

**Academic Discipline of Hospitality & Tourism Management
BA International Hotel Management
LEVEL 5**

Report Case Study:

The City Hotel

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Executive summary

Introduction

This report presents an in-depth financial analysis of The City Hotel, a hospitality establishment facing severe operational and financial challenges over the past three years.

Current Financial Position and Challenges

The analysis explores key financial indicators, identifies internal and external drivers of financial decline, and recommends strategic interventions to revitalize the hotel's profitability and sustainability.

From 2021 to 2023, The City Hotel's revenue declined by 56%, alongside a shift from operating profit to significant losses. Employee costs remain high despite shrinking revenues, suggesting inflexible cost management. Furthermore, the hotel's liquidity and solvency have weakened, as evidenced by decreased cash reserves and increased debt reliance, signalling possible over-leveraging. External factors, such as post-pandemic market shifts, increased competition, and inflation, have compounded the hotel's difficulties, while internal challenges, like high fixed labour costs and outdated facilities, have strained operations.

Recommendations and Exit Strategy

Should the turnaround strategies fail to yield results within a year, a strategic exit plan, including selective asset sales or a full business sale, is advised to mitigate further financial losses.

Conclusion

The City Hotel faces considerable financial and operational challenges, but with a focused turnaround strategy, it has potential for recovery.

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Introduction

The City Hotel, an urban establishment with a range of services including a restaurant, bar, and event facilities, has experienced a stark downturn in both financial performance and customer satisfaction in recent years, prompting concern regarding its long-term viability. This report undertakes a comprehensive analysis of the hotel's financial performance over the past three years, focusing on profitability, liquidity, and solvency trends. By pinpointing the root causes of its challenges and proposing a targeted turnaround strategy, this report aims to offer insights and actionable recommendations that could enable the hotel to regain its financial footing and secure a sustainable path forward. Utilizing the data from the hotel's financial statements and integrating insights from authoritative sources in management accounting and hospitality, this report addresses the City Hotel's potential for recovery while considering the unique challenges of the urban hospitality landscape. In crafting the recommendations for The City Hotel, I focused on addressing the core issues identified in the financial analysis and operational challenges sections of the report.

Financial Performance Analysis

Here are the City Hotel income statements and balance sheet for 2021, 2022 and 2023:

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)

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
Long-term borrowings	8,113,710	7,755,840	8,290,570
Long-term lease debt	-	2,844,970	3,353,260
Retirement benefit provisions	93,690	114,630	124,160
Other non-current provisions	33,670	40,650	35,930
Deferred tax liabilities	451,420	447,010	345,760
Other non-current liabilities	35,090	27,190	79,110
TOTAL NON-CURRENT LIABILITIES	8,727,580	11,230,300	12,228,780
Short-term borrowings	399,760	319,910	47,5050
Short-term lease debt	-	221,810	301,220
Other current provisions	49,560	12,120	12,280
Trade payables	527,180	499,330	401,350
Current tax liabilities	44,560	69,510	27,170
Other liabilities	936,300	985,070	797,640
TOTAL CURRENT LIABILITIES	1,957,360	2,107,750	2,014,600
TOTAL LIABILITIES	10,684,940	13,338,050	14,243,390
TOTAL EQUITY AND LIABILITIES	12,941,110	15,921,080	15,653,970

An examination of The City Hotel's financial performance from 2021 to 2023 reveals a concerning trend in which revenue, profitability, liquidity, and solvency have all been negatively impacted. This section analyses these areas in detail to assess the current financial position and viability of the business.

First of all, **The City Hotel's revenue** declined significantly from £5.25 million in 2021 to £2.32 million in 2023, a drop of nearly 56% over two years. This decline is critical, as it shows a substantial decrease in occupancy and customer engagement. According to Walker, (2021), revenue fluctuations in the hospitality industry are often due to economic cycles, competitive pressures and external events that impact discretionary spending, especially in urban settings. Even so, I believe that the steep decline between 2022 and 2023 is attributed to the pandemic and the post-pandemic market shifts, increased competition from alternative accommodations and potential operational challenges unique to urban hospitality businesses such as labour costs, higher maintenance and utility costs, high density of competitors and others.

