



An evaluation of cost cutting measures in the hotel industry with a view on two Nordic hotels

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Arcada University of Applied Sciences: International Business, 2024.

Abstract:

The thesis aims to review two hotels in the Nordics operated by the Dutch Hotel Group and review their cost cutting measures against common practices in the industry. The analysis is focuses on review of costs in Profit and Loss statements compared with yearly Budgets and monthly forecasts as both hotels in question experience underperformance through past few years which raises shareholders concerns.

Overall, this work aims to contribute to the ongoing debate on sustainability and profitability of hotels in the Nordics by comparing the approaches of two different brands of hotels and review cost evaluation practices of the Dutch Hotel Group. By examining variable and non-variable costs of two Nordic hotels in Tampere and Stockholm recommendations will be made how to improve practices on P&L reviews. Presented work also can be used to further analyze performance of both properties in the Nordics.

Keywords: Hospitality industry, Cost cutting measures, Nordic hotels, Hotel profitability, Costs control in hospitality

Lärdomsprov

Anna Mathews

En utvärdering av kostnadsbesparande åtgärder inom hotellbranschen med avseende på två nordiska hotell.

Yrkeshögskolan Arcada: Internationell affärsverksamhet, 2024.

Sammandrag:

Denna avhandling syftar till att granska två hotell i Norden som drivs av driftbolaget The Dutch Hotel Group. Där bland granskas deras kostnadsbesparande åtgärder mot allmän praxis i branschen. Analysen fokuserar på kostnader i resultaträkningen jämfört med årliga budgetar och månatliga prognoser eftersom båda hotellen i fråga har underpresterat under de senaste åren, vilket väcker aktieägarnas oro.

Sammantaget syftar detta arbete till att bidra till den pågående debatten om vidare hållbarhet och lönsamhet för hotell inom Norden, genom att jämföra tillvägagångssätten för två olika hotellvarumärken och granska kostnadsutvärderingspraxis för the Dutch Hotel Group. Genom att undersöka rörliga och icke-rörliga kostnader mellan två nordiska hotell i Tammerfors och Stockholm, kommer rekommendationer att göras i hur man kan förbättra praxis för vinst och förlust -granskningar. Det presenterade arbetet kan också användas för att ytterligare analysera resultatet för båda enheterna Norden.

Nyckelord: Hotellbranschen, Kostnadsbesparande åtgärder, Nordiska hotell, Hotellens lönsamhet, Kostnadskontroll inom hotellbranschen

Opinnäyte

Anna Mathews

Hotellialan kustannussäästötoimenpiteiden arviointi kahden pohjoismaisen hotellin esimerkillä.

Arcada-ammattikorkeakoulu: International Business, 2024.

Tiivistelmä:

Opinnäytetyön tavoitteena on tarkastella kahta hollantilaisen hotellikonsernin ylläpitämää hotellia Pohjoismaissa ja havainnoida niiden kustannusten leikkaustoimenpiteitä verrattuna alan yleisiin käytäntöihin. Analyysissä keskitytään tarkastelemaan tuloslaskelman kustannuksia verrattuna vuotuisiin talousarvioihin ja kuukausittaisiin ennusteisiin, sillä molempien hotellien tulos on ollut viime vuosina alijäämäinen, mikä herättää osakkeenomistajien huolta.

Kaiken kaikkiaan tämän työn tavoitteena on edistää meneillään olevaa keskustelua Pohjoismaiden hotellien kestävydestä ja kannattavuudesta vertailemalla kahden eri hotellibrändin lähestymistapoja ja tarkastelemalla hollantilaisen hotellikonsernin kustannusarviointikäytäntöjä. Tarkastelemalla kahden pohjoismaisen hotellin muuttuvia ja ei-muuttuvia kustannuksia Tampereella ja Tukholmassa annetaan suosituksia siitä, miten tuloslaskelma-arviointikäytäntöjä voitaisiin parantaa. Esiteltyä työtä voidaan käyttää myös molempien pohjoismaisten hotellien suorituskyvyn tarkempaan analysointiin.

Avainsanat: Hotellien kannattavuus, kustannusten valvonta, kustannusten leikkaustoimenpiteet, pohjoismaiset hotellit, majoitusala, hotellien kannattavuus.

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1 INTRODUCTION

In the post pandemic world the Hotel industry is experiencing multiple challenges and in the current environment of economic stagnation it is more evident that more changes are needed to take place to turn an old industry into something sustainable for the future. As it is noted in the annual report of the Bank of Finland, 2022 was the year of weak economic outlook, risen inflation and growth of expenses of many private individuals and companies (Bank of Finland, 2022).

The question of the expenses of hotels operating in the Nordics is part of the puzzle that the Hotel industry has when working towards profitability and improved financial performance. Current work has a focus on evaluation of cost-effective measures to evaluate the performance of the Dutch Hotel group where the author works as assistant financial controller of the Nordics. The group has been experiencing challenging times where more needs to be done in order to sustain profitability in the long term.

To observe all the big trends in the hotel industry in Europe one can benefit from having insights into Visitory tool which gathers travel data from different sources and analyses them through infographics and reports created on request (Visitory 2023). From their data it becomes noticeable that for both cities where the Dutch Hotel group operates in the Nordics there was a noticeable increase in sales through the years 2022 and 2023 compared with 2020 and 2021 Pandemic years. As can be seen in fig.1 for Tampere 2023 has been overall positively stable in terms of sales compared with previous years.

However, the increase cannot confirm a new and evident trend since it is still years where a large war is taking place on European soil and the end of it is nowhere near. Therefore, making comprehensive forecast is rather difficult and small expenses start to play more significant role in the unpredictable sales environment.

Total Accommodation Sales

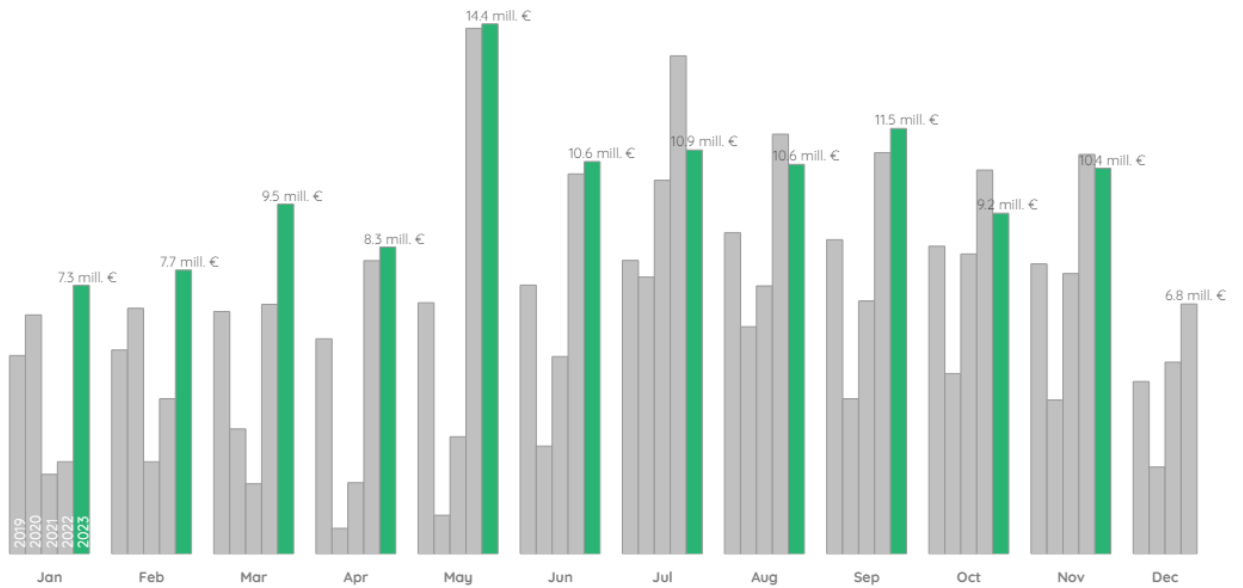


Figure 1. Total accommodation Sales Tampere (2020-2023), Visitory 2023.

