

MODULE CODE: BMIH5007

**MODULE: FINANCIAL MANAGEMENT FOR
THE HOTEL INDUSTRY**

Assignment 2: Report on the City Hotel

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Declaration

I confirm that I have not used any AI tools in the research and creation of this assignment. I confirm that I have not presented any AI generated materials as my own work. I confirm I have copies of my drafts, notes, and other resources I used, which i may be asked to provide in evidence

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1.0 Introduction

Financial reporting is an important element for organisations as it allows them to evaluate the financial health of the company. The case study company is The City Hotel which is a hospitality company operating in the urban landscape. The evaluation of the financial performance of the company over the last three years has been done in the study. Focus has been given to aspects such as revenue, expenses, profitability, liquidity, as well as solvency. Discussion regarding the key reason behind the decline in profitability has been done. Further, a comprehensive strategy has been highlighted in the study

2.0 Evaluation of the trends in the financial performance of the past three years of The City Hotel

2.1 Trends of revenue and expenses

From the analysis of the income and expense report of the City Hotel, it can be seen that there is a significant level of fluctuation which is creating discrepancies in the overall financial condition of the company. Revenue and expenses are considered as two important components related to financial health of the company. Revenue is the inflow of the profit whereas expenses include overall expenditure of the company due to several internal and external factors (Ernayani *et al.*, 2022). In the case of the City Hotel, the organisation is suffering from a high level of expenditure by which the overall profitability of the company is getting impacted in a negative manner. The decrease in the amount of revenue can be resulted from several challenges of the external environment such as alteration of the demands of the consumers, volatile economic condition of the country, high level of competitiveness in the underlying market (Nariswari and Nugraha, 2020). City hotel's revenue had declined due to the reduction in the occupancy rate and declining satisfaction within the consumers.

Item	2021	2022	2023
Revenue	5,248,290	5,307,480	2,325,440
-			
Cost of goods sold	(411,600)	(401,510)	(176,250)
Employee costs	(1,724,760)	(1,770,700)	(1,233,160)
External expenses	(1,894,720)	(1,675,410)	(1,071,030)
Taxes and duties (excluding income tax)	((144,070)	(133,020)	(88,950)
Depreciation & amortisation	(409,190)	(634,030)	(661,590)
Charges to provisions	5960	17,950	(55,550)
Other current operating income and expenses	(40,520)	(25,030)	(41,100)
Other operating income and expenses	34,780	(11,000)	(216,650)

Figure 1: Revenue and expenses of The City Hotel

(Source: Extracted from the brief)

From the above image, it can be seen that the overall revenue of City Hotel had declined in 2023 as compared to the revenue amount of 2021. This is due to the increased cost of depreciation and amortisation in 2023 compared to 2021. Moreover, the decline in the overall revenue of the company resulted from the change in the preference of the features of the hotel rooms and other benefits. The declining amount of revenue depicts that the company is unable to provide high quality service as per the demands of the consumers. Henceforth, the company is required to optimise the quality of service for enhancing the overall experience of the consumers.

2.2 Profitability trends

It needs to be understood that profitability is one of the important elements that organisations are required to focus on. The profitability trends help to understand the changes in the profit level of the companies in different years.

