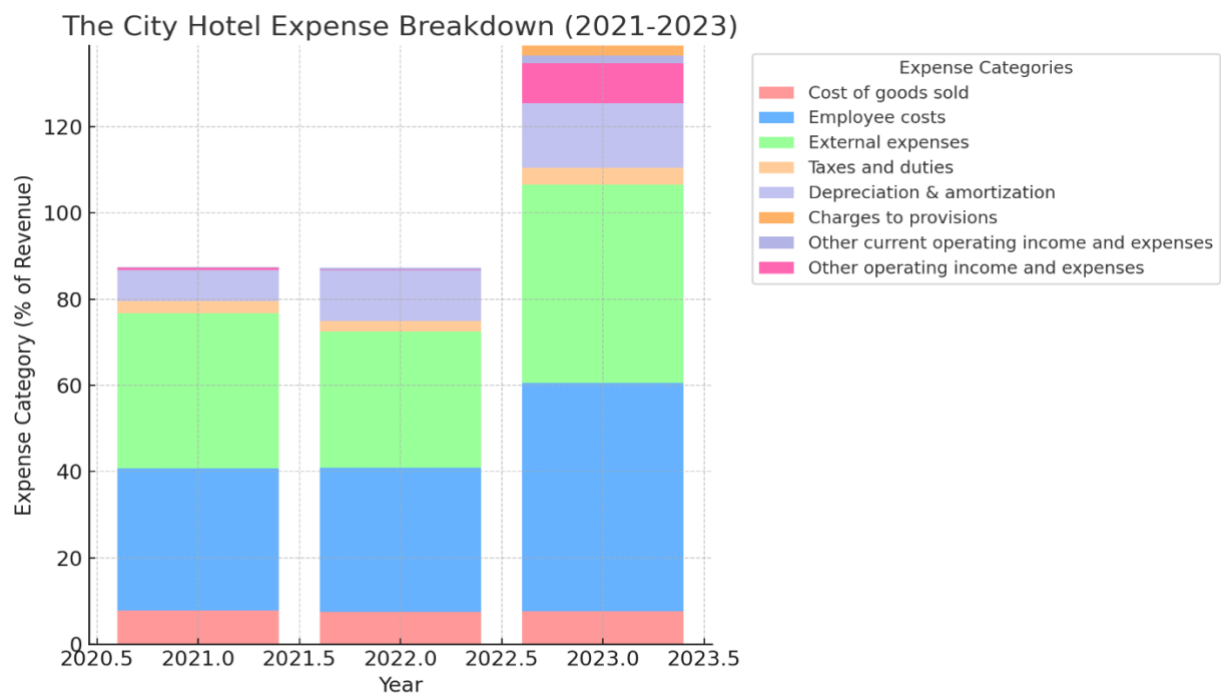


Expense Analysis

To look at the expenses, we are going to calculate the portion of each expense category that has come from total revenue.

Expense Category	2021 (% of Revenue)	2022 (% of Revenue)	2023 (% of Revenue)
Cost of goods sold	7.84%	7.56%	7.58%
Employee costs	32.87%	33.35%	53.01%
External expenses	36.10%	31.56%	46.04%
Taxes and duties	2.74%	2.51%	3.82%
Depreciation & amortization	7.80%	11.95%	28.45%
Charges to provisions	0.11%	0.34%	-2.39%
Other current operating income and expenses	-0.77%	-0.47%	-1.77%
Other operating income and expenses	0.66%	-0.21%	-9.32%

Trend: Employee costs as a percentage of revenue have increased sharply in 2023, which may come across as the result of wasteful expenditures on labor. According to the data, even though the external costs were lower in 2022 than 2023, the latter signifies that this may become a potential issue in future years as well.



"The City Hotel Expense Breakdown (2021-2023)."

Profitability Analysis

Because we have just an income statement, we will be able to calculate the Operating Profit Margin:

Year	Operating Income (GBP)	Operating Profit Margin (%)
2021	664,16	12.66%
2022	674,73	12.71%
2023	(1,218,850)	-52.40%

Trend: In 2022, the operating profit margin has increased marginally but in 2023 it turns into a sharp deterioration to the extent of a serious los. Besides that, it correlates with the sales trend and displays severe profitability problems.

Year	The City Hotel Operating Profit Margin (%)	Industry Average Operating Profit Margin (%)	Source
2021	12.66%	14.2%	STR (2022)
2022	12.71%	15.0%	STR (2023)
2023	-52.40%	8.5%	AHLA (2024)

Liquidity Analysis

Year	Current Ratio	Quick Ratio
2021	$1.891,970 / 1,957,360 = 0.97$	$(1,891,970 - 35,230) / 1,957,360 = 0.95$
2022	$1.965,340 / 2,107,750 = 0.93$	$(1,965,340 - 36,350) / 2,107,750 = 0.91$
2023	$1,285,880 / 2,014,600 = 0.64$	$(1,285,880 - 29,470) / 2,014,600 = 0.62$

Trend: Both the current ratio and the quick ratio are in the decline, showing a worse cash position. It might be a problem for the hotel to pay its short-term responsibilities on time.

Solvency Analysis

Year	Debt-to-Equity Ratio
2021	$10,684,940 / 2,256,180 = 4.74$
2022	$13,338,050 / 2,583,030 = 5.16$
2023	$14,243,390 / 1,410,580 = 10.10$

Trend: The debt-to-equity ratio is going up by leaps and bounds, thus being a clear pointer to a growing dependency on borrowing and a higher financial risk.

Working Capital Analysis

Year	Working Capital (GBP)
2021	$1,891,970 - 1,957,360 = (65,390)$
2022	$1,965,340 - 2,107,750 = (142,410)$
2023	$1,285,880 - 2,014,600 = (728,720)$

Trend: The negative and consistently worsening level of working capital indicates that the company is facing challenges when it comes to the financing of daily operations.