1.1 Problem statement

Global economic factors continue to weaken purchasing power and freedom of movement throughout years 2022 and 2023 (International monetary fund [IMF], 2023)

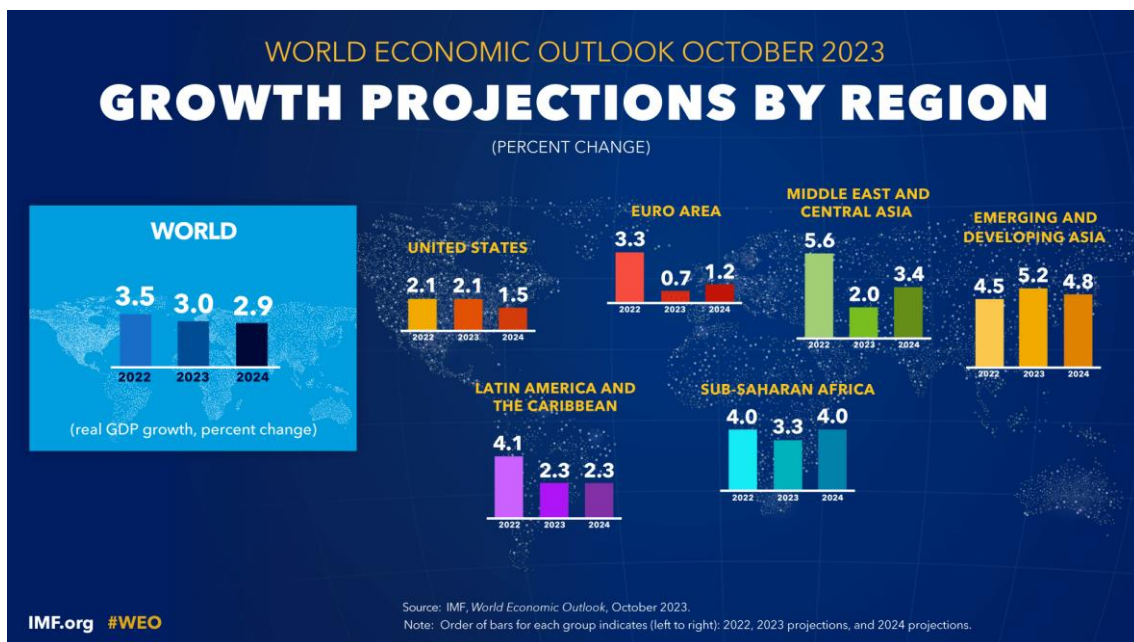


Figure 2. Growth per region, International monetary fund, 2023.

This has cascade effects on the hospitality industry as a whole and Nordic hotels in particular. Whilst navigating through the uncertainties of tomorrow companies still strive to deliver the best service possible to the guests and support their team and operations, however, without a deeper understanding of what causes a decline in financial performance and consequently finding opportunities to overcome this in daily practices appears to be an endless area of research.

For the Dutch hotel operator in the Nordics it is proven to be difficult to establish profitable practices from the time of acquisition: 2020 for Tampere hotel and 2022 for the hotel in Stockholm, - to this day. With a lack of knowledge on local taxation and payroll practices come many unforeseen fixed costs but also having single properties in two different countries limits the ability to leverage on variable costs. However, more detailed cost analysis is required on this to determine if any changes can shift the net result of operations in Finland and Sweden that the Dutch Hotel Operator has had in the previous 2 years.

Cost cutting measures are considered essential for both Nordic hotels by the company's shareholders. However, could these cost cutting measures significantly change bottom line performance? The company is at its pivotal point where investors are reviewing closely monthly performance and have moved forward with 2024 budgets for all current properties but 2023 yearly P&L reviews had it's difficulties for less profitable hotels. What steps can be taken to fulfil the promise to investors and other shareholders will be researched in this paper.

1.2 Aim of the study

Under current declining market opportunities more and more companies are keeping their focus on cost efficiency and cost cutting measures become one of the main priorities of business analytics. The same objectives are set for the Dutch Hotel Group in 2024 and the presented research would ensure that this area is well analysed.

Main aim of the research is to provide analysis of cost cutting measures generally used in the industry and in the Dutch Hotel Group to evaluate if enough is done to illuminate unnecessary spendings. It would be important to bring more understanding if any of the

measures are in fact applicable in two Nordic hotels and can change the bottom-line result of the business that the hotel branch has in the Nordics.

Therefore, research questions can be formulated as follows:

- 1) What kind of cost cutting measures are generally implemented in the hotel industry?
- 2) What is the impact of variable and fixed costs in P&L of two Nordic hotels?
- 3) What cost cutting measures can be implemented in two Nordic hotels of the Dutch Hotel Group?

In order to answer to those questions a comparison of the two hotel's P&Ls for 2022 and 2023 will be performed and detailed analysis between cost cutting measures in the industry is done.

1.3 Demarcation

The main purpose of the research paper is to evaluate if any of the hotel industry cost cutting measures can be applicable in the two Nordic hotels where The Dutch Hotel Group operates. This research does not cover questions on how to increase revenues and general top line performance of the Hotels in question. It will also not be focused on comparing against other European hotels in the group since the Nordic environment creates its own unique challenges and imposes higher tax brackets and overall expenses.

1.4 Definitions

To facilitate a deeper understanding of the subject in matter it is important to elaborate a bit on some of the concepts used in review of Costs in Profit and Loss statement of The Dutch Hotel Group. It is important to note that costs and expenses are perceived per department in the hotel such as Rooms, F&B (Food and Beverage), Spa, A&G (Administrative and General), S&M (Sales and Marketing), Engineering, Utilities Non-Operating I&E (Income and expenses).

This paper aims to review available data of Profit and Loss (P&L) statements for 2022 and 2023 for two Nordic hotels. Profit and Loss statements are one of the forms of

financial reporting and contain information about all the expenses incurred by company during defined reporting period (in this paper it is yearly statements). P&L also accounts for generated revenue and income, taxes paid and result that shows up as profit or loss.

1.5 The Dutch Hotel Group. The Nordic cluster hotels

Presented work is based around two hotels in the Nordics where The Dutch hotel group operates. This Dutch operator has diverse portfolio of brands across multiple European countries. It employs more than 800 people. Its shareholders are well recognised international hospitality brands. The company operates under franchise agreements with Marriott Group and IHG.

During the 10 year of company operations different countries were in focus and many new openings were taken place each year for The Dutch Hotel Group. Currently, as the resources are rather limited due to socio-economic environment, the company shifted its focus on fixing problem areas in already operational properties rather than continuing acquiring new hotels.

The Nordic cluster in the Dutch hotel group is presented by two hotels: AC Stockholm and Courtyard Tampere. Both have joined portfolio fairly recently. Both experience similar challenges associated with being standalone properties in a country, which differs from the holding company's, and also practically managed by third party operator. It brings its advantages such as flexibility in contracting arrangements, lower management fees and potential to provide more personalised experience for hotel guests (Lars Wagner & Partners, 2023). On the other hand it also has many potential points of failure: such as cultural misunderstanding, difficulties to transfer expertise and implement change.

2 THEORY

To begin cost analysis of two Nordic hotels in question, the specialized literature regarding the costs structure and profit and loss statement analysis in general is reviewed here.

2.1 Operating and financial activities

Operating and financing activities of the hotel industry is a topic well researched in business circles and in Academia. However, hospitality is one of the most dynamic sectors of contemporary society affected significantly by ongoing global socio-economic processes. As the margins remain slim, hospitality is the area where cost-cutting measures are something that all parties involved work continuously on and this will be also the main focus when looking for answers on how to cut costs effectively and sustainably.

Multiple financial crises at the beginning of the 21 century reinforced cost control measures in all industries. First that was recognised was a potential in cost reduction of utility costs (Goldstein & Primlani, 2012), after which Sinding suggests to further revise operations costs as well (Sinding, K., 2001). The latter also is arguing that maintaining environmental management systems may reduce the overall operating costs by 15%. These kind of savings may indeed look appealing but many firms are sceptical of initial costs and ongoing expenses involved (2001).

The scope of cost-cutting measures that could also improve environmental impact of the business is very heated discussion. As ongoing efforts are looking for more sustainable solutions with a long term positive effect on the portfolio, the following items can be reviewed in hotels: consumption of energy coming from non-renewable resources, drinking water consumption, waste management practices. As waste waters are the biggest generators of environmental costs in hotels (Pirani, S & Arafat, H., 2014).

The International Federation of Accountants (IFAC) supports the implementation of relatively inexpensive measures to achieve good results in savings - systematic monitoring and control of all resources consumption, and recycling systems upgrades.

(Jankovic, S., & Krivacic, D., 2014). Researchers also support the idea that accountants play a significant role in those processes (Yusupova, M., 2023).

2.2 Cost structure in hospitality industry

Kotas in his work (1997) mentions that cost structure is a key factor of hotel business, highlighting that businesses with high fixed-cost structures (such as hotels), normally built to be market-oriented, whereas those with low fixed-cost structures (i.e. manufacturing firms) are indeed cost-orientated. Therefore, consumer demand creates an urge to focus on revenue driven activities and product differentiation to achieve more profitable results.

In fact, most hotels have a very high proportion of fixed cost. Kotas (1997) and Bingal (1997) confirm that this portion comes to around three quarters of the total cost. The authors also outline Rooms department has fixed costs in relation to sales volume (around 15-20%) and lower proportion of variable costs (laundry, guest supplies, dry cleaning). Meanwhile, F&B department has comparably high fixed and high variable costs at the same time. Both departments are highly affected by fixed personnel costs and this is where cost cutting measures can be considered first.

