

Module title: Financial Management for the Hotel Industry

Module code: BMIH5007

Lecturer: Tristan Hawkings

Student name: Renáta Kapus

Student ID: 2226188

Case Study:Urban Heights Hotel

word count: 1970

Executive summary

This report is written to define the financial situation of Urban Heights Hotel focusing on revenue, expenses, profitability, liquidity and solvency. It examines the hotel's income statement and the balance sheet to analyse it in order to be able to develop a comprehensive turnaround strategy to provide a viable financial outcome for the owner. Its aim is to state that it is worth saving this business or not and what actions should be taken to revive it. The report involves suggestions on how to boost the hotel.

Introduction

The purpose of this report is to evaluate the trends and patterns in Urban Heights Hotel's financial performance over the past three years. It has included revenue, profitability, expenses, liquidity, and solvency. Furthermore, this report identifies the main reasons for the decrease in profitability, including world events and the current economy. The other aim of the report is to assess if this business can be saved or not. In the case of viability, it suggests a turnabout strategy for how to revitalize the hotel's financial situation if the business is viable.

Analysis of the hotel's Financial Performance

Revenue, Operating Expenses, Net Income

This report will examine the trends and patterns in this hotel's financial performance over the past three years. First of all, regarding the income statement (Figure 1.), a great decline can be seen in revenue in 2023; it was £1,800,000 compared to the last two years, 2022 and 2021. In 2021, the revenue was £2,500,000, which was £700,000 higher than in 2023. In 2022, it was £ 2,200,000, so the revenue was £300,000 lower than in 2021.

Considering the operating expenses (Figure 1.), they became absolutely much higher in 2023. In 2023, they were £2,300,000, which was £300,000 higher than in 2022 and £500,000 higher than in 2021.

Regarding the net income (Figure 1.), it was £500,000 in 2023, which is £300,000 higher than it was in 2022, however, the hotel's net income was £700,000 in 2021. Therefore, it can be claimed that the decline in net income is moderate.

Income Statement- Urban Heights Hotel (GBP)

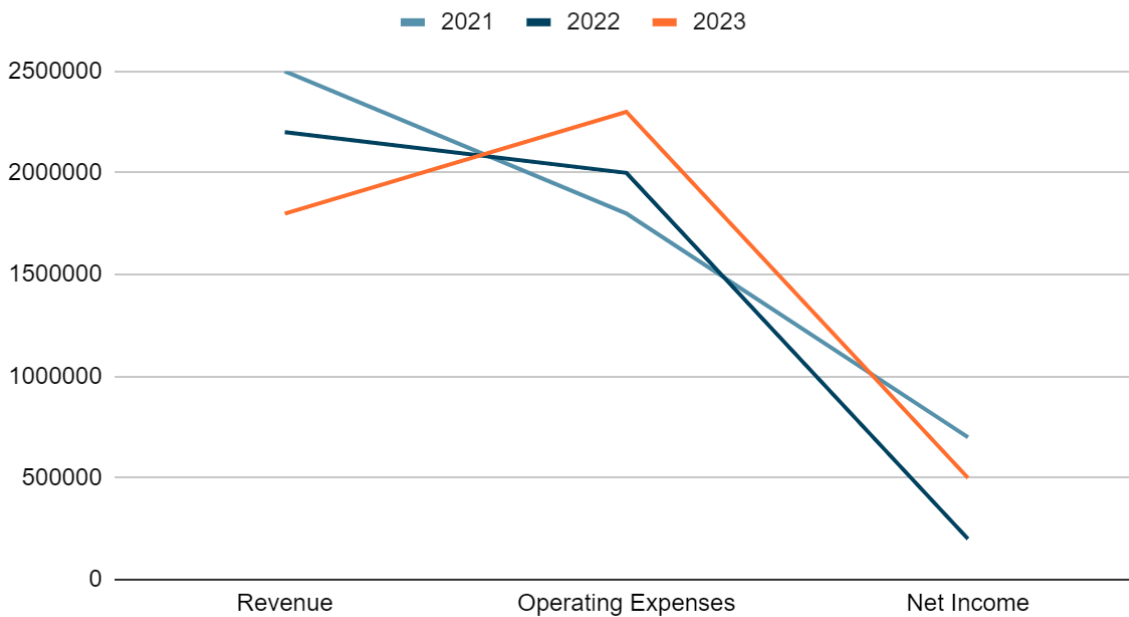


Figure 1. Income Statement of the Urban Heights Hotel

Analysis of the hotel's Asset and Liability

According to the Balance Sheet, the amount of cash and equivalents was £200,000 lower in 2023 compared to the amount in 2021, which was £300,000. In 2022, it was £200,000; consequently, a £100,000 decline can be seen annually.

The accounts receivable decreased continually because in 2021 they were £150,000, in 2022 they were £100,000, and last year in 2023 they were only £80,000. It is a £70,000 decline compared to 2021.

Regarding property and equipment, they were £4,500,000 in 2023, it is £300,000 lower than in 2022, nevertheless, this amount was £5,000,000 in 2021. Therefore, a continuous decline can be seen from year to year within these three years.

