

BA International Hotel Management

**Financial Management for the Hotel Industry
BMIH5007**

Report Case Study: The City Hotel

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1.0 Introduction

The City Hotel, a well-known urban entertainment complex with restaurants, bars, and event facilities, has suffered significant financial troubles. The revenue, occupancy, and customer satisfaction rates, declining for the past two years, questioned its sustainability in the long term. The hotel owner has sought professional opinion on when and if a turnaround strategy can be undertaken for its refurbishment and if other monetary solutions must be sought. This case study aims to study the hotel's finances, discover the key factors responsible for its downswing, and recommend action steps to restore profitability and retain its competitiveness in the industry.

2.0 Trends and Patterns of the Financial Performance of City Hotels

Analysing financial performance trends involves measuring key financial ratios to determine a firm's profitability, liquidity, solvency, and efficiency (Verma, 2015). The ratios inform us of the firm's ability to generate profits, settle debts, and maintain its operating efficiency in the future.

Profitability Ratios measure a firm's ability to generate profits against its revenue, assets, and equity. The Operating Profit Margin measures operating efficiency by comparing operating profits with revenue. A decrease in the margin can indicate higher costs or lower revenue (Atrill and McInerney, 2021). Return on Assets (ROA) measures the proportion of utilisation of assets of a firm for generating profits, and Return on Equity (ROE) measures the utilisation of shareholder equity for generating profits.

Solvency Ratios assess a firm's ability to satisfy long-term commitments. The debt-equity ratio indicates the proportion of debt financing for the firm against equity, and the higher ratio signifies the risk of finances (Drury, 2021). The Debt Service Coverage Ratio (DSCR) determines the firm's ability to repay its debts with its earnings from operations, and a low DSCR signifies probable liquidity problems.

Efficiency Ratios, such as the Current Ratio and the Liquidity Ratio, measure short-term financial fitness. A fall in such ratios may indicate probable cash flow difficulties, suggesting short-term liability issues. The analysis of City Hotel's financial performance trends analysis is given further-

2.1 Liquidity Analysis

Ratio	Formula	Year 2021	Year 2022	Year 2023
C u r r e n t Ratio	Current Assets/ Current Liabilities	(1 , 8 9 1 , 9 7 0 / 1,957,360) = 0.967:1	(1 , 9 6 5 , 3 4 0 / 2,107,750) = 0.932:1	(1 , 2 8 5 , 8 8 0 / 2,014,600) =0.638:1
L i q u i d i t y Ratio	Quick Assets/ Current Liabilities Here, Quick Asset= (Current Asset – Inventory)	(1 8 5 6 7 4 0 / 6000000) = 0.31:1 Here, (1891970-35230) = 1856740	(1 9 2 8 9 9 0 / 7000000) = 0.28:1 Here, (1965340-36350) = 1928990	(1 2 5 6 4 1 0 / 7800000) = 0.16:1 Here, (1285880-29470) = 1256410

Table 1: Liquidity Analysis

Source: (Self-made)

Analysis of Ratios

- **Current Ratio**

The Current Ratio represents the ability of the hotel to satisfy its short-term debts with its short-term assets. The ratio for 2021 was 0.967:1, i.e., for every \$1 of debt, there were \$0.97 of assets. The ratio for 2022 fell to 0.932:1, implying declining liquidity. The ratio crashed in 2023 to 0.638:1, suggesting a steep decline in covering debts (Jagels, 2007). The declining ratio indicates that the City Hotel has working capital issues and can be expected to have difficulties meeting its short-term obligations. The declining ratio suggests more use of outside financing or paying creditors after a lag.

- **Liquidity Ratio (Quick Ratio)**

The Liquidity Ratio, also called the Quick Ratio, is a more stringent test of liquidity, excluding inventory. The ratio for 2021 for the hotel was 0.31:1, i.e., \$0.31 of liquid assets for every \$1 of liability. The ratio dipped to 0.28:1 in 2022 and then went even lower to 0.16:1 in 2023. The reduction in ratio signifies that the hotel has a growing short-term liquidity problem (Hayes, 2024). A ratio of 0.16:1 in 2023 means the hotel does not have enough liquid assets to settle short-term liabilities, and there is a greater possibility of defaulting on short-term obligations.

