

## **PROFITABILITY OF HOTEL BUSINESSES**

There may be many reasons for the existence of a hotel business such as providing world class good and services to guests, providing job opportunities to communities and the joy of being an entrepreneur. But the prominent objective of managing hotel businesses is the handsome profit it could bring about.

In a simple business management approach profit could be understood as the gap between the revenue and the cost. According to this formula profits could be improved by increasing the revenue and by controlling the costs. The revenue increase shall contribute to the top line growth while the controlling of costs could support the bottom line growth. By having a detailed understanding about the revenue streams and the cost structure of a standard hotel a better view could be obtained.

The complex nature of a hotel product allows the income to be generated from a variety of revenue streams. By selling rooms, food, beverages and MOD products and services hotels are making money. Nearly three fourth of the hotel costs are fixed costs. These costs shall be incurring irrespective of the business levels and management shall have little control on them. Variable costs are fluctuating proportionately to the level of business operation and management could assert some control over them. hence the gross profit which is the direct result of the revenue and variable costs like Cost of sales, department payroll and direct department costs shall be an important reflection of the profitability.

When only a smaller portion of costs are controllable while large majority are taking place without any control a greater focus on controlling costs doesn't mean much. As result hotel operations should focus more on revenue enhancement front to reach greater volumes of profits. Further to this cost control measures could lead to lower level of guest satisfaction and employee motivation as well. The promotional efforts are becoming increasingly expensive yet will bring a sizable outcome. Hotels have trend towards a revenue management approach actively in order to reap great profits.

The challenge faced by the contemporary hotel management is to how to practice the art of striking a balance between revenue enhancement and controlling cost to a certain degree in a highly competitive and an expensive business environment.

Return on capital

ROI is the most fundamental measure of profitability. ROI is the best single measure of the extent to which the basic objective has been achieved. The formula will be

$$\text{Net profit/capital employed} \times 100$$

Net profit on sales

Net profit on sales measures the relative operational efficiency of the business from one trading period to another

$$\text{Net Profit/Net Sales} \times 100$$

It is worthy to explore the importance of the gross profit as it is somewhat under the control of the managers. As we expressed before it is an indicator of operational efficiency. Higher the gross profit low will be the food and beverage costs. If the food and beverage costs are controlled gross profit will eventually go up. Hence the gross profit is a clear indication of the relative efficiency of resource usage. More stocks passing the date of expiry, pilferage and unsatisfactory yields can lead to increased food cost.

Asset turnover

The term asset turnover refers to the relationship between the capital employed and the volume of sales. Where the capital employed is 5 million and the annual sales is 5m asset turnover ratio is 1:1. This means the business is generating \$1 for every \$1 dollar that is invested. This ratio explains the relationship between the investment and the sales. The concepts stand for something beyond the profitability. Higher the asset turnover it depicts the business is making available greater volume of goods and services to the society using \$1. A business will naturally expect to achieve the highest possible asset turnover.