

Financial management for the hotel industry

BMIH 5007

Report Case Study – The Seacrest Lodge

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Introduction

A primary responsibility of the finance and accounting departments within hotel establishments is supervising and maintaining financial records, alongside verifying, and managing business performance data. It would be almost impossible for a hotel to achieve success, much less implement sustainable business practices, in the absence of this department (Serrasqueiro and Nunes, 2014). The purpose of this report is to assist Seacrest Lodge in overcoming the challenges it is facing and to recommend a strategy for them. The financial performance of Seacrest Lodge over the past three years is examined. The key reasons behind the declining profitability are examined by analysing the company's income statement, balance sheet, and financial information. Furthermore, the report provides a comprehensive turnaround strategy for revitalising the financial health of the lodge and restoring its reputation.

Financial performance of Seacrest Lodge over the past three years

Through the analysis of the income statement and balance sheet, it has been examined that the financial performance of Seacrest Lodge has declined over the past three years.

Income Statement (in GBP)

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 of Seacrest Lodge

Source: (from the assignment brief).

- Revenues fell from £1,200,000 in 2021 to £950,000 in 2023, a 20% drop.
- The operating costs have risen from £900,000 in 2021 to £1,100,000 in 2023.
- Net income had plunged from £300,000 in 2021 to a loss of £150,000 in 2023.

Balance Sheet (in GBP)

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

The balance sheet of Seacrest Lodge

Source: (from the assignment brief).

Assets

- The amount of cash and equivalents has experienced a substantial decline of 80%, falling from £100,000 in 2021 to £20,000 in 2023. This suggests a reduction in the organisation's available funds, possibly attributable to diminished profits from operations or revenue.
- There has been a 40% decline in accounts receivable, which has decreased from £50,000 in 2021 to £30,000 in 2023. This may result from a decline in credit sales or a slowdown in customer payments.
- The value of property and equipment experienced a marginal decline from £2,000,000 in 2021 to £1,800,000 in 2023, indicating a relatively stable trend. This implies that the organisation has not significantly invested in new assets or machinery throughout this time.
- The reduction in other assets has led to a corresponding decline in the company's total assets, which has diminished by 14% from £2,150,000 in 2021 to £1,850,000 in 2023.

Liabilities

- Accounts payable have increased from £30,000 in 2021 to £50,000 in 2023 – a 67% increase. It might mean the company has become too slow with the payment of its suppliers, maybe due to cash flow problems.
- The long-term credit has not moved but stayed at £1,500,000 during the period in question.
- Overall, the company's total liabilities have slightly increased from £1,530,000 in 2021 to £1,550,000 in 2023, which means the increase is 1%.

Equity

- This decreased significantly from £620,000 in 2021 to £300,000 in 2023. This represents a 52% decline. It can be from the company's losses because the net income has been negative.

Reasons for the decline in profitability

An examination of hotel profitability entails an integration of various components, including cost control, revenue generation, and operational effectiveness. Hoteliers can identify areas for improvement, seize revenue opportunities, and mitigate financial risks by thoroughly examining these critical areas (Menicucci, 2018). Inflation, warfare, pandemics, and geopolitics all influence hotel demand. Hotels must implement dynamic pricing and maintain a flexible revenue management strategy to maintain consistent profitability and occupancy rates. Various factors contribute to the decline in Seacrest Lodge's profitability. These include:

Increased competition

The market continues to be extremely active following a two-year fervour. In contrast to 2019, the supply of newly listed properties in the United Kingdom has decreased by 11%, whereas total demand has increased by 26%. Competition among purchasers has increased by an average of 135% in all seaside regions since 2019, while it has increased by 216% for tenants (Funston, 2022). The coastal market where Seacrest Lodge runs had new posh, modern resorts emerging on the scene. The rivals have newly- updated amenities, more satisfying services, and compelling price promotions, which would force clients to shift to their businesses. As more homes become available and coastal demand begins to alleviate, research indicates that competition between buyers and renters for homes in many seaside communities is beginning to abate (Bellamy, 2022).