Gemar in his later research (2019) brings to attention that due to highly competitive environments where hotels operate, “cost structure and the weight of indirect costs determine hotels’ profitability”. Therefore, it is important to identify the cost structure of both hotels in the Nordics and establish if anything from variable costs can be reduced. Other things to consider should be existence of consolidated accounts, Hotel group and Hotel category (3, 4 or 5 stars experiences). As the authors conclude managerial practices are the most important in hotel surviving (Parkhi, S., Patil, S., 2017).

2.3 USALI specific cost structure

As the Dutch hotel group follows USALI guidelines in all of its hotels when it comes to accounting it is important to establish that these principles are widely supported in hospitality industry. According to the USALI the Income statement is split in 3 major sections: (a) departmental revenues and direct expenses of relative to the department cost centres, (b) operating expenses such as Administrative and General (A&G), IT, Utilities,

Sales and Marketing(S&M), Maintenance and the last section (c) is dedicated to taxes, fixed charges and management fees (Pavlatos, O., & Paggios, I., 2009). USALI still follows traditional cost accounting techniques to provide cost data. Therefore, it does not apply for other costs techniques of managerial accounting. Moreover, Campa-Planas and Banchieri (2016) establish pretty clear that departmental profit is very difficult to track with the help of USALI and that leads to poor tracking of costs and heads of departments then act out of their own interest without worrying for the results of the whole hotel.

2.4 Personnel costs

The next topic that scholars pay continuous attention to is personnel costs and overall management practices in hotels. Gemar in his work “Survival analysis of the Spanish hotel industry” (2016) considers low employee cost per operation revenue ratio, a low collection period ratio or a high profit margin most effective parameters to establish how well hotels operators perform. It would be beneficial to review these ratios in the P&L review of the hotels in question.

Gemar in his work (2019) points out that not all variables are equal in financial cost structure and not all impact profitability the same way. However, HR related costs are one of the most important indicators. The author comes up with exact number of 43% that is the ceiling in employee costs to operating revenue ratio after which hotels become three times more likely to be declared insolvent. His study was based on a sample of 354 resort hotels in Spain between 1997 and 2009, a period of multiple bankruptcies happening in the resorts. Another study of Arbelo brings to attention the dependency between productivity of employees and inefficiency of operations (Arbelo, A., 2017). It highlights that labour productivity is major source of inefficiency and human resource management (employee training, incentives and investment in human capital) is an expensive but yet necessary instrument in achieving competitive advantage in hospitality. Findings of Arbelo also determine that human resources, the accumulation of knowledge in the hotel are factors that largely responsible for efficiency of the hotels.

In order to reduce the negative effects of Human resource management some of the most radical measures have been considered in research such as replacing human employees with robots (Song, H., 2022). Researchers attempted to investigate the issue with 364

customers in China. After thorough work they conclude that usage of robots is “less effective in improving consumers’ perceived service and brand authenticity” (2022).

Moreover when thinking about enabling more solutions with robots in hospitality, design and operations should be augmented for robot-friendly environment (such as floor coverage, doorsteps, stairs) which seems to be a larger task than can be considered at the moment.

2.5 Brand standard practices

When developing brand experiences, such as the Dutch hotel group, one starts to think how to stand out and what standards to follow. Marriott standards are one set of tools and objectives but there is more to creating an authentic experience so business would stand out. In highly competitive environment bringing an exceptional quality of service become an essential for hotel survival (Gilbert, D. & Wong, K., 2003).

The authors worked on the passenger expectations research in the airline business which has many similarities with the hotel industry such as high expectations of customers which create a set of standards and moreover serve as reference point for customers. This determines that many cost saving measures should be reviewed against overall experience of customers and later should not be compromised at any cost.

Research confirms that reduction of costs risks worsening of the level of guest experience, at the same time increase in prices could result in turning price-sensitive segments away (Brown, J.R. & Dev, C., 2000). Service authenticity is something that the Dutch Hotel Group is focused a lot on. As it affects perceived service value and service satisfaction. In this context of creating unique brand and striving to minimise costs they are working on a complicated set up and would benefit from more direction given by hotel managers or business operators.

Lia,Y and Singalb M. when discussing management contract costs point out that two types of management fees (Base management fee and Incentive management fee) can be used to provide stable earnings for the operator regardless of the profits of the property. First one is based on a percentage of the revenue and second is based on profit percentage.

Therefore, manipulating Base management fee can be also seen as a tool in cost cutting measures if necessary. In The Dutch Hotel Group Base management fees are a fixed percentage to Rooms Revenues and Incentive management fees are tight to Restaurant (F&B) revenues, therefore, any manipulations with management fees have to be part of the negotiations for the whole group.

At the same time the franchising fees are something that cannot be easily adjusted and are normally based on sales revenues. Franchise contracts also include upfront fees and monthly fees just like in the case with the Dutch Hotel Group in question as they operate under Marriott Franchise group.

Efficient and optimal use of resources is often not achieved due to poor allocation of those resources available (Anderson, R., 1999). When defining cost efficiency practices it helps to see the difference between the potential use of hotel's resources versus its current use. This concept of cost efficiency serves an important economic objective of minimizing costs (Berger, A., Mester, L., 1997). Cost efficiency can be described as a concept of possibilities of production, a ratio between the minimum costs that can be achieved for a given production and cost of current production technology for a given volume (Arbelo, A., 2017).

3 METHOD

The main objective of the conducted research is to identify if any cost cutting measures generally used in hospitality can be applied in the two of Nordic hotels where Dutch Hotel Group operates. In order to answer the research questions cost analysis was conducted and cost cutting methods, relevant to the industry, were reviewed in the existing literature. After that cost cutting measures were evaluated for the hotels in questions.

Cost-saving measures have been an important topic for many industries generally but hospitality in particular since the margins are considered to be slim and challenges of running hotels are plenty. And most importantly general managers remain focused on maintaining low costs but still end up with low profit margins.

The primary source for the research were Profit and Loss statements and budgets data of two Nordic hotels for 2022 and 2023 years. In this paper horizontal, vertical trend analysis methods were used (Abor, J., 2017), variable cost analysis and historical cost analysis.

3.1 Choice of method

The choice of the method was determined by the ever changing environment where the hotels operate. It is first important to mention that the Profit and loss statement for the last 2 years for both Nordic properties is also not a stable data set as it is subject to a lot of variance as they are fairly new properties in the holding's portfolio. Another complication is that the company is not always familiar with Nordic region specific costs. Therefore, cost lines do not match year to year to 100%. Taking this into account, more importance should be weighed on the knowledge of all the cost records, behind the presented figures and the USALI standards that the author possesses, rather than the solely on the figures of the P&L statements.

3.2 Research approach

In the presented work, data collection and analysis were based on constructivist grounded theory approach. Grounded theory is one of most popular qualitative methods (Timmermans, S., & Tavory, I. 2012). Interestingly, it's becoming more prominent in the research in tourism sector (Matteucci & Gnoth, 2017).

Rather than basing gatherings on pre-existing theories, this research method focuses on generating new ideas and theories based on inductive analysis of data. It is important to mention that constructivist version of grounded theory (Charmaz, 2006, 2008, 2011) makes assumption that the research process evolves through interaction, viewing data production and analysis as socially constructed, with the aim of enhancing contextual understanding. Additionally, constructivist grounded theory prompts researchers to interpret their study's data by delineating behavioural patterns and practicing reflexivity. (Charmaz, 2011).

The constructivist grounded theory method was employed for the secondary research of the literature, the primary source of which was electronic publications and articles related

to cost analysis and cost-cutting measures in the hospitality industry there were found grounding basis for cost measures detailed review. At the same time, wide range of work available EBSCO, JSTOR and Google Scholar databases are primarily focused on the theoretical knowledge of general hotel management, management of costs and human resource management. Therefore, a scope of work was rather large.

3.3 Analysis of the data

The gathered data from the Dutch Hotel group was a series of monthly and yearly Profit and Loss statements, Budgets for years 2022 and 2023 for two outstanding hotels in Finland (Tampere) and Sweden (Stockholm). This data set was undergone analysis of cost structure and independent cost variables. For that univariate analysis was employed (Tabachnick, B. G., & Fidell, L. S., 2019) and pie charts representing proportion of costs will be created. Other graphical methods such as bar charts and histograms can be also useful as a method of visualising distribution of cost values in different departments.

In attempt to determine how expenses evolve over time, historical cost analysis was employed. This method helps to evaluate incremental changes in time, and this is why it was chosen as first and foremost basic way to determine the weakest points in hotels performance.

Second, it was important to differentiate between variable and fixed costs in the hotel industry (Sorin, B., 2006) which should be common practice and performed fairly and consistently between the two properties.

Variable cost analysis was employed and it is the main method of cost analysis in the presented work. It mainly concentrates on fluctuating costs that come in direct proportion to changes in revenues of the hotels.

Main characteristics of such approach is recognising the variable costs increase or decrease that comes in line with Sales Volume. This determines direct cause-and-effect relationship between variable costs and revenues. As an example, costs of group commissions that come with increase of group bookings sales and it comes together with direct labour costs.