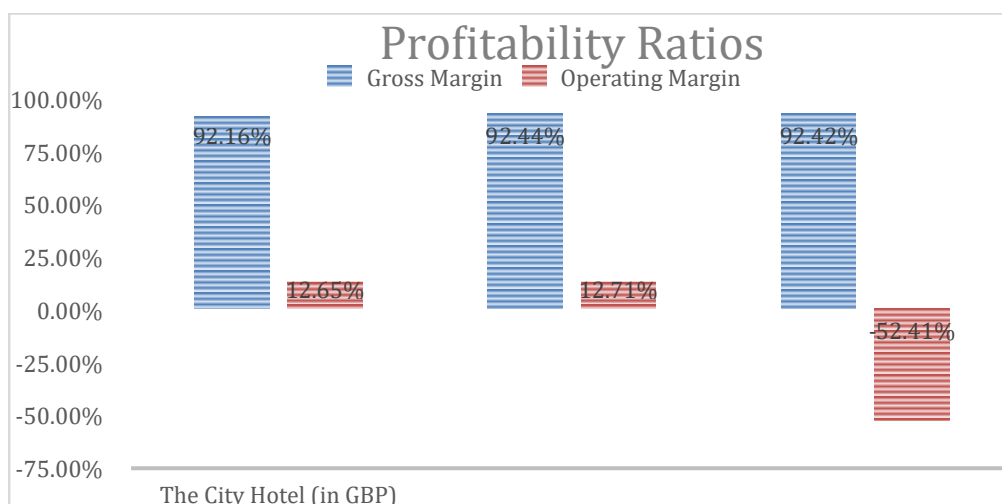


Figure 2: Profitability ratio

(Source: Created by the learner)

In terms of the organisation of The City Hotel, it can be observed that both the Gross margin as well as the operating margin of the company increased in 2022 in comparison to 2021. However, the company saw a drastic fall in the operation g margin in the year 2023. The operation of the organisation had reduced to as low as 52.41%. Jayathilaka (2020), in their study, has mentioned that the negative operating profit tends to imply the fact that the company requires additional funding. Apart from that it also indicates the fact that the company is not able to generate the necessary revenue that will be able to help them to receiver their cost. It is able to highlight that the financial health of the company The City Hotel has declined in a significant manner.

2.3 Patterns of liquidity

Liquidity ratio is a type of financial ratio that is used to determine whether a company can pay its short-term debt obligations. Therefore, these metrics help in determining if a company is currently using its current, or liquid assets to cover its current liabilities. Based on the financial information that has been provided a graph has been generated showcasing the liquidity ratio.

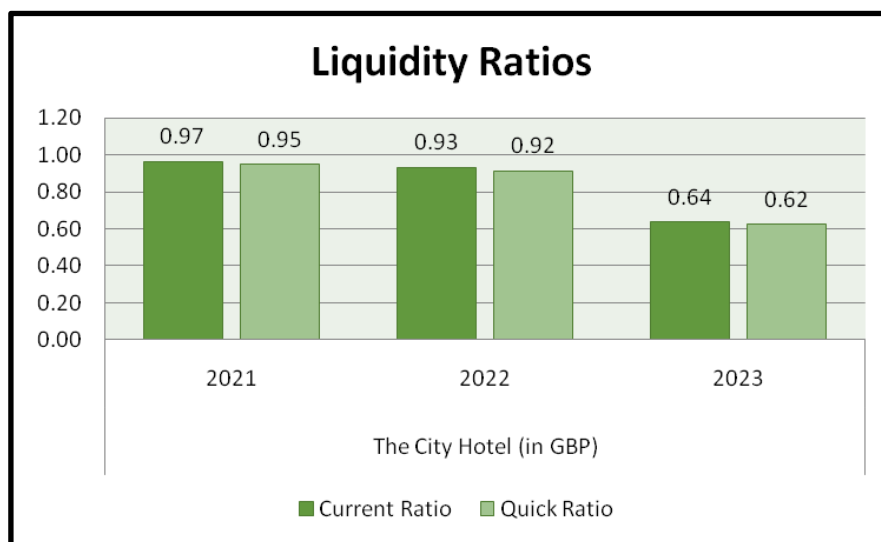


Figure 3: Liquidity ratio

(Source: Created by the learner)

From the above-presented graph it can be noted that in the years 2021 and 2022, the company was able to maintain its quick as well as current ratios above 0.92. This indicates that The City Hotel's current liabilities could be 1.5 times using its current assets. However, in the year

2023, they had a current ratio of 0.64 indicating that the company is unable to pay off its debts at the end of the year. Henceforth, the company's current ratio lower than one indicates the risks and makes it harder for the company to meet the short-term obligations that it might have. Henceforth, the sudden drop in current and quick ratio from 0.93 and 0.92 to 0.64 and 0.62, implies that the company has lessened the ability to generate cash. Therefore, the company could make use of the short-term assets to liquidate the business.