Asset Analysis

Trend: Property, plant, and equipment indicate a decreasing trend, which may show a lack of capital investment or asset sales. Contrary to this, right-of-use assets have increased, which represents a shift in rental privilege over the actual ownership of the assets.

Reasons for Decline

This part will check why The City Hotel is having problems. It will look at how the hotel runs as well as what's going on in the wider area and the economy.

The review is based on research and books to find out what causes the hotel's collapse inside and out.

Decline will be linked with money and running problems that were found earlier to show how money and efficiency are connected.

Overall results show if bad or good factors affect hotel performance. The report will include current events that influences the business landscape supported by articles and reports.

The analysis will consider the current social, political, and economic realities that have had a significant impact on the industry. It will draw upon news articles and reports to provide context and support the analysis.

Internal Factors

Some of the probable internal reasons for The City Hotel's decline are the following:

Operational Inefficiencies: The financial analysis indicated rising employee costs and external expenses as a percentage of revenue. Because of this, inefficient labor management, purchasing, or cost control might be the main things that are holding the hotel back. Lockwood and Jones (2022) underline that it is the ability to professionally manage costs that is vital for hotels to keep their businesses profitable in a marketing environment which is a very competitive one.

Marketing Effectiveness: The sharp drop in revenues may be an indicator that something is wrong with the hotel's marketing strategy. The hotel might be missing the desired customer groups or could be failing to adjust its marketing efforts to the rapidly changing digital environment. Research findings of Kim and Kim (2018) suggested that hotels must develop digital marketing strategies and customer personalization to make sure they stand out and keep customers in the modern times.

Customer Satisfaction: Decreasing customer satisfaction built up a risk of a severe problem in the hotel over time. It lacks the processing of online complaints, provides

inferior quality of service, or does not even encourage customers to give feedback, which can result in the loss of customer loyalty and deterioration of the hotel's image. One of the significant studies conducted by Torres and Kline (2013) phrases that customer relationship management and personalization are of major importance in the hospitality industry.

Management Issues: The internal problems taking place, such as ineffective leadership, poor communication, and lack of strategic direction, could be the causes that are thwarting the hotel from really doing well. Research by Hin kin and Tracey (2000) discovered that when the type of leadership and the organization's culture are not good, employees may not perform well, and customers may not feel satisfied in hotels.

Economic Conditions: The world is experiencing a global economic slowdown, rising inflation, and recession being a possibility would affect consumer spending and travel behaviour, thus demand for hotel accommodation decreases. The report from the World Travel and Tourism Council (2023) said that the harsh situation of macroeconomic would affect the global tourism industry white deep.

Increased Competition: The emergence of new alternative accommodations such as Airbnb, along with the increased number of new hotels in the city, may be leading to increased competition for The City Hotel, which in turn, might be negatively affecting its occupancy rates and pricing strategies. The study of Guttentag (2019) about the disruptive effect of the sharing economy on the hotel industry is one of the references.

Real-World Events: The "long tail" effects of the COVID-19 pandemic, geopolitical uncertainties, or local events discouraging tourism may be aggravating the hotel's decline. Gössling, Scott, and Hall (2021) noted the profound effect of the Coronavirus pandemic on the tourism sector worldwide.

Turnaround Strategy

The City Hotel is in a tough spot. It needs a turnaround strategy. But it has to find more money or change the way it works.

We will look at what other hotels have done. This will help us come up with ideas.

We know what the hotel is facing and will look for ways to solve these issues.

We will give reasons for our suggestions. These reasons will come from both the numbers and the specific situation of the hotel.

Our plans will suit what the hotel can actually do right now. We will make sure our suggestions fit in with how the industry is.

Revenue Enhancement

Targeted Marketing Campaigns: Use online ads to reach different groups of people. Use social media and travel websites to get more guests. (Kim & Kim, 2018)

Dynamic Pricing: Change the room prices to match demand; take into account seasons, and competitors. (Ivanov & Zhechev, 2012)

Enhance Ancillary Revenue: Explore appealing non-room sources like the restaurant, bar, and event facilities. Offer packages, promotions, and local alliances to attract local guests. (Lockwood & Jones, 2022)

Cost Optimization

Labor Management: Review staffing, optimize schedule, and consider tech solutions for efficient labor and payroll cost-cutting. (Hin kin & Tracey, 2000)

Energy Efficiency: Implement energy-saving measures throughout to cut utility costs. (Bohdanowicz, 2005)

Procurement: Renegotiate contracts for better supplier pricing and optimize purchasing practices. (Lockwood & Jones, 2022)

Customer Satisfaction

Service Quality: Invest in training staff for better service and guest interactions. Use feedback systems to address concerns and improve guest experiences. (Torres & Kline, 2013)

Online Reputation Management: Monitor and respond to reviews by tackling negative feedback and promoting positive ones to enhance online reputation. (Anderson, 2012)

Financial Restructuring

Debt Restructuring: Explore options to rework debt, through refinancing or negotiation for reduced interest rates or extended repayment terms. (Brigham & Ehrhardt, 2019)

Sell unneeded assets or property that is not used much to get cash and have enough money. (Pearce & Robinson, 2013)

Conclusion

The City Hotel is facing a big problem. Revenue and profit are falling fast. There is not much money to pay bills. The hotel must act fast. It has some good points like location. But it is hard to see a future.

The hotel plan to sell more rooms, cut costs, and make guests happy. Getting money from outside is key to this. If that does not work, the hotel may have to be sold or used for something else.

The hotel business changes all the time. To be successful, The City Hotel needs to think of new ideas, give guests great experiences, and handle the money well. The long-term future depends on this.

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