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A COMPARATIVE ANALYSIS ON HOTEL FINANCIAL PERFORMANCE

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Abstract:
In the market economy, corporate finances are certainly one of the key resources which are limited. The fact that financial resources are limited influences the limitations of a number of operations (acquisition, promotion, and distribution, sales) since there is no department that has no contact with the financial operations. Therefore, the proper allocation of financial assets occupies a very important place in modern business.
A final decision on how the company should allocate its funds should be based on good assessment, which should rely on the previously performed analysis. One of the most common and most used methods of financial analysis is the financial statements analysis and ratio analysis. By bringing certain items from financial statements in mutual connection, via simple mathematical formula, it is possible to determine an overall performance of the company, measured through finance. The decision on whether a company should invest into franchise arrangements and management contracts with large international hotel corporations is one of the key dilemmas for the hotel owners. The franchise agreements and management contracts are the most common way of spreading large corporate hotel systems. In addition to the benefits it entails, this type of contract requires large financial investments. Justification of these investments may be the subject to the financial analysis.
This paper demonstrates the comparative analysis of financial results between the four city hotels, two of which operate within international corporate hotel chains, while the other two operate independently of corporation standards. The analysis was conducted on a growing market by the number of international arrivals (Belgrade, Serbia). Moreover, this market recorded a noticeable growth of hotel companies operating under the franchise agreement or management contract. The research results are presented under the section Results and Discussion, while the conclusions and recommendations of authors are presented in the summary section.

Key words:
hotel,
finance,
ratio,
analysis,
financial statements.

1. INTRODUCTION

Financial analysis is one of the most important processes preceding financial planning and budgeting. Financial indicators are presented in the financial statements of an enterprise, whereas a broader range of data is required for the economic analysis. In terms of the financial and global economic crisis, more attention is devoted to rational use of limited resources. Thereby, it is believed that every company strives to achieve the long-term business stability. However, no one can guarantee such stability to the hotel management. In order to gain better understanding of the hotel's position in the market, and minimize possible risks, it is necessary to perform the business performance assessment of an enterprise, *i.e.*, to carry out the economic-financial analysis. Essentially, it is a method that combines several disciplines to generate results. In this manner, all interested stakeholders along with the hotel management, can gain an insight into the financial situation, business activities of an enterprise, its cash flows *etc*.

This paper is a result of the comparative analysis of financial results obtained from the four city hotels (Holiday Inn Belgrade, Falkensteiner Hotel Belgrade, Hotel Zira, IN Hotel), two of which operate using the brands of the internationally renowned corporate hotel chains, while the other two hotels operate outside the framework of international corporate hotel chains. The research was conducted in order to determine the feasibility of investing in the franchise agreements and management contracts as one of the most commonly used growth methods of international corporate hotel chains.

2. RESULTS AND DISCUSSION

Financial statement analysis was performed for the four listed hotels for the year 2013. At the time of writing this paper, financial results for the year 2014 were not yet publicly available. According to the current regulations on the categorization, all of the four facilities are four-star rated

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hotels, which served as a starting point for making the comparative analysis. All of the four hotels operate as legal entities in a form of the limited liability company (Ltd.), and thus, the results of market value were not presented in the paper, since none of the four companies possess stocks.

Financial ratios

Financial analysis is based on the financial indicators that process data and information important for decision making after being engaged in a simple mathematical formula. For the purpose of this paper, we would like to emphasize financial indicators according to the classification made by Čerović and Spasić:

1) liquidity indicators,
2) activity or efficiency indicators,
3) indicators of financial structure,
4) profitability indicators and
5) market value indicators (Čerović & Spasić, 2014, p. 215).

Financial indicators are used as guidelines during the financial analysis to determine the financial position of the company. Ivanišević defines financial analysis by saying that it 'collects, selects, estimates and interprets financial data and other relevant information in order to assess the current financial position and business activities of enterprises, as well as its future performance" (Ivanišević, 2012, p. 19). Financial reporting in the most convenient way is defined by Jamie and Barry Elliot. We are bringing the interpretation of this definition by saying that accounting and financial reporting represent the art of communicating relevant financial information about a business entity to end users (Elliot & Elliot, 2011).

Financial indicators for each hotel, classified by the categories as at the beginning of the paper, will be presented in tables for better visibility.

