

The City Hotel- Case Study.

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Executive Summary

The study shows that the City Hotel recorded a decline in financial performance during the last three years. Revenue declined by more than half, and operating income became negative in 2023. Several factors are blamed for the downturn, ranging from the impact of COVID-19 on tourism, and inflationary pressures, to increasing operational costs. This report will analyse the hotel's current financial position, identify critical risks and develop a plan of recovery through phased actions. The short-term recommendation shall be immediate cost control and risk management while long term will be market repositioning (Puglieri et al., 2022)

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Introduction

The City Hotel is a mid-scale operation that is an urban hotel that provides guests with services like restaurants, a bar, and event services, or facilities and has been experiencing a decline in the past several years. This meant the revenues, occupancy and customers' satisfaction reduced hence making the future sustainability of the business questionable. Some of the reasons for this decline include; Economic constraints such as the recent COVID-19 impact, competition from other new entrants and more adaptable players (Hadija, 2023).

Aim and Objectives

The primary aim of this report is to propose a timely and feasible turnaround plan that effectively responds to areas of concern in the hotel. If such a revival is attainable, this report will suggest concrete steps towards curing the financial ailment and generating customer satisfaction.

- To identify the critical causes behind the decline in profitability and assess their link to real-world events, such as economic downturns, and internal management decisions.
- To understand which of these factors are most damaging to its profitability and whether it corresponds with real-life situations which can be management decisions and economic recessions.

Financial Analysis of The City Hotel

Revenue Trends and Decline

The study shows that the revenue brought in by the hotel has declined sharply from a £5.3 million mark in 2021 to only £2.3 million in 2023. This is largely driven by COVID-19 and its

long-lasting impacts on travel and hospitality. The years following 2021 were characterised by lesser tourism, higher costs, and adequate competition from other accommodation services, such as Airbnb. The inflation rate in the UK has been escalating since 2023. This would continue to decline consumers' disposable income as well as reduce travel and discretionary spending, which can have an immediate impact on the hotel's occupancy rate and revenue (Pearce and Pearce II, 2020).

Assessment of the Financial Results

Total Revenue (2021-2023)

The study analyses that regarding the chart of revenue performance from 2021 to 2023, it can be seen that the performance of The City Hotel declined drastically. In the year 2021, the hotel had received £5,248,290 as revenue and it marginally rose to £5,307,480 in 2022. However, it hit £2,325,440 in 2023, which had reduced by a total of 56% of its revenues earned in 2021. The report reflects external influences like the COVID nineteen pandemic which negatively impacted the overall hospitality business throughout the world through the restriction of movement and reduced recurrent spending through consumption of refreshments mainly when travelling (Fu, 2023).

Expenses:

The study outlines that the costs associated with the goods sold, including food and beverage costs have been done in ratio with the revenue diminution from £411,600 in 2021 to £176,250 in 2023. However, the decrease in COGS has been unable to offset the revenue decline that has been experienced within the period.

- **Employee Costs:** Employee costs have still been high, although only in 2023 employee costs have decreased from £1,770,700 in 2022 to £1,233,160. This exacerbates the rigidity in employee-related costs including wages and other staff costs.
- **External Expenses:** Such overheads range from, the cost of electricity, water and other services, service providers and miscellaneous expenses. The study shows that within the two years, the non-operating cost of the hotel decreased from £ 1,894,720 in 2021 to £ 1,071,030 in 2023. However, measures such as these to reduce costs have not been sufficient enough to cushion the organisation from the effect of low revenue.

Profitability and Operating income:

The study outlines that this had gradually declined from an operating profit of £664,160 in 2021 to operating profits of £674,730 in 2022, but translated into an operating loss of £1,218,850 for the year ended 2023. This means that the hotel has been unable to generate adequate revenue to undertake comprehensive fixed and variable costs mainly due to shocks in the market. These operational losses will demonstrate that there is a need to address the issues further to worsen financially in 2023.

Liquidity Analysis

The study highlights that the changes in the balance sheet show that the cash and cash equivalent of The City Hotel has reduced from £740,590 in 2021 to £295,510 in 2023 which signifies a liquidity problem. Under such a low cash balance, the hotel is likely to experience short-term financing problems such as paying suppliers and loan interests. Trade receivables also decreased from £691,380 in 2021 to £479,180 in 2023 suggesting that credit sales, which could be a result of reduced demand or tightened credit policy. 2021 to £1,071,030 in 2023. However, such cost-cutting measures alone have not been able to offset the impact of plummeting revenue.

The study shows that operating income experienced a steady decline, dropping from £664,160 in 2021 to £674,730 in 2022 and turning into a substantial loss of £1,218,850 in 2023. This indicates that the hotel has struggled to generate sufficient revenue to cover its fixed and variable costs, particularly in the face of external market disruptions. The operational losses in 2023 make it clear that urgent intervention is necessary to avoid further financial deterioration.

Income Statement (in GBP)

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)
-			
Operating Income	664,160	674,730	(1,218,850)

Solvency and long-term borrowings

The report outlines that the non-current liabilities which refer to the amount borrowed by the hotel over the long term have risen from £8,113,710 in 2021 to £8,290,570 in 2023, this shows that the hotel has increased dependence on borrowing with the intention of financing (Siddiqui, 2021). In addition, the increase accompanied by a drastically reduced equity (£2,256,180 in 2021 and £1,410,580 in 2023) raised a possibility of a declining solvency position. Second, the lease debts are also increasing, from £3,100,830 in 2022 to £3,621,810 in 2023; this financial obligation increases the pressure that the hotel has to reduce costs, undermining its sustainability (Murcia et al., 2023).

