AN ANALYSIS OF OPERATING COSTS AND ITS IMPACT ON PROFITABILITY (A CASE STUDY OF A BUDGETED DOMESTIC HOTEL IN PUNE)

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Abstract

Pune has become one of the top most business destinations. International investors consider Pune asone of the most rapidly developing two tier cities. Pune has seen incredible growth due to the 320% increase in the hotel industry. As a result, there is a cut-throat situation among the five star hotels. Consequently, the overall ARR and occupancy percentage of the five star hotels in the city has reduced and packages and heavy discounts have increased, which made budgeted travelling affordable. However, the business share of the budgeted hotels has reduced (as the share of business is being portioned among the many such hotels in the city). This is a challenging situation for the hotels. As they need to survive in the competitive scenario, the hotels must utilize or frame various strategies to gain constant profit margin. One such strategy is to monitor and reduce the operational cost. The present research aims to study the domestic budgeted hotels in Pune and their operational cost control strategies. The study has reveal that by controlling the operational cost the hotels can influence or raise their operational profit. The study, thus, proves beneficial to other such budgeted hoteliers who are finding it difficult to survive the present situation.

Key words: budgeted hotels, chain hotels, operating costs, cost control and cost reduction
Introduction-

Cost control is the backbone of any business. The level of profit of any business is regulated by operational cost control. Therefore, there is a need to systematize the process of

cost control within the organization. The study will help the new entrepreneurs in maintaining their cost with the help of the research in order to survive the cut-throat competition in the market. It will assist the existing organizations to control their costs. It will also explain the important role of operating cost, in a profit orientated business. The main objective of the paper is to survey the issues identified as important factors affecting the cost-control- of the selected domestic hotel. The themes to be explored include the specific strategies and practices it utilizes to control and monitor cost.

Objectives –

1.To study the cost structure of the sample hotel.
2.To study and identify the areas in operation stage those influence the cost control of the sample
   hotel.

Research methodology--

1. Approach –Quantitative
2. Type of research- Analytical and empirical
3. Sample –Budgeted Domestic Chain Hotel (One and Two Star and Three Star Hotel
    properties)
4. Method of sampling – Purposive sampling, Non-probability
5. Data collection: Present paper is based on secondary data and primary data. Following are
    the sources of collection of data:
6. HVS International – Indian Hotel Survey report
7. Profit and loss statements of sample hotels
8. Web site of Ministry of Company Affairs

Data Analysis

Secondary Data has been collected from profit and loss statements of the chain hotel. Based on this data earnest efforts have been made to test the hypotheses.

Average Revenue Analysis of Pune –

Average revenue analysis means the evaluation of revenue of the hotels in Pune. The survey conducted by HVS-international gives the following details regarding the average room rate of hotels in Pune from 2007-2012 (annually). The ARR for 2007-08 is Rs 4927, 2008-09 is Rs. 4951, 2009-2010 is Rs. 3921, for 2010-11 is Rs. 3140 and 2011-12 is Rs. 3293. The year 2007-08 shows comparatively more ARR which is close to Rs. 5000. However, by the end of 2011-12 it declines to Rs. 3293, which is almost Rs. 1600 less.

Similarly, average occupancy level of the hotels is recorded 76.5 % in 2007-08, and it further declines constantly to record 53.2 % in 2011-12. The decrease is almost by 23 %.