The total assets were £5,450,000 in 2021, in 2022, they were reduced by £350,000; and last year, in 2023, they were only £4,680,000.

Considering accounts payable, their amount was £50,000 higher in 2023 than in 2021. The amount grew in 2022 as well because it was £270,000.

The amount of long-term debt remained the same over the past three years, £3,000,000.

The amount of total liabilities was £50,000 higher in 2023 than in 2021. In 2022, it was £3,270,000, so it was £20,000 higher than in 2021.

Finally, regarding the equity, a £500,000 decline can be seen in 2023 compared to the amount of £1,830,000 in 2022. In 2021, it was £2,200,000, thus, this is a very huge decline.

Ratio Analysis

Ratio analysis compares current period ratios to previous periods and industry norms by expressing the proportionate numerical connections between statistics provided in financial statements. In order to do a ratio analysis, it is necessary to know where to go for the information required to examine the various data (Datarails, no date). Various widely used ratios are presented to explain the connection between two variables. There are four main ways to assess a ratio or percentage: industry data, external competition data, operations outcomes from a prior period, and predefined budgeting rules. These will all be covered. Current liquidity ratios, long-term solvency ratios, profitability ratios, activity, and operational ratios are the five main categories of typical ratio analysis methodologies that businesses often employ to represent the status of their operations, financial, and economic condition (Winwesta, 2023).

Ratio analysis may forecast the performance of a business, for better or worse. Strong ratios are a hallmark of successful businesses, and any unexpected indication of weakness in one area might cause a large stock sell-off. Investors must utilize these financial statistics carefully, taking into account their own subtleties, and combine them to provide a thorough analysis of a stock (Winwesta, 2023).

Regarding the Urban Heights Hotel's liquidity, the current ratio is 1,68 in 2021, 1,56 in 2022 and 1,42 in 2023. A slight decline can be seen in the figures, therefore, in the coming one year, however, the hotel will be able to pay its current debts. Ratio above 1 is considered good.

The hotel's profitability ratio including net profit margin is 28% in 2021, 9% in 2022 and it is 28% in 2023. From these figures, it can be seen that the business is making money and controlling its expenses well. However, it might also mean that the business is underfunding internal requirements like labor upskilling and research and development (Munro, 2023).

The ROE (Return on Equity) of the business is 32% in 2021, only 11% in 2022 and it is 36% in 2023. It indicates that in 2021 and in 2023, the hotel generated more profit per unit of the equity. Above 20% is considered very good. An organization is more successful at turning equity capital into profits if its ROE is greater. Nevertheless, in 2022, the ROE ratio, 11% is also considered good because it covers its costs of capital (Fernando, 2024).

Possible reasons of decline

The hotel has experienced a decline in revenue, occupancy rates and customer satisfaction nowadays. This report examines the reasons for this decline.

First of all, deflation is a phenomenon that is caused by inflation and is related to vengeance tourism. Demand may rise due to local events, yet low prices may have negative economic effects. Rather than scrambling to make last-minute price changes, hotels would be better off modifying their pricing strategy weeks or months in advance of events to optimize income (Smartpricing, 2024).

Secondly, the reason for the decline in occupancy rates, can be economic challenges like inflation. The UK hotel industry is demonstrating resilience in the face of economic difficulties, according to Chris Tate, head of hotels and accommodations at RSM UK (RSM, 2023).

Regarding the decline in customer satisfaction, it can be mentioned that many hotels have not made enough plans for their workforce needs, or they struggle mightily to find, nurture, and keep the talent needed to provide the best possible client experience. Additionally, businesses have occasionally overstated their ability to use technology, data, and design to increase productivity and satisfy customers. Although technology greatly contributes to improving the customer experience, it is not a cure-all (Causon, 2024).

According to ResearchLive, customers in the UK have suffered in 2022 as a result of firms cutting expenses and frequently using outdated technology to automate services inconsistently (McQuater, 2023).

In 2023, a crisis in the cost of living will coexist with a staffing deficit in the British hotel industry. In fact, it appears that fresh challenges surfaced at the very moment when the pandemic stopped and lodging establishments could reopen (Modern Hospitality, 2023).

The term "cost-of-living crisis" has gained popularity in recent years and has been a source of worry for both consumers and companies. Particularly, hotels may see a decline in business as customers feel compelled to cut back on spending and skip customary vacations. Many hotels have raised their rates recently due to rising operating costs, which has made them less appealing to customers who are suffering from the cost of living problem (Modern Hospitality, 2023).

The difficulty of finding employees to take care of these visitors is the next problem hotels face. One in five firms cite recruiting as their biggest concern in 2023 due to a workforce crisis caused by the knock-on effect of Brexit and bad perceptions towards the hospitality industry (Modern Hospitality, 2023).

Turnaround strategy- How to revitalize the hotel's financial health

According to the analysis of the hotel's income statement and balance sheet, it can be claimed that the Urban Height Hotel can be saved. This report suggests some ideas on how to increase revenue, restore the hotel's reputation.