In addition to declining revenue, profitability has also been heavily impacted, as evidenced by the significant deterioration in operating income from £664,160 in 2021 to a loss of £1,218,850 in 2023. This shift from profitability to substantial operating losses reflects a severe imbalance between the hotel's income and its expense structure, which appears increasingly unsustainable. Key expense categories contributing to this downward trend include: *Employee Costs*. Employee costs have consistently remained high, amounting to £1.72 million in 2021 and £1.23 million in 2023, despite revenue reductions. Employee costs are a major fixed expense, and the hotel's inability to adjust this cost structure to align with declining revenue suggests an inflexible approach to labour management. Urban hospitality businesses, in particular, face unique pressures related to staffing costs, as labour is typically more expensive in cities with a high cost of living. Seal (2019) explains that such fixed-cost challenges are common in service industries, where labour cannot always be easily scaled down without compromising service quality. Another key expense category contributing to the downward trend is *External Expenses*. External expenses, though reduced from £1.89 million in 2021 to £1.07 million in 2023, remain disproportionately high relative to the hotel's shrinking

revenue base. This reduction implies that the hotel may have undertaken some cost-cutting initiatives; however, these measures have evidently been insufficient to offset the adverse impact of revenue losses on overall profitability.

The escalating operating losses suggest that a combination of internal inefficiencies and external pressures are straining the hotel's financial health, highlighting the need for a comprehensive approach to cost management and revenue enhancement.

An analysis of the hotel's liquidity reveals critical concerns regarding cash flow management and the ability to meet short-term obligations. Cash reserves have fallen from £740,590 in 2021 to £295,510 in 2023, underscoring the hotel's diminishing financial flexibility. This decline in liquidity implies that the hotel may face difficulties covering immediate expenses and obligations, which could further exacerbate operational challenges. In terms of solvency, the hotel's total liabilities increased to £14.24 million in 2023, while equity dropped from £2.26 million in 2021 to £1.41 million in 2023, indicating an increased reliance on debt financing and a weakened financial position. Such a shift suggests that the hotel may be at risk of over-leveraging, as its ability to repay debt is increasingly strained by both declining revenue and a dwindling asset base. Atrill & McLaney (2021) assert that rising debt levels, in conjunction with reduced equity, signal heightened financial risk, particularly for businesses in competitive and volatile sectors like hospitality.

The decline in The City Hotel's financial performance, I believe it can be attributed to several external and internal factors.

External Factors

- **Economic and Market Conditions:** The broader economic context, including inflation and post-pandemic spending trends, likely played a significant role in declining occupancy rates and customer spending. In the wake of COVID-19, many urban hotels faced slow recoveries, with customers increasingly favouring alternative lodging options such as Airbnb, which are often perceived as more flexible and cost-effective. Bhimani (2006) notes

that shifts in consumer behaviour and competitive pressures in the hospitality industry can directly impact traditional hotels' profitability and pricing power.

- **Industry Competition:** The hospitality industry has become increasingly competitive, with many hotels and accommodations using dynamic pricing and advanced marketing strategies to capture market share. This competition pressures revenue streams for traditional hotels like The City Hotel, especially those that may not have adjusted to contemporary revenue management techniques.

Internal Factors

- **High Operational Costs:** Employee costs have remained disproportionately high despite declining revenues, reflecting inflexible cost structures. This inflexibility could stem from fixed staffing levels or contractual obligations that prevent scaling costs down when revenue falls. Guilding (2014) discusses how managing labour costs in the hospitality industry can be challenging, especially if the business lacks the ability to adjust staffing based on demand.
- **Outdated Asset Management:** The depreciation in the hotel's property, plant and equipment (from £4.05 million in 2021 to £3.57 million in 2023) suggests a decline in asset value, possibly due to lack of investment in facility upgrades. This could impact service quality, customer satisfaction, and, ultimately, revenue. Up-to-date facilities and amenities are key to customer retention in the hospitality sector, as outlined in Walker (2021).

Turnaround Strategy Recommendations

A comprehensive turnaround strategy for The City Hotel would focus on revenue management, cost optimization and customer experience improvements.