In the attempt to identify areas of inefficiency or excessive spendings cost reduction solutions were offered based on the ongoing and parallel literature research. This has been done with the idea of various ways to promote a culture of continuous improvement where cost-cutting measures would be systematically reviewed and implemented in the Dutch Hotel Group. This approach hopefully will lead to more informed decision-making process within the company.

3.4 Validity and reliability

The research was conducted in 2024 on a deliberately selected group of two Nordic hotels which are one of the weakest performers of the whole portfolio of the Dutch Hotel Group. This selection of entities for the study was purposeful and based on the availability of the information company shared.

It should be highlighted that the hotels that are reviewed in the research constitute only a small portion of whole European operations of the Dutch hotel group, and the research conducted here is rather region specific and hardly applicable to vast majority of other properties of the Dutch hotel group.

However, determining if any of the Nordic hotels can be potentially more profitable in the short term is crucial for the shareholders. Drawing any far-reaching conclusions would be unwarranted. Nonetheless, the findings and conclusions outlined below potentially could serve as groundwork for future, more comprehensive research into hotel services. The author adopts a highly prudent stance toward the results obtained.

4 RESULTS

In this chapter there will be a review of fixed costs and variable costs for two Nordic hotels that are part of The Dutch Hotel Group portfolio. Those two hotels though being both in the Nordics do have very different departmental cost structure set. They both undergo monthly P&L reviews and keep their records in accordance with USALI guidelines (The USALI system is globally recognised system of accounting standards for

the hospitality industry). Both of these factors make it very straightforward to compare the operating results of both properties in Tampere and Stockholm.

It is worth spending a couple of lines on defining the brands researched in the presented work as brand standards vary within Marriott franchise leaving little room for improvement on costs for essential services that are offered by brand.

The Dutch Hotels in the Nordics are represented by two brands: AC hotel in Stockholm (Stockholm hotel) and Marriott Courtyard in Tampere (Tampere hotel) both of which are four star properties catered for sole millennial travellers who appreciate forward design. Both of them are select service hotels which means they offer wide range of amenities, focus on delivering high quality breakfast with the hotel restaurants being more beverage and less exquisite cuisine focused.

Tampere hotel has been part of the Dutch Hotel Group operations since 2020. It has 229 rooms and a restaurant that is open throughout the week and works until last guest. The building is shared with the municipality of Tampere and attracts city guests and visitors who travel for business or events in Nokia arena which is just nearby.

Stockholm's 223 roomed hotel joined the Dutch Hotel Group only mid-2022 and has slightly different brand proposition as they have a small Spa in their offering. It is not a family focused Spa but rather a complimentary offer for booked rooms to visit a pool and saunas to rest after a busy day. Therefore, it is not an independently looked at business and its revenues struggle to cover departmental costs. Stockholm Hotel Restaurant is outsourced and it's set up is hard to regulate as a result. Just this year it was negotiated to be open on weekends which affected satisfaction of hotel visitors. As Stockholm hotel was acquired in May 2022, year-to-year comparison of P&L numbers poses a bit of a challenge since only 2023 was first fully operational year.

4.1 Identifying Fixed costs

In the gathered data it was important to identify fixed costs as this can help to see if anything from this group is subject to change and what stakeholders are involved here.

As previous research and author's own work experience the industry shows it is rather hard to distinguish between fixed and variable costs in hospitality. Most of them are tied to the revenues generated and therefore vary from month to month. However, it is also fair to say, the hotel industry operates with very high fixed costs and it is proven to be true for both Nordic hotels of the Dutch Hotel Group.

The fixed costs for the hotels are rent and tax payments, insurance, audit charges, contract services of the hotels. There is also portion of Franchise fees that is not-changeable through the year and is a fixed service costs. Royalties (Ongoing) costs of Marriott franchise are based on revenues and therefore, variable. Different fees, personnel costs, electricity usage rise when there are more hotel guests and therefore also vary.

Where in some hotels utilities can be seen as fixed costs, in the Nordics, however, due to seasonality factor there is too much variance in electricity and water charges alongside with monthly heating costs. Food and beverage costs can be considered variable costs in case of Tampere Hotel. However, as fixed fees are paid in Stockholm for the Breakfast portion that can be part of fixed group of costs. Laundry and Housekeeping costs, guest room supplies, cleaning supplies and amenities represent variable costs that depend on rooms sold as well.

In the following section on fixed costs an effort is made to try to identify the portion and impact of them on the hotels operations in the Nordic cluster.

4.1.1 Rent costs

Rent costs is one of the most unmovable running costs of the hotels. The power of changing the amount of rent applicable per hotel lays in the hand of asset managers who can negotiate a better deal with landlord, however, that was highly unlikely in the light of current socio-economic environment.

Rent for Stockholm is one of the highest in the group portfolio and is hard to negotiate on since Stockholm rent on land has also remained quite high. Rent of Stockholm hotel is 17% higher than Tampere hotel in 2023. Moreover, Stockholm rent takes 37% of Total Revenues and in 2023 it is already 41%. In 2022 rent of Tampere hotel is 26% of total

hotel revenues and later in 2023 it is already 29%. Rent is not proportional to revenues and has a flat rate throughout the year and that is one of the biggest challenges for both properties.

To illustrate the proportion of rent compared with other fixed costs in the property it can be useful to look at it as a pie chart. This makes it evident the importance of further negotiations on rent with the landlord.

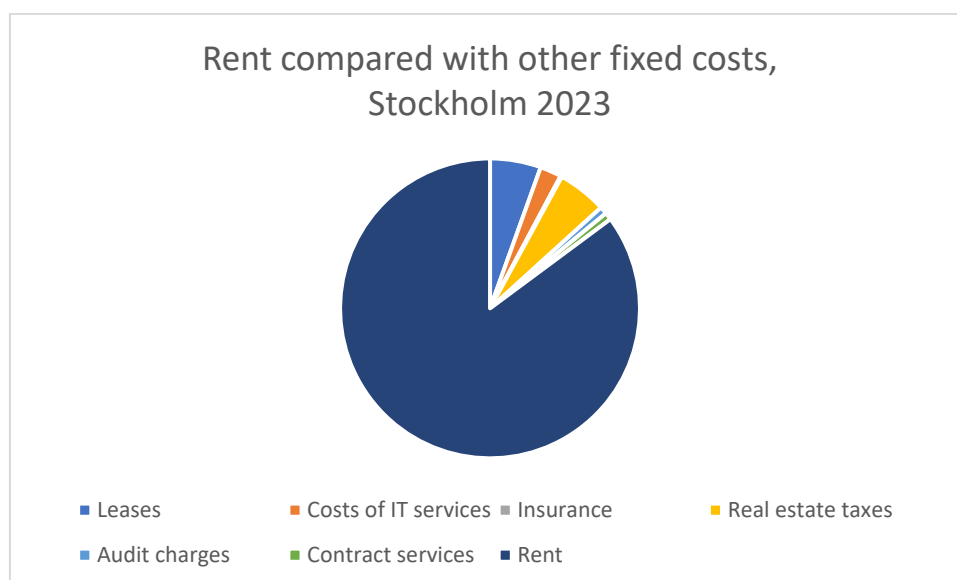


Figure 3. Rent comparison to other fixed costs. Stockholm, 2023.

Second largest expense line from Fixed costs group are leases that include property and office equipment rentals. Those were the inheritance from the landlord and as an operator, who is external to Sweden, it has proven to be very difficult to change the terms of those long term lease agreements or even to proceed with a buy out. However, as it affects the results it can be included.

4.1.2 Other fixed costs

Some of the fixed costs have direct effect on Hotel GOP like insurance, audit charges, contract services. Others such as rent of property equipment lies below GOP but still affects NOP results significantly.

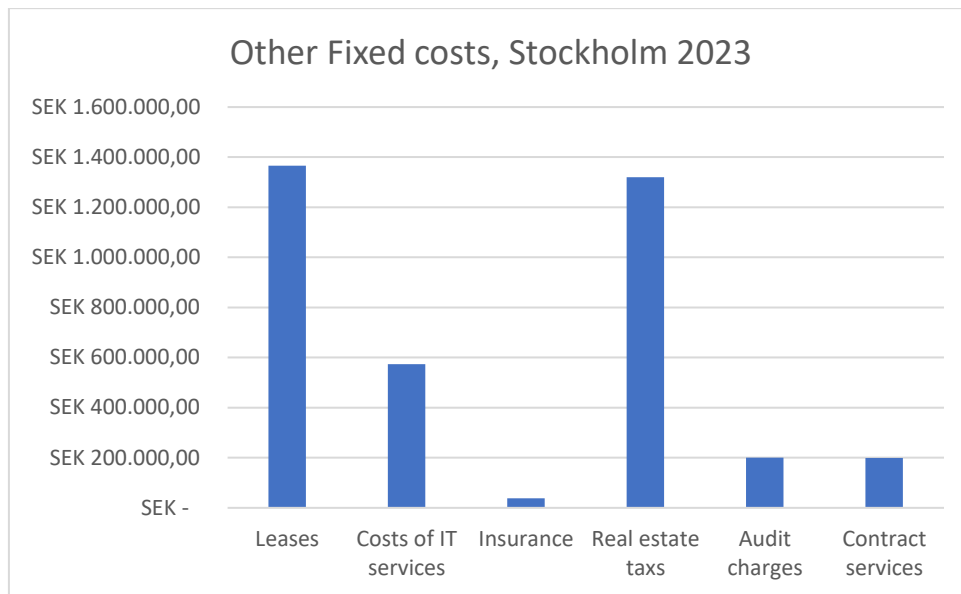


Figure 4. Other fixed costs, Stockholm, 2023.