In order to revitalise the financial health, using a product like Smartpricing, a dynamic pricing and revenue management software, is the ideal approach to get rid of trouble and subjectivity. It can help you identify the most profitable price by automatically detecting crucial events for your institution and estimating their influence on sales (Smartpricing, 2024).

Regarding increasing customer satisfaction, hotels must have a keen awareness of the times. Inspiring and transparent organizational mission and culture are ensured by leadership, understanding changing customer needs and behaviors, offering the

ideal balance of people-led and technology-led service channels, maintaining operational performance consistency, and developing employee skills and engagement (Causon, 2024).

In order to solve out dated technology, early adopters in the UK are benefiting from the latest artificial intelligence systems, which offer better service and increased corporate performance. These companies use AI to give employees greater freedom to do more or to directly provide individualized, sympathetic consumer experiences (McQuater, 2023).

Value is important when there is not enough money. Hotels could take advantage of this to show customers that their institution is worth the cost since consumers' choices become more relevant when they have less discretionary cash (Modern Hospitality, 2023).

The best way for hotels to address this is to make sure that their guests always receive the highest caliber of service and are never let down. A hotel may improve its chances of drawing customers even in the current economic situation by emphasizing this value for money across its website and marketing materials. To draw in new employees and keep hold of current ones, hotels must emphasize that working in the hospitality industry can and should include more than just earning a paycheck (Modern Hospitality, 2023).

Recommendations

- Determine how many and which events could be relevant to your hotel. Then, use a pre-established approach to modify your pricing plan in order to ensure that you do not miss any income potential coming from events. To begin with, you may create a broad category for the events, breaking them down into: major, minor, unexpected events (Smartpricing, 2024).
- Upon mapping out every event that pertains to your facility, you must give each one a value in order to create an appropriate price plan (Smartpricing, 2024).

- Improve the internet presence of your hotel to increase reservations, interact with your audience, and provide a favorable image of your business (Ching,2024).
- Maintain a reputation for providing exceptional customer service by keeping a close eye on communication channels and giving priority to prompt replies (Ching,2024).
- Join forces with nearby companies and vendors (Glion, 2023).
- Examine and enhance the distribution (Glion, 2023).
- Recruit everyone in your team (Glion, 2023).

Conclusion

This report has examined the Urban Heights Hotel financial performance over the past three years to determine it can be saved or not. According to the examination including ratio analysis, it can be claimed that this business can be saved. The figures show that the hotel's financial performance is health, but there are some events which caused decline. The report has highlighted the main reasons of the decline and suggested some advice on how to restore its reputation again. If the owner will take these recommendations, the performance of the hotel will increase in the future.

Reference list:

Causon,J.(2024) 'It is mission critical to turn around the decline in UK customer satisfaction',*The Institute of Customer Service*, 29 January. Available at: <https://www.instituteofcustomerservice.com/turn-around-decline/> (Accessed: 03 June 2024).

Ching,D.K.(2024) '10 Tips for Effective Hotel Reputation Management', *Rize*, 9 January. Available at: <https://rizereviews.com/10-tips-for-effective-hotel-reputation-management/> (Accessed:03 June 2024).

Datarails (no date) *Ratio Analysis*. Available at: <https://www.datarails.com/finance-glossary/ratio-analysis/> (Accessed: 05 June 2024).

Fernando,J.(2024) 'Return on Equity (ROE) Calculation and What It Means', *Investopedia*, 26 January. Available at: <https://www.investopedia.com/terms/r/returnonequity.asp> (Accessed: 05 June 2024).

Glion (2023) *Strategies to increase revenue in the hospitality industry*. Available at: <https://www.glion.edu/magazine/strategies-to-increase-revenue/> (Accessed: 03 June 2024).

McQuater,K. (2023) 'UK Customer Satisfaction drops in 2023', *Researchlive*, 8 November. Available at: <https://www.research-live.com/article/news/uk-customer-satisfaction-drops-in-2023/id/5119133> (Accessed: 03 June 2024).

Modern Hospitality (2023) *2023 is rife with obstacles for hotels : Here's how to overcome them*. Available at: <https://modernhospitality.co.uk/2023-obstacles-for-hotels/> (Accessed: 03 June 2024).

Munro,O.(2023) 'What is a Good Profit Margin?', *Unleashed*, 2 August. Available at: <https://www.unleashedsoftware.com/inventory-accounting-guide/what-is-a-good-profit-margin> (Accessed: 05 June 2024).

RSM (2023) *UK hotel industry ends 2022 on a positive note but 2023 will be a "see-saw" with mixed fortunes*. Available at: <https://www.rsmuk.com/insights/hotels-tracker/uk-hotel-industry-ends-2022-on-a-positive-note-but-2023-will-be-a-see-saw-with-mixed-fortunes> (Accessed: 03 June 2024).

Smartpricing (2024) *Impact of events on hotel rates: how to evaluate it to maximize profits.* Available at:

<https://www.smartpricing.it/en/blog/impact-event-hotel-rates>(Accessed: 03 June 2024).

Winwesta (2023) *Financial Ratio Analysis: What Every Investor Should Know Before Investing.* Available at: <https://www.winvesta.in/blog/financial-ratio-analysis> (Accessed: 05 June 2024).