Balance Sheet (in GBP)

	2021	2022	2023
Goodwill	4,644,940	4,611,270	4,558,200
Other intangible assets	1,774,590	1,865,250	1,874,250
Property, plant and equipment	4,053,590	3,803,530	3,574,710
Right of use	-	3,100,830	3,621,810
Investments in associates	77,440	83,440	59,850
Non-current financial assets	88,470	80,970	77,190
Other non-current assets	-	-	-
Deferred tax assets	410,110	410,450	602,040
TOTAL NON-CURRENT ASSETS	11,049,140	13,955,740	14,368,100
Inventories	35,230	36,350	29,470
Trade receivables	691,380	792,450	479,180
Current tax assets	158,730	141,310	73,490
Other receivables	215,050	236,540	291,270
Current financial assets	50,980	117,050	116,950
Cash and cash equivalents	740,590	641,620	295,510
TOTAL CURRENT ASSETS	1,891,970	1,965,340	1,285,880
TOTAL ASSETS	12,941,110	15,921,080	15,653,970
Share capital	2,620,370	2,620,370	2,620,370
Retained earnings and other reserves	(801,550)	(452,820)	(151,050)
Net income for the year	333,930	304,650	(1,134,950)
OWNERS EQUITY	2,152,750	2,472,200	1,334,370
Non-controlling interests	103,430	110,830	76,210
TOTAL EQUITY	2,256,180	2,583,030	1,410,580

Risk Analysis and Key Issues

Market Risk:

The study further states that the problem is reduced demand for services and hospitality, while the same inflation has amplified that people are trying to stay away from travel. Hence, competition at various levels would further increase since a greater part of business and individual customers are relying on more competitive short-term platforms such as Airbnb (Thakur, 2021).

Operational Risks:

Higher labour and energy costs create additional burdens. The study shows that the industry has a high turnover rate, which makes the workforce unstable which impacts greatly on customer service and satisfaction.

Financial Risk:

If this revenue continues to decline, the debt burden becomes impossible for the hotel to handle the operating and financing expenses (Hadija, 2023).

Risk Management Strategies:

Using a risk management framework, the proposed strategies for addressing the various challenges include the following strategies:

Risk Avoidance:

To counter seasonal low-occupancy periods, specific promotions or discount packages to regional customers and business travellers should be initiated.

Risk Reduction:

The study highlights that cost-control measures such as imposing tight restrictions across non-essential areas may enhance financial stability. Optimising some inventory management, better negotiable terms with suppliers and energy usage can all be overhead controllers.

Risk Transfer:

In-house management of detailed operational tasks or insurance options that cover event cancellation can help reduce some of the operational and financial risks of the hotel (Majka, 2024).

Risk Retention:

Some minor risks have to be retained to maintain the essential services. For example, keeping a few staffing costs steep can ensure quality service, which is directly impacting customer satisfaction and retention (Hibbeln and Osterkamp, 2024).

Strategy Models and Theories- Turnaround Strategy

The Ansoff Matrix models strategic positioning.

The strategy proposed by the Ansoff matrix determines several potential growth strategies and includes:

Market Penetration:

The study outlines that the hotel can gain local customers and encourage people to stay in the country during holidays by using loyalty and promotional offers. This will support the occupancy level during low-demand periods (Demirci and Erkip, 2024).

Product Development:

There are new revenue streams added to the hotel through additional services like co-working space, wellness programs, or small events spaces, which attract diversified customers (Salehi et al., 2021).

Bowman's Strategy Clock:

The study highlights that the hybrid strategy involves a combination of cost leadership and added value, thus providing an ideal price-quality proposition. The City Hotel recently scaled up the hybrids from a previous, narrow view of The City Hotel itself making it an additional opportunity at a reduced budget which continues to ensure an upscaling level. The report outlines that, With catering for cost-conscious travellers still having some levels of quality standards within such stay, The City Hotel captures such groups and segments under travel to reach such an audience it offers to the guests more conveniently (Arsahd et al., 2017).

The Supply and Demand Theory

The research highlights that the demand-driven dynamic pricing model may also enhance revenue in peak-demand times while improving occupancy levels off-peak time.

Recovery Strategy

Phase 1: Swift Recovery (0–6 months)

- Target promotions to locals with value-added packages to attract more guests.
- Staff training is introduced to make services more efficient considering the budget constraints so that the customers are satisfied (Seh et al., 2018).

Phase 2: Revenue diversification (6-18 months)

- Services and customer segments will be expanded.
- Debt structure is optimised, and refinancing options are considered so that interest expenses are reduced.

Phase 3: Sustained Position for Expansion (18–36 months)

The research illustrates that once the financial health of the company stabilises, long-term growth opportunities are pursued:

- Formation of strategic alliances with event coordinators or local contacts which will bring stable revenues.
- Low-level upgrading in facilities with a leaning towards green practices so to attract green customers (Abdou et al., 2020).

Conclusion:

The research concludes that the City Hotel is going through a very serious financial and operational crisis, and the phased turnaround approach may look promising. A combination of cost control, targeted marketing, and gradual service expansion can stabilise the business. With careful application of risk management principles and continuous monitoring, the hotel can adapt to economic pressures and shifting market dynamics, ultimately restoring profitability and resilience in the long run.

Recommendations:

- Enhance Local Marketing: Concentrate on the locals by marketing the restaurant, bar and event space. Free-standing packages, weekend promotions, weekend getaways, and group promotions for companies should be properly advertised online.
- Flexible Staffing and Outsourcing: Currently it is advisable to hire fewer full-time workers during low business times and instead hire part-time, or seasonal workers. It

will be useful to train employees to perform diverse tasks, which will contribute to improvements in the effectiveness of the services (Vinod, 2022).

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