Audit charges, building and business insurances for the property are part of the tasks on the Management of The Dutch Hotel Group negotiation table. Real estate and other taxes also come with little control over as well. Costs of IT and other contract services can be more precisely revised. In 2023 in Stockholm they built up from the following positions:

Contracts SBIT monthly subscription	SEK 7 007.61
Contracts SBIT storage and optimization	SEK 4 396.67
Contracts on service market research	SEK 1 883.00
Other software contracts (Koddi)	SEK 3 333.33

Figure 5. Costs of IT and other contract services, Stockholm, 2023.

Sbit is a company that secures ICT environment for all hotels in the Dutch Hotel Group (Sbit, 2024). They charge monthly for their storage and optimization, and subscription for all devices. All the updates are carried automatically by Sbit and normally take place during the night, minimising downtime during busy periods significantly compared with a couple of years ago. It is a bespoke solution for the group comes at high cost for the holding but no compromise will be taken when it comes to safety of customers.

Koddi is a software and services that are catered for sales and commerce in the hotel industry and the Dutch Hotel Group utilises its awareness tools through Koddi Ads (Koddi Inc., 2020). Monthly fees are one of many Rooms advertisements strategies and

Sale and Marketing are direct stakeholders in the decision making here, therefore, they can be contacted on the matter of cost side of advertisement for hotels.

4.2 Mixed and variable costs

This section is dedicated to mixed and variable costs that are making up larger portion of all hotel costs in the USALI based structure of two Nordic hotels in question. As many of them present a mix of variable and fixed positions they are reviewed in this subchapter. It is important to identify if any of these costs make up the largest proportion of costs that can be assessed in Discussion chapter against possible mitigating costs solutions.

4.2.1 Franchise Fees

Franchise Fees are charges that hotels under Marriott brand have to pay monthly. Some of them such as Franchise fees are based on their revenues, when other fees such as Loyalty fees, third parties commissions, marketing and international funds fees based on other parameters and change monthly. Franchisees also contribute to Marriott centralized programs and services with their monthly fees.

In 2023 as a multinational giant, Marriott International, Inc. (NASDAQ: MAR) is based in Maryland, USA, and comprises a portfolio of almost 8 800 properties across more than 30 leading brands in 139 countries and territories according to their financial reporting for year 2023 results (Marriott International, Inc., 2023). By the number of available room nights Marriott is the largest hotel chain in the world.

Being part of Marriott brands opens up many opportunities for properties and allows to use Marriott owned brand services and systems, however, it comes at very high cost percentage compared to total yearly revenue; examining the total percentage it comes to 11% in Tampere and 12% in Stockholm in year both operational years 2022 and 2023. If compared year-to-year franchise fees increased by 11% for Tampere and 47% for Stockholm. Latest is explainable as Stockholm hotel has only been run half year in 2022 starting May 2022 and The Dutch hotel group only started paying franchise fees once franchise agreements started to be applicable.

The fixed portion of the franchise fees are attributed to marketing tools charges mainly (SFA-web marketing tool and transaction based charges) but also Programme services contribution monthly charges as well. In 2023 they seem to match for both properties almost directly apart from transaction based media charges but the latter is larger due to higher yearly room revenues of Tampere Hotel compared with Stockholm.

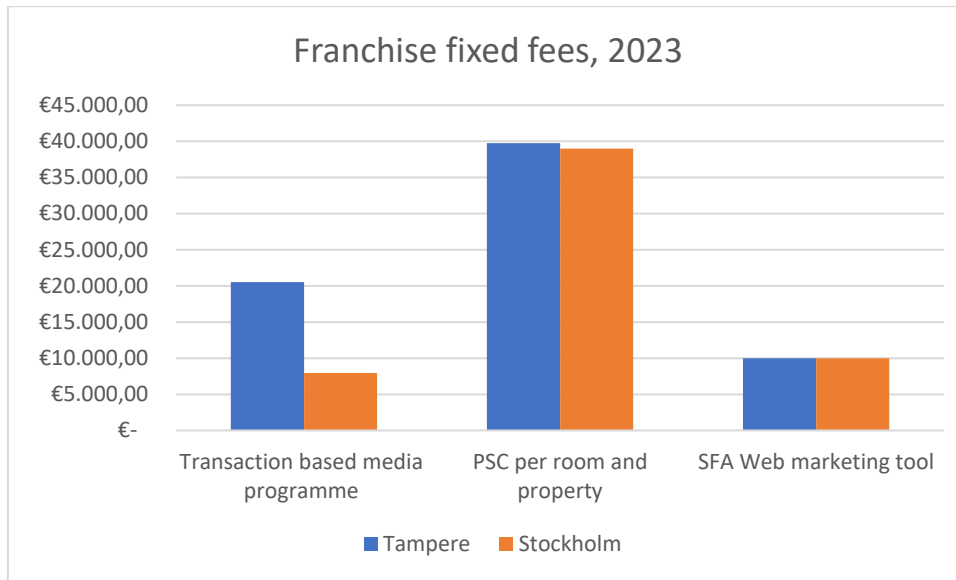


Figure 6. Franchise fixed fees. Stockholm, 2023.

4.2.2 Management Fees

The Dutch hotel group management fees represent another important group of fixed costs and attribute to running operations fees charged by headquarters to the property. Terms of the management agreements vary, but a management fee is typically composed of a base management fee, which is a percentage of the revenues of the hotel, and an incentive management fee, which is based on the profits of the hotel.

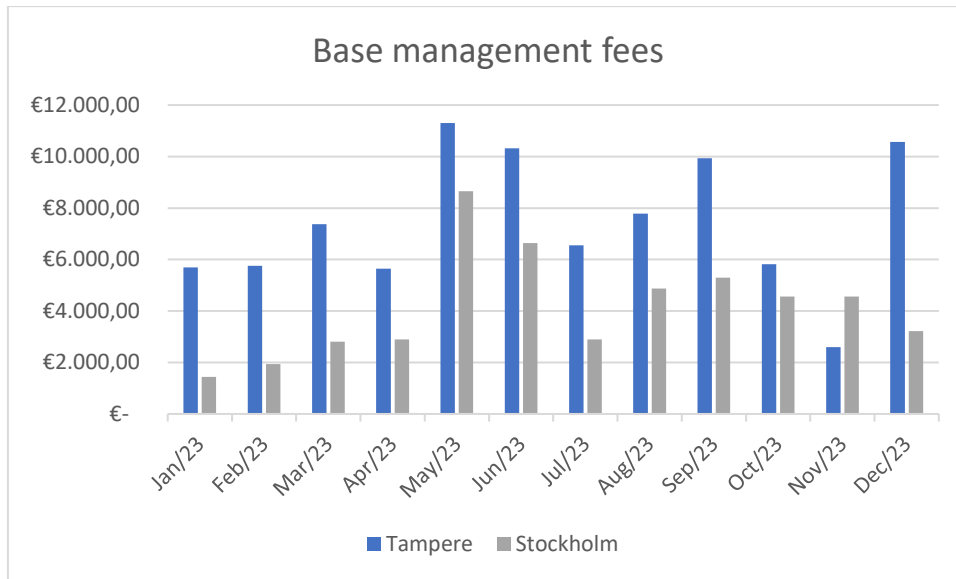


Figure 7. Base management fees. The Nordic cluster, 2023.

Incentive Management fees were not charged in Stockholm as per management contract in 2022 and 2023, but will start being charged from year 2024. Tampere has these F&B related fees through years 2022 and 2023. In both years Tampere paid highest 2% of Room revenue towards management fees and 1% of F&B revenue towards incentive management fees where as in Stockholm in first operational year 05.2022 to 05.2023 management fees only were 1% of Rooms revenue and second operational year 06.2023 – 05.2024 it was 1.5%.

The management fees will not rise any further in the following years, however, implications of lower than forecasted revenues are playing a role here as well on increased amount of F&B related fees for Stockholm and stable high management fees for Tampere.

