Financial Management

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HOSPITALITY MANAGEMENT: CASE STUDY ASSIGNMENTS

Sally Messenger and Humphrey Shaw

WORKING IN THE HOTEL AND CATERING INDUSTRY

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Financial Management

for the Hospitality, Tourism and Leisure Industries

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To our families and friends

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Introduction

The main aim of this book has been to present the basic concepts and principles of financial management in a way that is easy to understand for students with no previous knowledge of the subject matter. It is also hoped that the content will prove helpful to anyone intending to start a business in the hospitality, tourism, or leisure industries.

The text has been divided into three sections. Part I concentrates on explaining the different **financial statements** that are necessary in any business, and provides a basic foundation for the newcomer to financial management. An important part of a manager's role is **planning**, operating and controlling an enterprise, and so in Part II the focus is on analysing costs, decision making and budgetary control. Part III of the book involves the individual in **financial analysis**. This includes the interpretation of accounts, appraisal of capital investment programmes and the management of the working capital cycle.

The book has been based on a practical case study of two women who open the Croeso Hotel and leisure complex in North Wales. At the end of each chapter the reader is introduced to a series of problems related to the financial management of the hotel. This case study approach to learning is particularly useful as it enables realistic tasks to be carried out and analysed, allowing students to apply their theoretical knowledge to practical everyday problems. It thus develops their analytical and problem solving skills, and assists in developing their competences in financial management.

The Croeso Hotel and Leisure Complex

Sarah Darwin and Kate Jenkins

Sarah Darwin and Kate Jenkins first met five years ago when they both worked in Manchester for World Leisure, an international hotel and leisure group. Sarah left the organisation two years ago to take up an appointment as the General Manager of the Greenacres Country House Hotel in Somerset. Kate meanwhile remained at World Leisure as Marketing Director. Later that year Kate's husband died and as a result she was forced to review her circumstances as she had two

children, Tom and Alice, to look after as a single parent. Kate had always kept in contact with Sarah and when she telephoned to tell her of her husband's death Sarah invited the family for a weekend at Greenacres.

During the weekend the women talked at length about Kate's problems and in particular their desire to work for themselves. Sarah felt she was at a crossroads in her life. She was a committed career woman and in her heart she had always wanted to run her own hotel.

As the two friends discussed their futures it became clear that by pooling their resources they could go into partnership and own their own business. Both had excellent qualifications and experience. Sarah had a Higher National Diploma in Hospitality Management and Kate had a degree in Leisure Management plus a Diploma in Marketing. Together they would make a formidable team.

Buying and refurbishing the hotel

Following her weekend at Greenacres Kate returned home to see her solicitor Mr Brooks-Wilson to discuss her future financial position. She found that life policies would mean that after repayment of the mortgage on the family home she would have £250,000 to invest, so she and the children would have no immediate financial worries. Now that Kate had the financial resources necessary to pursue her plans, she proceeded to sell her home and over the coming months she and Sarah began their search for a suitable hotel.

After carrying out initial enquiries about property prices it was agreed that North Wales would be the ideal location for their venture as Kate had been born in Dolgellau and had relatives and friends in the area. Sarah had always been a sports enthusiast and liked the idea of living near the mountains. Having viewed a number of properties the two women attended an auction where they were able to purchase the ideal property, together with many of the fixtures and fittings which were being sold off on behalf of the liquidator.

The Croeso Hotel had been built in the Victorian era and had 40 bedrooms. It had retained all its original elegance although it was in need of redecoration and refurbishment. The location was ideal, near the main road and yet standing in secluded grounds. The hotel cost £140,000 which included the furniture, fittings and equipment.

Having purchased the hotel Kate and Sarah set about organising the redecoration and refurbishment programme that was necessary. They had estimated that it would cost £40,000–£60,000 to redecorate all the bedrooms and public areas. The furniture, carpets and curtains were acceptable and it was agreed that these would be replaced at a later stage when the hotel was bringing in more revenue. It was essential that some

of the kitchen equipment was replaced to meet safety and hygiene regulations. Having decided on the work that needed to be carried out in the immediate future Sarah contacted local builders and asked them for estimates. Within two weeks the painters were in the hotel and work was underway to restore the Croeso to its former glory.

The marketing plan and market research

While Sarah took charge of this project Kate began working on a marketing plan for the business. She identified **two** main market segments:

- (1) Individuals wanting a restful holiday with good food and leisure activities.
- (2) Groups who would wish to stay one or two nights at the hotel as part of a sightseeing tour package.

Pricing and tariff structure

An important part of the market research was analysing **local competitors** to assess their facilities, occupancy levels, guest profiles and pricing strategies. As a result of this exercise Kate proposed the following tariff structure:

Tariff per person per night, including VAT and full British breakfast:	
	£
● Single room	52.50
● Standard double room	40.00
● Luxury double room	45.00
● Suite	62.50
	£
Luncheon, including VAT	10.95
Dinner, including VAT	21.00

Kate would be exploring the marketing opportunities of a flexible pricing structure in the future.

Advertising and launch

As part of the marketing strategy Kate worked with a designer to produce a colour brochure for the hotel. She also arranged for advertisements to appear in several British and European newspapers.

Six months from the day of buying the hotel the opening day was fast approaching. All the planning and hard work would now be tested by the market. To signify the opening of the hotel the two women held a champagne reception for local suppliers, business contacts and the press. Having successfully launched the hotel Sarah and Kate now face the challenge of running the business. Over the coming months and years they will have to make a range of financial decisions. These will unfold at the end of each chapter in the form of a set of Study Tasks which will build on the theory covered in each chapter. Suggested answers are found on pp. 242ff.

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