Revenue Management

- **Implement Dynamic Pricing and Yield Management:** Given the hotel's sharp revenue decline, it is clear that boosting income is a priority. To maximize occupancy, The City Hotel should consider implementing a dynamic pricing model that adjusts room rates based on demand fluctuations. Tranter, Stuart-Hill and Parker (2014) emphasize that effective revenue management in the hospitality industry requires pricing flexibility to optimize room occupancy and revenue per available room (RevPAR). Such a system could help the hotel capture higher occupancy during off-peak periods and maximize revenue during peak demand. Dynamic pricing and yield management is a suitable strategy because it allows the hotel to adjust prices based on real-time demand, which is especially beneficial in urban areas where occupancy can vary significantly with seasons, events, and economic conditions. This approach is widely used in the hospitality industry to maximize revenue per available room (RevPAR) by charging higher rates during peak periods and offering discounts during off-peak times to attract guests.
- **Enhanced Marketing and Targeted Promotions:** To capture a broader market share, The City Hotel should increase its marketing efforts to target specific customer segments, such as business travellers or local tourists. Promotions tailored to high-demand events or seasonal travel patterns could increase visibility and occupancy, even during off-peak periods. Walker (2021) emphasizes the importance of aligning marketing strategies with consumer trends and preferences, particularly in the hospitality industry, where branding and customer loyalty can drive repeat business and long-term profitability.

Cost Optimization

- **Optimize Staffing and Operational Efficiency:** To reduce the high employee costs, the hotel should re-evaluate its staffing levels and labour scheduling practices. Flexible staffing options, such as part-time or seasonal hiring, can help manage labour costs effectively. Seal (2019) suggests that implementing lean management

techniques in staffing can yield substantial cost savings, especially in service industries with variable demand like hospitality.

- **Renegotiate Supplier Contracts:** The City Hotel could further optimize costs by renegotiating vendor contracts to secure favourable terms for supplies, utilities, and outsourced services. With high external expenses reported, I recognized that cost control needed to extend beyond labour costs. Renegotiating supplier contracts and exploring alternative vendors are practical solutions that can yield immediate savings. Since many urban hotels work with multiple suppliers for services like food and maintenance, a strategic review of contracts could help reduce costs while maintaining quality. This recommendation was based on the notion that even small savings across a range of suppliers could have a meaningful impact on the hotel's overall expenses.

Improving Customer Satisfaction and Reputation

- **Facility Upgrades:** Upgrading facilities, such as renovating rooms, updating technology, or enhancing common areas, can improve customer satisfaction and attract more guests. The hotel's depreciating assets suggested aging facilities that could negatively impact the guest experience and reduce repeat business. Upgrading rooms, technology, and common areas can improve customer satisfaction, attract higher-paying guests, and help the hotel stay competitive. Recognizing budget constraints, I recommend prioritizing upgrades based on guest feedback and high-impact areas to ensure a return on investment in the form of improved occupancy and positive reviews. Guilding (2014) stresses the importance of asset quality in driving customer satisfaction, especially in the hospitality sector, where guests expect modern amenities and comfortable facilities.
- **Invest in Staff Training:** Staff training programs focused on customer service skills can enhance guests' experiences, improve the hotel's reputation and generate positive word-of-mouth. Walker (2021) suggests that personalized and attentive service is a competitive differentiator in hospitality, making staff training a strategic investment for reputation enhancement.

If the above strategies fail to deliver the expected improvements within a year, a final recommendation might involve exploring exit options to ensure the owner maximizes their return on investment.

Given the hotel's deteriorating financial condition, I also considered the possibility that, even with strategic changes, a successful turnaround might not be feasible in the short term. If the proposed strategy does not yield the necessary financial improvements, selling non-essential assets could generate liquidity, enabling the hotel to reduce debt and strengthen its core operations. In the worst-case scenario, a full business sale was recommended as an option to recoup some value, as continuing losses would only further erode the hotel's financial position. This recommendation aimed to ensure that, whatever the outcome, the owner would have a pathway to mitigate losses. Such decisions align with Seal's (2019) advice for businesses to consider asset disposal when faced with liquidity constraints.

Conclusion

The City Hotel faces considerable financial and operational challenges, but with a focused turnaround strategy, it has potential for recovery. By implementing dynamic pricing, optimizing staffing, enhancing customer experience and considering selective facility upgrades, the hotel can increase occupancy and profitability. However, if these strategies do not yield sufficient improvement, exploring an exit strategy through asset sales or a complete business sale may provide the owner with a financially responsible outcome.

Adapting to industry trends and managing costs efficiently will be essential to The City Hotel's future sustainability, especially in an increasingly competitive and consumer-driven market. This report has highlighted the importance of proactive financial management, efficient cost control and effective customer engagement in achieving long-term success in the hospitality sector.

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