4.2.3 Personnel costs

These costs show up as the most expensive position on P&L after rent payments. Therefore, it is important to show what percentage to Room Revenue these costs take and understand if that is comparable between two hotels. Per USALI practices, Labour Costs and Related Expenses most commonly are compared to Room revenues Total revenue. In Stockholm hotel these costs represent approximately 22% of revenue. Examining the Rooms department and labour costs within it then it can be seen that Labour expenses make up only 15% of Rooms Revenue.

Looking at monthly overview, it becomes evident how uneven personnel costs are ranging from SEK 717 229.97 in February 2023 to SEK 1 490 237.26 in November 2023.



Figure 8. Stockholm hotel Personnel costs, 2023.

Tampere labour costs compared with Stockholm stand out as more evenly distributed throughout the year. It needs to be further investigated if the practices of Tampere can be applicable in Stockholm to facilitate more stable outlook in personnel related costs.

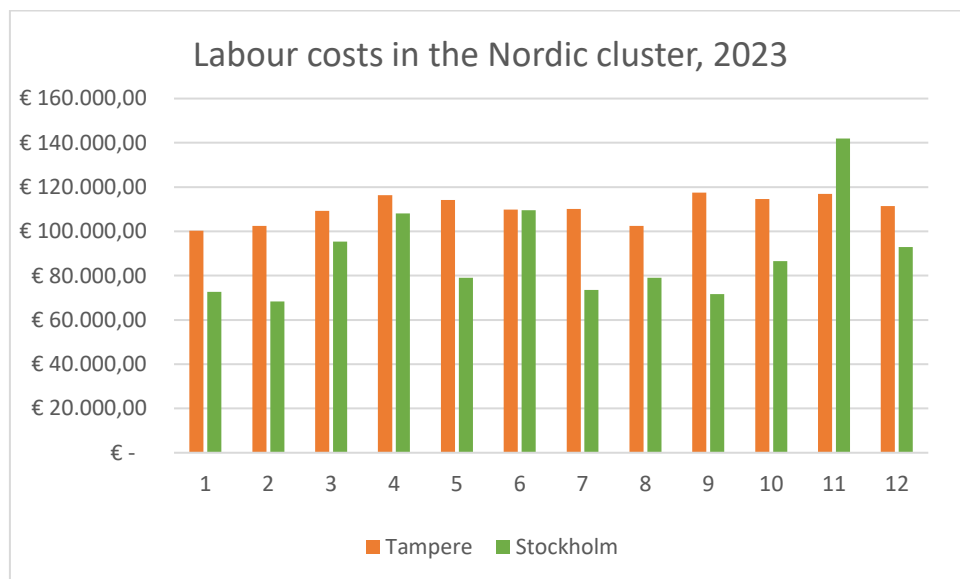


Figure 9. Labour costs in the Nordic cluster, 2023.

Ratio of Labour costs to hotel revenue is 22,4% in Tampere which makes it almost the same as in Stockholm hotel. It must be noted that there are 2 different scenarios here unfolding in labour costs so it is difficult to compare them side by side. Departments of the hotels are structured differently. Where in Tampere cleaning services are mostly run by the hotel, in Stockholm it is fully outsourced and comes as monthly invoice and no Rooms manager or Operations is running it. In fact in Tampere they have Rooms manager who is also an engineer, where in Stockholm they have an independent engineer.

Moreover, Tampere has an inhouse F&B and Stockholm has an outsourced F&B. There is no Spa department in Tampere, but as they run their own restaurant it imposes its own challenges in managing payroll for that department.

Each hotel has a “bare-bone” crew which is exactly the minimum number of employees regardless how full is the hotel and on top of that there are variable labour which is built around forecasted demand for each day. Therefore, it is also an example of mixed costs in hotel industry.

4.2.4 Food and beverage (F&B) costs

It is interesting to compare costs of sales for food for both properties since they have different set up but similar breakfast standards. This makes little room for maneuverer for Tampere in terms of offering but some advantageous can be found when it comes to experiment with different suppliers and labour in place.

Labour costs in F&B department compared to costs of sales food in Stockholm will also be different per managerial practices involved. Those can be an interesting subject of further research.

COS food	2022	2023	Variance
Tampere	EUR 292 638.00	EUR 352 471.00	20%
Stockholm	EUR 257 448.60	EUR 407 883.43	58%

Figure 10. Cost of sales food. The Nordic cluster, 2023.

Even though Tampere costs of sales in F&B increased by 20% from 2022 to 2023, and it increased from 27.1% to 29.5% as a percentage of total hotel revenue there can also be

seen a decrease in labour costs from 50% in 2022 to 45.5% in 2023. Meaning that there was an attempt to mitigate food costs increase by less hires and more precise trainings in F&B department in Tampere.

Adding up different F&B costs, then the following break out for Tampere in 2023:

- Cost of Sales 29,5%
- Payroll Costs 45,5%
- Other Costs 4,5%
- Total Costs 79,5%

Which leaves the GOP margin at a reasonable but quite low 20,5%.

Compared with 2022, 2023 results looked much healthier, as in 2022 GOP margin was only 18,5% with following break out of costs:

- Cost of Sales 27,1%
- Payroll Costs 50%
- Other Costs 4,4%
- Total Costs 81,5%

Tampere and Stockholm set up of F&B departmental costs are very different as Tampere hotel runs an independent restaurant on the hotel premises and in Stockholm it is an outsourced restaurant. The costs in the latter are only associated with breakfast portion paying to the restaurant which is 59% of the gross price of breakfast. In 2023 percentage of costs of sales was 53,4%. Making it 46,6% GOP which is significantly higher than GOP in Tampere. In 2022 COS was 46,4% and coming to more pronounced 53,6% GOP. That was an even better set up, however, not ideal for the restaurant itself and by 2024 they negotiated a slightly higher breakfast percentage as the restaurant has suffered significant losses due to low revenues.

Tampere restaurant has many questions since their GOP is rather on the low side on year-to-year basis. The payroll costs can be better controlled through new established routines on Quinyx and better staff training since it is already served as a working practice before.

4.2.5 Spa costs in Stockholm

Spa costs make a large portion of the expenses which are difficult to forecast and only trackable in Stockholm since Tampere Courtyard does not have a spa in their offering.

Being part of Marriott Spa in the Stockholm hotel has systems in place recommended by the Marriott Franchise such as Spa management system that all Marriott properties use. The running costs of it are quite high compared with local PMS used in year 2022 and in fact the costs increased by 18% from SEK 61.548,00 to SEK 72.607,50.

Spa related costs are comprised of labour costs, costs of sales of retail shop and other costs that include cleaning and ambience items, swimming pools and saunas maintenance fees. They all are flexible costs since even Spa reception and contractors for spa treatments and gym trainings are vary month by month.

Only Spa labour costs grew by 255% year-to-year comparison where Spa revenues did not rise by the same volume but only by 21%. There was an attempt to cut costs in retail shop and COS for food dropped 41% however, it is not enough to mitigate the impact of rising labour costs. In year 2023 the labour related costs in Spa steadily increase with a slight deep around spring break and summer break just to rise in winter months almost twice larger.

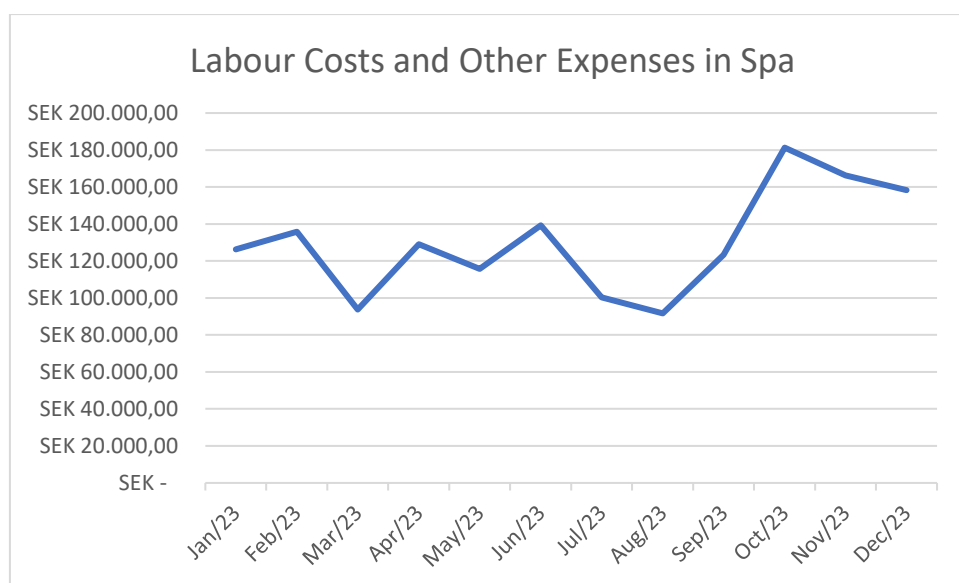


Figure 11. Labour Costs and other expenses in SPA. Stockholm, 2023.