Liquidity ratios

Liquidity refers to the speed and ease at which an asset can be converted to cash (Ross, Westerfield, & Jordan, 2010, p. 22). Liquidity ratios are sometimes called indicators of short-term solvency, due to the fact that they are calculated by formula which includes working capital and short-term liabilities (Ross, Westerfield, & Jordan, 2010, p. 54). Thus, short-term creditors are those who are most interested in these indicators. The right value for the liquidity ratio is determined by the so-called operating cycle. Operating cycle is a period that starts from the moment an investment in goods and services is made, and ends when the goods and services in which the investment was made produce money in return.

A typical course of the operating cycle of a trade enterprise, which is divided into four steps, would look like this:

1) Purchasing goods and products,
2) The process of selling goods that may or may not result in the cash collection,
3) Extension of credit and creation of account receivables
4) Collection of account receivables and generating cash (Fabozzi & Peterson, 2003, p. 728).

Operating cycle is important in terms of liquidity for the simple reason that the longer the operating cycle is, the more working capital is required to service the current liabilities. For the purpose of calculating liquidity ratios for this research, we used formulas presented by Ivanišević (2012), in his work. The results obtained are given below:

Table 1. Liquidity

Hotel	Liquidity		
	Current ratio	Net working capital	Quick ratio
Holiday Inn Belgrade	24,90	712.143	3,33
Falkensteiner Belgrade	0,30	-817.327	0,26
Hotel Zira	4,16	100.118	3,72
IN Hotel	3,12	451.045	2,99

Source: Serbian Business Registers Agency (Financial statements downloaded from: Holiday Inn , Hotel Zira, IN Hotel, Hotel Falkensteiner)

Based on the above-given table, quite different results could be observed. The most liquid hotel was Holiday Inn Belgrade, which had the greatest difference in net working capital, while the hotel Falkensteiner demonstrated some serious liquidity problems, as well as the results on the net working capital. Net working capital represents an indicator that commercial banks often use in the decision- making process of loan approvals (Krasulja & Ivanišević, 2007, p. 25).

Activity or efficiency ratios

Essentially, there is a great number of financial ratios. Due to their simplicity of calculation, they seem interesting to a number of economists worldwide. It is clear that everybody prefers different ratio numbers. Therefore, this paper attempts to point out those that are most commonly used. Activity or efficiency ratios give us the opportunity to have an insight into how some of the activities were conducted in the company in the previous period. For instance, how often the payments were made to suppliers, the efficiency of collection of account receivables, the success of management in managing their inventory, *etc*. In this way, we can have a better overview of some of the basic business operations performed by the hotel management. During the research, some ratios were calculated using the average values in places where we compared less constant indicators with those that are more consistent. The average value was calculated by taking the value from the beginning and the end of the year.

Research results from Table 2 show different results. Namely, there is no hotel that dominates the performance of processed indicators. It is notable that Falkensteiner hotel and hotel Zira have lower activity and/or efficiency in comparison to IN Hotel and Holiday Inn hotel. The first two mentioned hotels have a longer period of day's sales in receivable; Furthermore, they also have a longer average period of days' sales in inventory and long payment average. Hotel Zira has a high turnover of total assets, which can be explained by relatively low overall assets compared to the

other three hotels. Another indicator that does not demonstrate a realistic picture is the equity turnover from hotel Falkensteiner. According to this index, we see that the hotel is far more efficient in terms of fixed asset turnover, but it is again an exceptional low amount of fixed asset compared to total resources (which hotel loaned). Overall, the greatest efficiency is demonstrated by IN Hotel showing that most of the parameters are at the level considered as acceptable. While analysing the activities and management efficiency, the formula for calculating the ratio numbers was used from Čerović and Spasić (2014).

Debt ratios

As its name suggests, this group of indicators shows the ways of the company debt financing, while debt indicators are generally found at the liabilities side of the balance sheet. By analysing certain ratios from this group, one can perform better assessment of the financial position of a company. Therefore, debt ratios do not take into account business activities of enterprises, but only interpret their financial position and sources of financing their assets and activities. The same as with the previous indicators, debt ratios for hotel companies observed herein are presented in Table 3. In order to calculate them, we used formulas presented by Čerović and Spasić (2014).

