

BMIH5007

Financial Management

Risk Management & Financial Strategies

HOSPITALITY
AND
TOURISM
MANAGEMENT

Man Geni Addysg Uwch yng Nghymru
Where Higher Education Began in Wales



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David



Aims for today

- Risk Management within the Hotel Industry
- Types of Financial Risks in Hotels
- Strategies to Mitigate Financial Risks
- Profit & Loss (Income) Statement

Introduction to Risk Management

What do you know about risk management?

What is Risk Management?

A financial risk management process is a series of steps undertaken to identify potential financial risks, assess their severity, and identify how they can be managed.

(Corporate Finance Institute 2023)

The Risk Management Sequence



Assessing and quantifying the risk

Identifying
the risk

Assessing
and
quantifying
the risk

- Analysing the current financial situation
- Brainstorming financial risks in a workshop setting
- Using previous financial stress events as reference
- Interviewing internal and external parties and experts
- Using pre-determined financial risk checklists

Defining strategies to manage the risk

Defining strategies to manage the risk

- **Risk avoidance:** includes the elimination of activities which may expose the party to risk.
- **Risk reduction:** includes mitigating potential losses or the severity of losses.
- **Risk transfer:** includes transferring risk to a third party.
- **Risk retention:** includes accepting responsibility for a given risk.

Implementing & Monitoring a Strategy

Implementing
a strategy to
manage the
risk

- Reflect the nature of the risk
- An understanding of the current situation
- The risk should be fully understood

Monitoring the
effectiveness
of the strategy
in managing
the risk

- Continuous monitoring as current risks may change
- Effective reporting, ensuring risk is being managed appropriately

Types of Financial Risks in Hotels

- **Market Risks:** associated with changes in market conditions that can affect a hotel's revenue and profitability.
- **Operational Risks:** arising from internal processes, systems, or human error that can disrupt hotel operations and financial stability.
- **Financial Risks:** associated with the hotel's financial structure and debt obligations.
- **Regulatory & Compliance Risks:** related to the hotel's adherence to local, national, and international regulations and standards.

Strategies to Mitigate Financial Risks

- **Insurance:** transferring the financial risk of certain events or losses to an insurance company in exchange for premium payments.
- **Diversification:** the practice of spreading revenue sources across multiple streams to reduce reliance on a single source of income.
- **Financial Planning:** involves creating a comprehensive financial strategy that includes budgeting, forecasting, and risk mitigation plans.
- **Operational Controls:** procedures and protocols put in place to minimize operational risks and financial losses.

Essential!!!!

Financial Analysis Ratios

- Current Ratio
- Quick Ratio
- Debt-to-Equity Ratio
- Return on Assets
- Return on Equity

What is a Profit & Loss (P&L) Statement?

Profit & Loss Statement

- Also known as an Income Statement
- Summary of a company's revenues, costs and expenses
- Covers a specific time period
- Primary purpose is to demonstrate whether a company is generating a profit or a loss.

Profit & Loss Statement

Key Components

- Revenue
- Cost of Goods Sold (COGS)
- Gross Profit
- Operating Expenses
- Operating Income (Operating Profit)
- Non-Operating Income & Expenses
- Income Before Tax
- Income Tax Expense
- Net Income (Profit or Loss)

Any questions.....?

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I look forward to seeing you next week.

If you have any questions in the meantime,
please send an email from your student
account

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Next week.....

Revenue Management

Please have a look at the material on
Moodle, which will be made available
this Friday.