Terminus hotels essay

Master-budget Capacity | 2, 500, 000| 80| 86| 25| 111| Additionally, if the costing department decided to recalculate the unit costs due to the loss of the “ regular” customers, thus spreading the fixed cost over a smaller number of rooms, the price would rise and become increasingly uncompetitive; effectively a downward demand spiral. Finally, the case states “ As in the case of Pearson Travel, Impressa Reisen kept to its regular bid and did not depart from previous forecasts”, which indicates that in previous years both bids would have been accepted.

Assuming that in the previous years, the occupancy rate matched the longer-term average of 60% (Normal Capacity), the total cost per room at €82, would have been below the bid price, and thus accepted.

In summary, the choice of Master-Budget Capacity Utilization, especially in a year-of-crisis when fixed costs are spread across a smaller demand, was the incorrect choice, and led to the rejection of the two offers. Had they actually been using Normal-Capacity utilization, the offers could have been approved. 2.

Which price would you set for the rooms? We would choose to use Practical Capacity in order to calculate the budgeted fixed cost per room. Using this approach, the total cost of a room per day would be €60 (€35 fixed cost + €25 fixed cost).

Using Master-Budget Capacity Analysis increases the costs to a point at which the room price is uncompetitive and in which the guests are paying for the unused capacity of more than 1/2 the hotel. It is also important to consider the long-term relationship with a customer.

Both offers were from regular-clients and it could be argued that even if their offers fell below their regular bids, they should have been carefully considered. When calculating the Customer Lifetime Value, the retention factor for a client is an important component of the equation. Moreover, financial benefit can be made on any price that is above the direct cost, which in this instant is the €25 variable cost, signifying benefit on any price above €25. With most hotels, and from the financial statements, we know that the Terminus hotel makes a profit from the restaurant business.

This as well should be included in determining the Average Daily Spend for a guest, over and above the room rate. Considering the financial statements provided in case A, if we take the operating profit divided by the days per year and average occupancy rate, the average profit per room was €14. 25. Adding this to the total cost associated with Practical Capacity, the target price per room could be €75.

50, which would result in a margin of 24%, at the high-end of the industry (Lloyds August 2008 Hotel & Catering Review).

At this price, the offers look solid and should be accepted. In conclusion, assuming practical costing and an alignment of prices with previous bids, a price of €90 is reasonable. However, due to the economic climate and the use of practical costing, there is room for reducing margin and to price competitively at €75.

Alternatively, a more complex approach to price setting and maximizing the returns of the hotel over the year could be taken. Revenue yield management technologies, such as those offered by Yeelders

(http://yeelders. om), permit even a single hotel to take advantage of the strategies used by their much larger chain rivals. By gauging the length of stay, non-refundable rate, or time to arrival, together with a measure of demand that is based on booking patterns, seasonality, and information from local & international markets, an optimum price can be calculated. This of course should be done in combination with maximizing revenue channels: last minute deals, packages, and holiday sales.