Other spa related costs are also not very easily forecasted and budgeted for as it is noticeable they spike almost every quarter. Especially high costs fall on spa swimming pool, bath tabs and saunas maintenance. And those are related mainly to accidental maintenance and unexpected maintenance which are quite common in spa facilities.



Figure 12. Spa Swimming facilities costs. Stockholm, 2023.

4.2.6 Utilities

Utilities costs represent electricity, heating and cooling, and water charges. This is something that can be easily predictable and trackable as there are numbers from local municipalities and meters installed but appears to be always off the budgeted or forecasted numbers if the last 2 years for Stockholm are examined. Where Tampere appears to be more in line with expected forecast.

What stands out when you look at the hotel comparison of utility costs in 2023 that even though revenues are lower in Stockholm its utility costs seem to be much higher than in Tampere excluding the month of Oct 2023. This is when Stockholm received governmental support to offset losses due to increase of electricity prices in 2023.

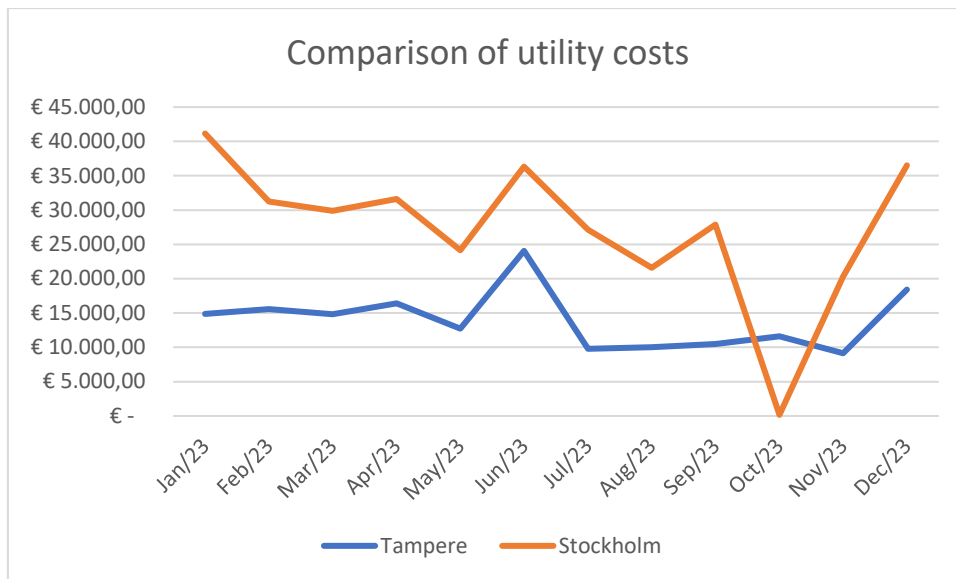


Figure 13. Utilities in the Nordic cluster, 2023.

That governmental support indeed changed the outlook for the year bringing utility costs in Stockholm 5% lower than in Tampere overall for 2023.

4.2.7 Property operations and maintenance (POM) expenses

Property operations and maintenance (POM) costs is a group of variable costs that have different contracted and outsourced services that help to run the property maintenance, take care of the items that are not part of CAPEX or FF&E reserve but fall under direct operational expenses and responsibility of the tenants. Some of those contract services fees are still fixed costs, but on the same contracts there are monthly adds on of occasional maintenance work and material related expenses. It also includes engineering supplies and urgent maintenance that is part of running costs in hospitality.

In Tampere there is no assigned engineer, but rather a managing contract with municipality that shares the building, therefore, the contracts in Tampere are already on the low cost scenario, since municipalities generally get better deals when it comes to finding subcontractors and maintenance managing firms. In Stockholm there is an engineer on payroll and this is practical and a matter of necessity since there is also Spa maintenance that requires more precise daily monitoring.

POM expenses	2022	2023	Variance
Tampere	EUR 149 344.22	EUR 182 520.44	22%
Stockholm	EUR 44 281.43	EUR 112 632.48	154%

Figure 14. POM expenses in the Nordic cluster, 2023.

However, running costs of maintenance in Stockholm is 62% lower than in Tampere in year 2023. This is further investigated in the discussion chapter.

4.2.8 Sales and Marketing expenses (S&M)

Sales and Marketing expenses include Marriott franchise fees, advertising for Rooms and Spa in case of Stockholm, outside sales representations and promotions fees, website and trade show participation etc. Tampere has seen 18% increase in S&M expenses, where Stockholm in fact successfully decreased spendings in the S&M department by 6% comparing monthly costs. In 2022 on average it was EUR 27 692.87 and in 2023 it was EUR 26 076.14.

S&M expenses	2022	2023	Variance
Tampere	EUR 335 642.00	EUR 396 666.00	18%
Stockholm	EUR 221 542.95	EUR 312 913.71	-6%

Figure 15. S&M expenses in the Nordic cluster, 2023.

4.2.9 Admin and general costs (A&G)

General and admin expenses for 2023 totalled EUR 213k in Stockholm, it is 14% lower than for the same expense positions in Tampere. Those positions include Credit card commissions, HR expenses, professional fees, audit fees, operating supplies, centralized accounting Marriott charges, Security and other operational expenses.

HR expenses, audit and professional fees are part of fixed costs but operational expenses, credit card commissions fall under variable costs. This is again a prime example of mixed costs scenario for the properties.

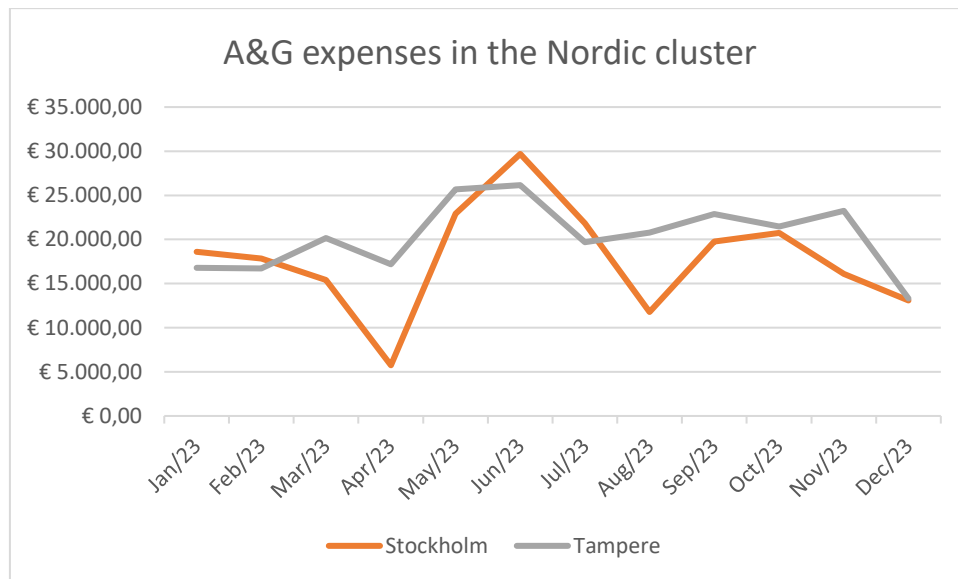


Figure 16. A&G expenses in the Nordic cluster, 2023.

A&G costs largely consist of Marriott fees and HR costs, it appears to be rather inflated in Tampere. The Marriott costs are at their highest 1.6% in Tampere starting year 2022 and Medical insurance coverage for employees and other benefits eat up around 1% of revenues, Credit card commissions 2%.

Stokholm hotel A&G costs breakdown indeed follows similar trend. However, it is important to note that restaurant revenues are still made with paying credit cards commissions and large portion of utility costs are attributed to kitchen equipment maintenance, water and electrical power. This is possible to use as leverage in further negotiations with the restaurant.

Administrative and general costs, S&M, POM, Utilities make up a section of undistributed per department costs that complicate its analysis and effect per department. And it will be very important to recognise their effects on GOP and EBITDA. However, when it comes to understanding what exactly here is fixed and variable costs portion, it is noticeable that deeper analysis would serve it better.

5 DISCUSSION

In this chapter the gathered results are reviewed. It would not be possible to go in detail on cost-cutting measures per each department and cost centre, but a couple of positions deserve extra attention. Not only due to excess on costs side but also because of this being more susceptible to change. Personnel costs plus some of the undistributed costs are subject to further review in detail and against relevant cost-cutting measures and ways of improvement.

In the presented work, the first part was concentrated around reviewing departmental costs in the hotels in question and formulating relevant framework of the hotel industry. What was identified very early on was that there is a large portion of undistributed costs per department that make up a large portion of costs and that brings down GOP and NOP together for both properties. Undistributed costs presented in Administrative and General (A&G) section of P&L, Property operations and Maintenance (POM), Utilities, Sales and Marketing (S&M) expenses.