Debt ratios are very important if we want to provide an assessment of the financial structure of the company. In this way, we can observe whether the hotel is very dependable on loans and interests they pledged. The results in Table 5 show that the hotel Zira has the best financial structure. This hotel company has a relatively balanced level of borrowed and own financial resources, and an extremely low ratio of debt against equity. In addition, it very easily and efficiently covers all expenses for interest given for the two leasing loans the company pledged at Hypo-Alpe-Adria Bank and UniCredit Bank.

Profitability ratios

The ultimate goal of every investment is not solely the revenue grow or cost savings, but the generation of healthy returns, and that is what we call profitability. Profit margin is one of the main financial benchmark indicators between companies. Profitability is also usually the ultimate goal of any company (Žager, Mamić Sačer, & Dečman, 2012). Every owner is very interested in profitability of its company, which is why each company in the liberal-capitalist system

Table 2. Activity or efficiency ratios

Hotel	Activity or efficiency ratios								
	Accounts receivable turnover	Days' sales in receivable	Inventory turnover ratio	Days' sales in inventory	Cash conversion cycle	Total asset turnover	Equity turnover ratio	Accounts payable turnover ratio	Turnover in days
Holiday Inn Belgrade	21,14	17,26	41,68	8,75	26,02	0,23	6,44	5,07	71,93
Falkensteiner Belgrade	13,13	27,77	7,41	49,25	91,56	0,07	2155,25	0,11	266,54
Hotel Zira	4,21	86,65	41,14	8,87	95,52	1,83	3,08	3,43	106,136
IN Hotel	24,30	15,01	78,78	4,63	19,65	0,28	0,46	3,37	108,02

Source: Serbian Business Registers Agency (Financial statements downloaded from: Holiday Inn, Hotel Zira, IN Hotel, Hotel Falkensteiner)

Table 3. Debt ratios

Hotel	Debt ratio	Debt-Equity ratio	Interest coverage ratio
Holiday Inn Belgrade	0,97	24,41	39,14
Falkensteiner Belgrade	0,99	26.084	-1,02
Hotel Zira	0,39	0,26	67,41
IN Hotel	0,51	0,83	4,53

Source: Serbian Business Registers Agency (Financial statements downloaded from: Holiday Inn, Hotel Zira, IN Hotel, Hotel Falkensteiner)

Table 4. Profitability ratios

Hotel	Gross profit margin	Net profit margin	Return on investment	Return on equity
Holiday Inn Belgrade	3,59	3,25	0,84	20,05
Falkensteiner Belgrade	0	0	0	0
Hotel Zira	0,20	0,21	0,46	0,65
IN Hotel	0,28	0,24	0,07	0,15

Source: Serbian Business Registers Agency (Financial statements downloaded from: Holiday Inn, Hotel Zira, IN Hotel, Hotel Falkensteiner)

strives to achieve greater profitability. Therefore, profit margin is inherently linked to the profit of the company. The four indicators of profitability selected for this study, and presented in the table below, were calculated using the formulas given by Knežević, Stanišić, and Mizdraković (2013).

3. SUMMARY

Investing in the hotel company requires adoption of series of complex business decisions. It requires high initial investments in fixed assets, well structures so that they result in a high return on investment over the medium term. Any decision on investing entails certain risks. Financial manager in a company must ensure that financial risks are well detected and managed (Brealey, Myers & Marcus, 2001). It must be noted that the financial analysis of only one hotel requires a serious approach, while their mutual comparison and the analysis of the effects to business decision making, such as whether to invest into franchise agreements or not requires more serious analysis. Presentation of results obtained during the research deserves further processing and they certainly cannot be sufficient criteria for making the final assessment. What could be concluded based on the above-given information is that although those are the four hotels classified under the same category according to the regulations on categorization, and oriented towards the same or similar target market segments, and given that these are the hotels with approximately the same number of rooms, we must underline that they have a completely different financial structure and business efficiency, as well as profitability and liquidity. What is surprising is that no hotel is singled out as a leader in all or most of the categories. Once again, these results cannot be the only and definite criteria for final assessment, but it can be concluded that in the market on which these hotels operate, the brands Holiday Inn and Falkensteiner do not have a decisive role in achieving the positive financial performance. What is certain is that international corporate hotel brands add visibility of the property, and brand positioning in customers minds. In addition, there are numerous advantages such as marketing, promotional, educational and other activities present in large corporations. However, the essence of this research was purely financial. Therefore, rather than stating a definitive assessment of whether or not the hotel should invest in franchise or management contract, this research should be taken as a starting point for future research in the field.

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