2.4 Trends of solvency

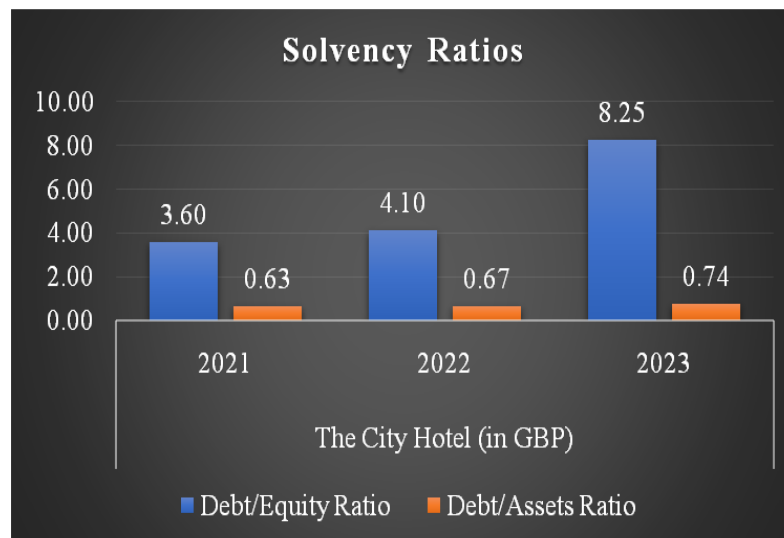


Figure 4: Solvency ratio

(Source: Created by the learner)

Analysing the organization's capacity to meet long-term objectives and lowering financial risks are referred to as the solvency trend. As per Paramitha (2024) examining the solvency trends can help improve the company's overall financial health. Here, in the case of the City Hotel, it has been noted that the quantity of debt relative to the level of assets and equity that is producing the business's poor financial situation is what determines the solvency trend of City Hotels. In the event that a company's revenue declines, it will be unable to meet its long-term financial obligations, resulting in a heavy debt load.

Referring to the above figure, it has been demonstrated that the company in question is using a lot of debt, which is causing its solvency rate to decline. In order to increase the company's overall brand value in the marketplace, the City Hotel must concentrate on raising customer satisfaction levels. By doing this, the City Hotels' management can boost the company's use of equity capital, which will lower the debt ratio. In addition to optimizing long-term investment, this may improve the company's solvency performance.

3. Determination of the key reasons for the decline in profit to focus on real-world events and the current economy

3.1 Rising labour costs and hotel staff shortages

The average labour cost in the UK is 49.08 points from 1955 to 2024 (Trading Economics, 2024). The labour cost of the UK has increased rapidly in the UK and various hotels and hospitality sectors are experiencing various operational costs and growth and this has created a significant downturn in the economic resources of the business. Based on the laws of equality and employee rights, the demand for an increase in employee salary, wages and other health benefits has increased rapidly within the hotel sector. Various organisations are currently providing health benefits, pension plans and allowances to their employees and led to an increase in employee costs (Werner and Balkin, 2021). The profitability and sustainability of the business have faced a lot of challenges. To determine their business in the continuously growing market the hotel and hospitality sectors are creating a lot of challenges in this situation. The management of the hotel industry is highly required to plan and create a sustainable and effective budget plan to determine the growth and profit of the business (Agubata *et al.*, 2022). In the process of remaining in the competitive market, the growing budget constraints are impacting upon the overall business profitability of the hotel sector including the profitability of the City Hotel. An important factor contributively to the deterioration in profitability at the City Hotel is the lack of hotel staff, aggravated by real-world proceedings such as the COVID-19 pandemic and ongoing financial challenges. The pandemic led to extensive layoffs and a change in workforce dynamics, ensuing in a talent shortage as the hospitality sector resisted to improve (Mujtaba, 2022). With less employees, the hotel has met increased operative strains, affecting service excellence and guest fulfilment. This lack has also led to higher labour prices due to overtime pay and staffing efforts, further draining the hotel's monetary performance amid increasing inflation and modest pressures in the hospitality business.