Changing customer preferences

In recent years, the hospitality industry has witnessed substantial changes in consumer behaviour. A variety of factors, including technological advancements, sociocultural shifts, and global events such as the pandemic, have influenced these changes. Modern guests expect more than a simple place to sleep (Rahimi and Kozak, 2017). They anticipate a seamless and customised experience when they begin their hotel search. Their previous hotel stays and online interactions frequently influence these expectations. The lodge can opt for cutting-edge lodging facilities or experiences in changing consumer preferences. Instead of adjusting to these new consumer requirements,

Seacrest Lodge needed more unique experiences or sustainability practices to explain declining customer happiness and loyalty.

Pandemic impact

The global economic recession, made worse by COVID-19 outbreaks, has devastated the hotel and tourism industry (Skare et al., 2021). The direct effects of travel restrictions, lockdowns, and consumer cautious behaviour have led to a drop in tourism and hospitality revenue worldwide. Seacrest Lodge might have witnessed a drop in bookings and cancellations of events due to travel restrictions and worries about safety, which has only worsened its profitability.

Operational inefficiency

Operational efficiency pertains to the degree of effectiveness with which a business transforms inputs, encompassing labour, materials, and capital, into outputs, comprising products and services. Suboptimal operational efficiency may result in escalated expenditures and diminished profits, thus adversely impacting the financial performance of an organisation (Enqvist et al., 2014). Seacrest Lodge has been struggling with inefficiency in the management of resources, cost of labour, or maintenance expenses for developing new grounds to keep pace with changing times, which is the reason for the increasing operational costs over the years. These inefficiencies can consume a part of the profit and thus reduce the profitability over time.

Service quality and outdated amenities.

Customer feedback shows that the level of service has degraded, and the amenities at Seacrest Hotel are old-fashioned. In a competitive environment, where the customer experience has become a decisive factor in attracting and retaining consumers, the low standard of amenities and service can cause negative word-of-mouth and decrease customer loyalty, further affecting profitability.

Decline in ARR and occupancy rate.

The series decline in both ARR and occupancy rate during the past three years implies that Seacrest Lodge is finding it difficult to compete in pricing rooms and attracting guests (Khan et al., 2017). Reduced room rates and decreased occupancy rates lead to reduced income generation; this affects the quest for profitability. The premium hotel industry is anticipated to experience robust growth across all operational parameters in the current and following fiscal years as the COVID-19 pandemic subsides and the economy continues to recover.

Turnaround strategy

A turnaround strategy consists of a series of actions intended to save a struggling company. This strategy is employed when a company faces the imminent threat of closure and is experiencing a downward trajectory (Nyagiloh and Kilika, 2020). A struggling company can be rescued through the implementation of a turnaround strategy. In this case, a turnaround strategy for Seacrest Lodge is developed to revive its financial health and restore its reputation. Regardless of the specific circumstances, the objective of every turnaround strategy is to assist organisations in surmounting challenges, including those caused by mismanagement, excessive debt, low productivity, and asset depreciation (Santana et al., 2017). The followings are the steps and strategies that makeup Seacrest Lodge's turnaround strategy to mitigate its challenges and improve its financial outcomes.

Market analysis and research

- Research the public meticulously at length to be acquainted with current trends, customers' preferences, and products offered by the competition.
- As part of the investigation, examine the results of customer feedback, ratings, and satisfaction survey; find areas where improvement is needed.
- Engage in a SWOT analysis to identify the Seacrest Lodge's internal strengths and weaknesses along with external opportunities and threats and guide the rest of the strategic decisions.