Table : 1 -- Average room rate and occupancy %

Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
ARR	4927	4951	3921	3140	3293
Occp %	76.5	65.5	53.2	53.3	53.2

Source: HVS- international survey report

According to HVS-international's survey report, the departments of hotels that generate revenue are: Rooms, Food and Beverage, Banquet and Conference, Telephone and other, minor

operated, and Rental and other incomes. The Average of the Revenue generated by these departments during the year 2004-2012 is shown in the table no.2

Table : 2 - Annual generation of revenue

Department	Average Revenue Generating Departments							
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Rooms	60.7	77.8	72.2	75	67.6	71.3	73.4	72.35
Food & Beverage	14.4	16.9	22.1	19.5	22.2	20.85	20.7	20.775
Banquet & Conference	18.4	2.7	1.5	2.1	5.4	3.75	1.7	2.725
Telephone & other	1.2	1.3	1.2	1.25	0.65	0.95	0.8	0.875
Minor operated	1	0.9	0.4	0.65	1.5	1.075	2	1.5375
Rental & other income	4.3	0.5	2.6	1.55	2.6	2.075	1.3	1.6875

Source: HVS- international survey report

Sample Chain Hotel-Financial statements of the selected sample chain hotel formed the bases of analysis of revenue. The details from the statements are arranged yearly

Table : 3 - Revenue analysis

Year	2005	2006	2007	2008	2009	2010
Revenue -Rs	2,19,541	2,12,468	2,65,075	3,64,395	4,07,098	3,47,754

Revenue that is generated by the sample hotel during the year 2005-2010 is shown in the above chart. According to the chart, the sample hotel group generated revenue of Rs 2,19,541 in 2005; Rs 2,12,468 in 2006; Rs 2,65,075 in 2007; Rs 3,64, 395 in 2008; Rs 4,07,098 in 2009; and 3,47,754 in 2010.

Operating Cost

The calculation of operating costs is considered essential to sound business planning. A business can be adversely affected, when these costs are not properly budgeted. Lack of planning increases the risk that a business will not maintain adequate funds to operate properly. Let us thus look into the operating costs and operating profits of the sample under study.

Since some costs are fixed, possible business interruptions or economic declines should be taken into consideration. These commitments generally cannot be deferred until a business finds it convenient to pay them.

The cost structure of Sample group is shown in the above Pie chart. The Administrative and other cost is largest with 46% of the total cost structure, the Employee cost is 23%, the

second largest. The repair and maintenance cost is lesser as compared to other costs. The Finance charges amount to 18%.

The total expenditure of this hotel is depicted in the figure above. The operating cost is 82% and 18% is the undistributed cost.

Table : 4 - Operating Cost of the sample hotel

Year	2005	2006	2007	2008	2009	2010
Admin & other	41.9	40.92	35.76	31.07	29.91	5.54
Employee	14.85	15.48	13.24	11.44	12.48	26.86
repair & maintenance	7.74	5.59	2.49	3.78	9.38	21.61
Operating cost	**64.49**	**61.99**	**51.5**	**46.29**	**51.77**	**54.01**

The table and the bar graph depict the operating cost by the sample hotel during the five-year span of 2005-2010. The operating cost has been decreasing since 2005 when it was 64.49 and is the least in the year 2008 46.29 cr. However, there has again been an increase in the operating cost in 2009 and 2010, when it was 54.01. The Administration and other cost has shown a sharp decline in these years, as it was 41.9 in 2005 and only 5.54 in 2010. The Employee cost has increased nevertheless, from 14.85 in 2005 to 26.86 in 2010. The repair and maintenance cost has also increased three fold from 7.74 to 21.61.

After looking at the operating cost of the sample hotel, let us look into the second important factor (that is considered in the research) i.e. operating profit and total expenditure.The pie chart given below shows the distribution of total operating profit and total expenditure of the sample group of hotels. The total operating profit is 35% while total expenditure is 65%.

*Table : 5 - Average Percentage of operating cost and operating profit/loss data*

Year	2005	2006	2007	2008	2009	2010
Operating profit/loss	31.79%	31.46%	42.01%	26.71%	24.19%	29%
Operating cost	64.10%	62%	51.50%	46.30%	57.79%	57.80%

Here in the above figure average percentage of operating cost and operating profit for Sample group of hotels is shown. In 2005 the operating profit is 31.79% and operating cost is 64.10%.In 2006 the operating profit is 31.46% and operating cost is 62%.In 2007 the operating profit is 42.01% and operating cost is 51.50%.In 2008 the operating profit is 26.71% and operating cost is 46.30%. In 2009 the operating profit is 24.19% and operating cost is 57.79%.In 2010 the operating profit is 29% and operating cost is 57.80%.