3.2 Cost of living crisis

In the current world wherein the cost of goods is rising significantly, consumers have no option but to adhere to alternatives which would not hurt their pockets. The rising cost of living is incurring a significant impact on the hospitality sector in the UK, since the prices of goods and services rise, this forces employees to demand higher wages to maintain a basic

livelihood. When the cost of living rises, this also makes it difficult for hospitality businesses to effectively manage a wide spectrum of business operations along with providing wages as per the demands. The BBC article highlights that the rise of costs, and inclining inflation rates, becoming 10.7% in January 2023 made it difficult for numerous hospitality firms located in Northern Ireland to optimally conduct their business operations (Rice, 2023). This led them to adopt business survival strategies amid rising costs of goods and energy. Undertaking information from the article of Kaufman *et al.* (2022), stated that likewise the issues faced by firms, the issue of rising goods and energy also affects the customers as well as the employees, and normal consumers are majorly impacted due to these aspects. Henceforth, this aspect of the rising cost of living for the employees and customers, and the rising cost of goods and energy shackles the hands of hospitality firms to optimise their profit.

3.3 Changing consumer behaviour

In the recent era, consumers are preferring sustainable and eco-friendly services and for that reason, hotel chains are highly required to focus on collecting sustainable resources. The determination of an effective Zero carbon emission policy and the determination of the waste management and sustainable packaging system the companies are required to incorporate a lot of financial resources and thus expensive methods have caused the decline in the profitability and growth of the business.

4. Strategy to enhance the financial health and create a positive brand image of the Hotel

4.1 Implementation of self-service technology for enhancing the experience of the consumers

In order to enhance the financial health of the company, the management can consider attracting consumers from the wider population. In this regard, the company can consider to implement the technologies related to provision of self service. This is beneficial for enhancing the quality of the service provided by the company (Mbeté and Tanamal, 2020). With the help of this technology, the consumers can be able to ensure proper reservation of rooms, getting adequate room service based on the necessity. Thus, the overall efficiency of

the service provided by the company can be enhanced. This can also be resulted in the enhancement of the brand image of the company in the competitive market.

4.2 Investing more in digital marketing

As the occupancy rate of the rooms of City Hotel is declining, the company is required to be focused on the improvement of the marketing strategies so that the consumers' awareness regarding the service of the company can be enhanced. In this regard, the management can consider to develop effective marketing content and publish them in several social media. Therefore, the company can be able to reach a wide range of consumers and the attention of the consumers can be grabbed in a proper manner (Fader, 2020). In addition to that, in the advertisements on social media, the company can highlight the unique features and opportunities of the rooms so that the consumers can be attracted to the company and the revenue of the company can be enhanced.

4.3 Ensuring balance between operational cost and income

The company can consider to hire an efficient and experienced financial manager with proper skills and capabilities who will be responsible for supervising the overall expenses of the company so that the proper amount of profit can be retained by the company. In addition to that, after implementing self-service technology, the company can make affordable prices for rooms therefore the consumers can be interested to take the service from the company. In this manner, the overall revenue and positive brand image of the company can be enhanced.

5.0 Conclusion

In conclusion, the financial performance valuation of the City Hotel discloses a worrying decline in profitability, mainly influenced by rising working costs, a lack of skilled staff, and exterior economic burdens. The analysis of liquidity, affluence, and profitability ratios validates negative tendencies, underlined by the influence of inflation and unstable consumer behaviour on the hospitality segment. To counter these challenges, the suggested turnaround strategy emphasizes on enhancing service distribution, enhancing operational prices, and leveraging digital marketing to entice guests. By accepting these events and ensuring practical monetary management, the City Hotel can work to restore its monetary health and standing in the marketplace.

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