2.2 Profitability Analysis

Ratio	Formula	Year 2021	Year 2022	Year 2023
Operating Profit Margin	$(\text{Operating Profit} / \text{Net Sales}) * 100$	$(664160 / 5248290) * 100$ = 12.65%	$(674730 / 5307480) * 100$ = 12.71%	$(-1218850 / 2325440) * 100$ = -52.41%
Return on Assets (ROA)	$(\text{Operating Profit} / \text{Total Assets}) * 100$	$(664160 / 12941110) * 100$ = 5.13%	$(674730 / 15921080) * 100$ = 4.24%	$(-1218850 / 15653970) * 100$ = -7.79%
Return on Equity (ROE)	$(\text{Net Profit} / \text{Shareholder's equity}) * 100$	$(664160 / 2256180) * 100$ = 29.43%	$(674730 / 2583030) * 100$ = 26.12%	$(-1218850 / 1410580) * 100$ = -86.40%

Table 2: Profitability Analysis

Source: (Self-made)

Analysis of Ratios

- **Operating Profit Margin**

The Operating Profit Margin represents the proportion of revenue that translates into operating profit. The 12.65% of 2021 and 12.71% of 2022 indicate operational efficiency. On the other hand, in 2023, 52.41% fell drastically, indicative of extreme financial difficulties. The dramatic drop suggests a massive increase in expenditure or a considerable decrease in revenue (Seal, 2019). The deficit suggests the unviable nature of the hotel's operations, and strict cost controls must be implemented immediately to ensure profitability.

- **Return on Assets (ROA)**

The Return on Assets (ROA) measures the profitability of assets. It had been 5.13% in 2021, declining to 4.24% in 2022, with declining profitability. It fell into negative territory in 2023, with -7.79%, suggesting assets are earning losses and not profits. The negative movement indicates the firm is not optimising its assets, possibly due to under-utilisation or declining demand (Vipond, 2024). The firm may erode its assets if this movement continues to finance its working losses.

- **Return on Equity (ROE)**

The Return on Equity (ROE) measures the profitability on equity of the owners. It had been 29.43% in 2021 and then 26.12% in 2022. It plummeted drastically in 2023 to -86.40%, exhibiting massive owners' losses. A negative ROE value means owners lose capital (Baltova, 2023). The steep drop signifies working capital losses and depletion of equity value, which can discourage future investment. The hotel can be led into insolvency if there is not a turnaround.

2.3 Solvency Analysis

Ratio	Formula	Year 1	Year 2	Year 3
Debt to Equity Ratio	(Total Liabilities / Shareholders' Equity)	(10684940 / 2256180) = 4.73	(13338050 / 2583030) = 5.16	(14243390 / 1410580) = 10.09
Debt Service Coverage Ratio (DSCR)	(Operating Income + Depreciation and Amortisation) / Interest Expense	(664160 + 409190) / 8113710 = 0.13	(674730 + 634030) / 7755840 = 0.16	(-1218850 + 661590) / 8290570 = -0.067

Table 3: Solvency Analysis

Source: (Self-made)

Analysis of Ratios

- **Debt to Equity Ratio**

The debt-equity ratio indicates the use of financial leverage. It was 4.73 in 2021, i.e., the hotel had \$4.73 of debt for every dollar of equity. It rose to 5.16 in 2022, indicative of increased reliance on debt. The ratio jumped to 10.09 in 2023, a critical point implying the hotel has very high leverage levels and faces substantial financial risk (Wild, 2018). The upward ratio indicates too much borrowing, possibly because of declining revenues and higher expenditure. A ratio of more than 10 indicates that the firm finances its operations mainly with debt and hence faces the risk of financial distress if creditors call for repayment.