Table : 6 - Growth Rate % Operating Cost & Operating Profit

Year	2006	2007	2008	2009	2010
growth rate % operating cost	-3.14	-16.93	-10.09	11.85	11.6
growth rate % operating profit	1.03	33.5	-36.4	-11.11	20.83

The information presented in the above table is depicted in the given below.
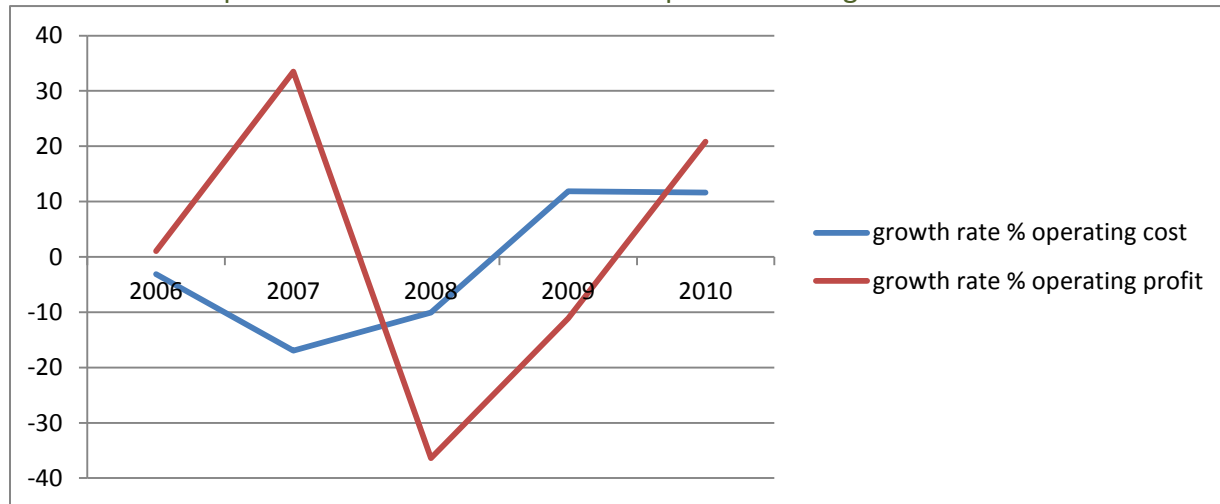
The above figure reveals the comparison of growth rates of operating cost and operating profit. The year 2006 shows positive growth of profit i.e. 1.03%, and negative growth of cost i.e. -3.14%. In 2007 the growth of cost falls to -16.93% and profit grows to 33.5%. However, in 2008 the profit falls to -36.4% and cost grows to -10.09%. In 2009 the cost grows to 11.85% and profit rises by reduction of negative unit i.e. profit id -11.11%. In 2010 the cost remains 11.6% and profit rises to 20.83%.

Findings

The above data and field research have revealed that Domestic chain hotel is proactively taking efforts for cost ascertainment, cost analysis and cost control. Therefore, the Ho hypothesis is proven. Operational stage that is purchasing, receiving, storing and issuing, preparing, selling is well controlled by the management. The hotel owner also has understood the importance of cost control for sustainable growth of their hotel under very competitive market and demanding market segment.

Conclusion:

The sample chain hotel records controlled operating cost in the initial years (years under the study), but it seems to be increasing in the last two years along with a steady increase in revenue. The administrative and other costs hold 46% of share in its total cost structure. It is also revealed that the cost heads are not properly segregated; as a result the costs tend to increase. It is advisable that the hotel must classify its cost heads well and should maintain uniformity in it.

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