Positioning and rebranding

- Develop an innovative brand identity that effectively embodies the unique qualities of the Seacrest Lodge, such as its picturesque coastline and personalised approach to guest experience.
- Position the lodge as a preeminent establishment celebrated for its serene atmosphere, lavish amenities, and personalised experiences (Artana and Wiagustini, 2018).
- Formulate a persuasive marketing communication highlighting the lodge's distinctive attributes and unwavering commitment to ensuring client contentment.

Upgrades and renovation

- Allocate funds towards refurbishing and enhancing the lodge's common areas, guest rooms, and recreational facilities (Schmitt et al., 2019).
- Elevate the guest experience by integrating technological advancements, contemporary design elements, and eco-friendly attributes.
- Ensure that the renovations contribute to the lodge's overall ambience and are consistent with the newly established brand identity.

Service excellence.

- Implement a comprehensive staff training programme to enhance professionalism, service quality, and guest interactions.
- Develop personnel capable of anticipating guests' needs, resolving any issues that may arise promptly, and exceeding expectations.
- Establish service standards and performance metrics to ensure that service excellence is consistently measured and maintained.
- Implement a comprehensive staff training program to enhance professionalism, service quality, and guest interactions (Fairley, 2019).
- Establish service standards and performance metrics to ensure that service excellence is consistently measured and maintained.

Online presence and digital marketing

- Enhance the lodge's online prominence through the implementation of a meticulously crafted website, active engagement on social media platforms, and targeted digital advertising campaigns.
- Employ pay-per-click (PPC) advertising, search engine optimisation (SEO), and social media marketing tactics to efficiently captivate potential guests and generate reservations (Jung and Jang, 2020).

- Leverage review platforms and online travel agencies (OTAs) to showcase positive guest testimonials and attract new customers.

Partnerships and community engagement

- Foster collaborations with local businesses, attractions, and community organisations to enhance the experience of visitors and promote sustainable tourism initiatives.
- Foster collaborations with industry associations, chambers of commerce, tourism boards, and chambers of commerce to actively participate in promotional campaigns and events while promoting the lodge as a desirable destination.

Responsible and sustainable tourism

- The lodge can effectively mitigate its environmental impact and attract environmentally conscious travelers by incorporating sustainable practices and green initiatives.
- Promote and instruct visitors on sustainable tourism principles and foster a sense of accountability throughout their vacation.
- Active participation in community initiatives and support for local conservation endeavours can effectively foster a positive impact on the long-term sustainability of the destination.

Value creation is critical for Seacrest Lodge to attain and maintain profitability. Successful turnaround strategies are heavily dependent on the capacity to generate value for customers, employees, and other stakeholders. Seacrest Lodge can attain value creation in a variety of ways, but it generally entails discovering novel or improved approaches to satisfy the needs or desires of customers (Sørensen and Jensen, 2015). Enhancing the customer experience, developing novel products or services, or establishing more streamlined processes are all viable approaches to accomplish this.

Frequently, it can achieve success in implementing turnaround strategies through the creation of enhanced value for its stakeholders. Companies can enhance their prospects of attaining profitability and sustained success by emphasising value creation.

Conclusion

To conclude, the objective of this report was to analyse the financial data of Seacrest Lodge and investigate the factors that impact on the organisation's profitability. An analysis reveals that Seacrest Lodge has experienced a decline in financial performance over the past three years because of unforeseen circumstances. During the preceding period, the organisation experienced a decline in profitability, an increase in expenses, and a loss of revenue. Furthermore, the financial state of the organisation is deteriorating, as evidenced by a decline in cash and equity, as well as an increase in liabilities. Seacrest Lodge must overcome critical factors, which include improving amenities, addressing evolving consumer trends, enhancing the customer experience, and implementing cost-saving measures to recover from a decline in profitability and maintain its competitive edge in the industry. The report presents a turnaround strategy for the lodge to implement. This all-encompassing turnaround plan will revive the hotel's financial health, reaffirm its status as a major player among the breathtaking seafront resorts, and position the Seacrest Lodge on a solid footing in the sea-bordering tourist markets.

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