- **Debt Service Coverage Ratio (DSCR)**

The Debt Service Coverage Ratio (DSCR) measures the ability to pay debt obligations with working profits. The 2021 ratio of 0.13, lower than the optimal 1.0, meant profits were insufficient for debt repayment. The ratio rose somewhat in 2022 to 0.16 and remained very low. The ratio fell into negative territory in 2023 and remained at -0.067, which meant the hotel was earning too little to repay debts and pay interest (J.P Morgan Chase, 2025). A negative ratio means a failing firm and a firm on the precipice of default on debt and, therefore, very much in financial trouble.

3.0 Key Reasons Behind the Decline in Profitability

The decline in profitability for the City Hotel is multidimensional. The reasons are given further-

- **Significant Revenue Decline:** The City Hotel's revenue fell from £5,248,290 in 2021 to £2,325,440 in 2023, a 55.7% decrease. This implies lower occupancy, fewer events, and lower restaurant and bar sales.
- **Increase in Operating Expenditure:** Revenue went down, and even then, there were higher operational expenditures, mainly on people (£1,233,160 in 2023) and outside

expenditure (£1,071,030 in 2023). There was a lack of cost-efficient practices even with lower levels of business.

- **Rising Depreciation and Amortisation Expenditure:** Depreciation and amortisation expenditure rose from £ 409,190 in 2021 to £ 661,590 in 2023, reflecting continuing assets' investment without commensurate revenue returns (Menicucci, 2018).
- **Increase in Provision Charges:** Provision Charges fell negatively in 2023 for (£55,550) from (£5,960) in 2021, implying future anticipated liabilities or operational inefficiencies.
- **Negative Other Operating Expenses and Income:** A significant increase in other operating losses (£216,650 in 2023) points to unexpected expenditures, including write-offs and asset write-downs, contributing to profitability decline.
- **High Debt Burden and Interest Charges:** Excessive indebtedness led to heavy burdens, escalating the debt-to-equity ratio from 4.73 in 2021 to 10.09 in 2023. This implies heavy reliance on debt financing with insufficient revenue for repayment.
- **Macroeconomic & Industry Issues:** Inflation, reduced consumer spending, and reduced travel demand could have compounded the hotel's finances, limited top-line growth and pushed up working costs (Pelaez-Verdet and Loscertales-Sanchez, 2021).

4.0 Strategy to Overcome the Decline for City Hotels

A systematic turnaround strategy is required to revitalise the City Hotel's finances and restore its image.

- **Revenue Enhancement:** Implement dynamic pricing methods for maximum occupancy and appeal to value-conscious tourists. Expand event hosting, corporate affiliations, and promotional deals for restaurants and bars. Leverage online campaigns, loyalty programs, and affiliations with tour operators for higher booking.
- **Cost Optimisation:** Conduct a full cost review and identify savings opportunities. Scale down staffing levels by seasonal demand and install automation processes where possible (Singal, 2015). Negotiate with suppliers for lower rates and explore ways of limiting the use of costly energy sources.
- **Debt Restructuring:** Negotiating with lenders for more favourable loan terms, lowering interest rates, and refinancing. Using flexible repayment schedules to improve cash flow with creditors and suppliers.
- **Operational Efficiency:** Enhance processes by utilising the latest hotel management software for improved booking, customer, and inventory management. Create staff training plans for quality improvement and improved customer experience.
- **Brand and Reputation Management:** Invest in online advertisements, interact more with online clients, and pre-emptively manage negative reviews (Turner et al., 2017). Enhance customer experience with personalised packages, offerings, and luxury amenities.

- **Exit Strategy (Where required):** If turnaround efforts are not feasible, sell the property, lease the property to a management company, or reposition the business model (e.g., co-living space, serviced apartments) for optimal returns.

5.0 Conclusion

The City Hotel faces critical financial difficulties with shrinking revenue, rising expenditure, and accumulating debts. Its finances are also strained, with negative profitability and ineffective cost structures. Its finances can be revived with a turnaround strategy, revenue growth, cost minimisation, debt renegotiation, and process improvement. Brand reinforcement and customer satisfaction will be critical in regaining competitiveness in the marketplace. If turnaround becomes impractical, other financial scenarios, such as asset realignments and property sales, must be considered. A firm and tactical approach must be made to secure the hotel's future.

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