It is fair to conclude that departmental results per USALI structure is not representative of real situation and that complicates cost analysis for hotels involved. Extra work needs to be done each month to determine the excess of expenses per each department that falls in the category of undistributed costs.

In terms of set up of both properties there are a couple of predefined variables that affect any attempts to implement change.

- First is a challenge faced as select-service 4 stars hotels. These type of hotels offer more than limited-service ones but less than full-service it makes them a very practical choice for travellers who are looking for the balance between costs and comfort which evidently comes at a cost for the hotels operations. To maintain the structure of both properties.
- Second, most of the hotel costs are actually a representation of mixed costs in almost all positions, where there is fixed costs portion and variable costs portion. The differentiation between them would have helped to identify the expenses that can be more easier adjusted – variable costs. Where is fixed costs portion is highly

unlikely to be revised easily and requires more important stakeholders in the process of change.

Despite all of that, there is potential to revise several positions together with General manager and see if any of suggestions can be taken into consideration.

5.1 Personnel costs

As research suggests personnel costs should be carefully examined on P&L reviews and hotel managers should aim at low employee cost per operation revenue ratio to establish successful hotel operations (Gemar, 2016). For both hotels, in Tampere and Stockholm those ratios are around 22% in year 2023 and in 2022 it is 26,9% for Stockholm and 22,6% for Tampere. This describes a trend in the decrease of labour costs in year-to-year comparison and also looks promising from the perspective of future alignment of ratios making it unlikely to be a reason of insolvency in the nearest future as per Gemar's work it takes the ratios to reach 43% when it becomes dangerously close.

At the same time what needs to be paid more attention to is uneven distribution of labour costs per month which is of course mainly fuelled by the difference in demand, however, also can be stimulated by sick leaves and holidays taken that coincide with high demand period. For example, in Nov 2023 the employee cost per hotel revenue ratio comes to 35,32% which is 13,32% higher than on average through 2023. In closer detail, it appears that there was quite a significant number of people on sick leave that month in combination with holidays scheduled which meant extra payroll costs for the Front Desk.

Arbelo in his work (2017) highlights how the lack of training also drains the personnel resources and discourages continued learning and improvement of daily practices. As part of Marriott franchise the Dutch hotel group has an advantageous access to trainings and programs for the hotel employees and in fact most of it is already available for free plus there are extra learning bundles that can be taken to help hotel employees' knowledge grow. However, as per lack of organised time management practices this has been poorly implemented in Stockholm hotel. Tampere hotel with the proactive Rooms manager and generally better practices at the Front desk has dedicated time for learning on Marriott platforms.

Of course, hotel personnel is the most important component of the successful business. And it is not wanted to have them overscheduled or underutilised and short staffing at the Front Desk of Stockholm already imposes additional stress on employees. To manage the team, provide additional support and training it could be beneficial to look at the team structure. There needs to be considered a position open of the Front Desk manager who can help to assist the team with operations. Tampere just now found a good candidate for similar position in their hotel as they also recognised the need in extra structural support for the Front desk operations.

Typically labour costs are built up from normal FTE hours and extra hours when it comes to higher demand. When occupancy levels increase and labour supply is low due to sick leaves/holidays etc extra cleaning can cause disruption to operations therefore it is important to encourage guests to keep cleaning requests to a minimum and use the signage to indicate to cleaning that it is not needed today. That not only has positive environmental impact but also helps to reduce cleaning costs per room. These practices are already implemented in Tampere hotel, however, in Stockholm it is still a work in progress.

As opposed to perceiving labour costs as flat fees it was recognised during this research that it is a mix of variable and fixed costs. Fixed costs are associated with the skeleton crew of the hotel. This is very difficult to change. The only good example is to monitor better sick leaves and holiday situations. However, here costs cannot be cut without sacrificing customer experience. Variable portion of the mixed labour expenses is exactly where changes can make a bigger difference. Working towards more consistent reporting on revenues and labour budget comparison can help further identify inefficiencies in labour spend and better manage labour costs in real time.

Monthly personnel costs in Stockholm hotel in 2023 range from SEK 717 229.97 in month of February, making it more than double (SEK 1 490 237.26) in November. This requires more monitoring as it affects budgeting and forecasting greatly. More precise HR software can help here to mitigate the risks. The payroll costs can be better controlled through new platform called Quinyx, that The Dutch Hotel Group just started to utilize in 2024. More precise training for hotel managers and payroll specialists should be put in place for better informed cost saving management decisions. In general, Quinyx offers seamless workforce management solution that targets smarter scheduling and as a result

more effective and accurate personnel costs representation (Quinyx, 2024). It is built around algorithms that determine predictions on demand and this is exactly what The Dutch Hotel group requires in order to improve productivity, profitability and retention of employees.

On the downside, Quinyx is not well-known brand in hospitality but rather is great solution for F&B and retail based businesses. There are plenty of software solutions for hospitality on the market and Marriott chosen solution from Radiant Systems (McPherson, K., 2022) should have been revised more precisely since choosing wrong tool can cost large long-term losses.

5.2 Undistributed costs

These costs are not calculated per department and therefore, are not influencing departmental performance directly. However, it can totally eat away a healthy GOP or/and EBITDA if it is not properly controlled. This is why this group of costs was chosen to be looked at more detail and possible workarounds are found.

Undistributed costs fall under the following cost centres:

- Administrative and General (A&G),
- Property operations and Maintenance (POM),
- Utilities,
- Sales and Marketing (S&M) expenses.

5.2.1 A&G costs

Perfect example of how many of the costs groups are not well defined in USALI structure are Administrative and general costs (A&G). Firstly they represent the group of undistributed expenses that do not influence departmental GOP but significantly affect Hotel GOP and NOP. When looking at A&G expenses it was noted that it represents a fairly large group of mixed costs for the group. HR administration costs, audit charges and professional fees are part of fixed costs and all other operational expenses, credit card commissions fall under variable costs.

In 2023 A&G costs ate up 9.5% of total revenues of Stockholm hotel where in 2022 it was only 6.3%. In Tampere hotel these percentages are even larger 10.2% and 9.1% for years 2023 and 2022 respectively. This particular yearly increase for both hotels indicates that large portions of costs is growing disproportionately for both properties. However, both also suffered from having external accounting for year 2022 which meant that many of cost positions ended up on A&G cost centre when it was actually marketing related or maintenance, therefore, inflating a bit this particular cost centre in both properties.

Administrative HR costs included in this section also have recharge positions from the Holding for running centralised payroll, plus there are 2 external local payrollers who run monthly reporting to tax authorities on payroll related matters. It would be important to consider one payroller for the Nordics or the whole holding. That would significantly cut costs and communication between all parties involved.

5.2.2 Property operations and maintenance (POM) expenses and Utilities

The Property operations and maintenance costs vary in both Nordic hotels but most importantly the Departmental set up needs to be revised and compared. In Stockholm there is one full time engineer working at the property and it is highly important since there is a fully functional Hotel spa that operated 7 days a week. From the Spa cost side it becomes evident that Spa facilities require maintenance and have a lot of unexpected costs, not just running ones. Swimming facilities costs comes vary from SEK 11k in Jan 2023 to SEK 99K in Dec 2023. Under these circumstances having a full time engineer becomes crucial for Stockholm hotel since many of daily maintenance tasks are performed by him.

In Tampere they do not have a full time engineer but maintenance company which is the same for the whole building which is shared between the local municipality and the hotel. Therefore, the costs are lower than if they looked for the vendors on their own terms since governmental and municipal level organisations have long term relationships with local businesses unlike the Dutch Hotel Group.

It appears that current set up in Tampere and Stockholm is different but it works for both of them without problems which is making it worthwhile.

As proposed in work of Sinding (2001) focusing on environmental management systems can help to reduce costs by 15%, therefore, it is needed to explore opportunities in this area such as installing low flow faucets and shower heads in the rooms that will give water at slightly lower pressure and consequently reduce costs on excess of water and heating of it. This has also proven to reduce costs in a couple of neighbouring hotels in Stockholm (General manager and the author exchanged a couple of calls with friends in other hotels in Stockholm) so, in conclusion, this will be very important CAPEX or if agreed with Landlord (landlord cost only) investment.

Further work on waste water management should also take place especially for Stockholm since it generates environmental costs for the hotel. Both hotels have ongoing certification with Green Key to demonstrate the commitment to environmentally informed decision-making practices. Further possible way of improvement for waste management is for the Stockholm hotel to utilise its connection to the grid of general waste extraction pipes that runs in the region of Stockholm where the hotel is placed. There would be no extra costs involved in this case, as the hotel already has everything in place in the cellar. The idea was again revisited during last finance visit to the property in beginning of April 2024. This solution seem to be very unlikely workable for Tampere, as it doesn't have the running underground pipes at the location of the hotel.

However, in regards to food waste in Tampere hotel can do a bit more work on sourcing and focus their efforts on suppliers with reduced packaging options and support local suppliers to minimise hotel carbon footprint.

5.3 Discussion of method

The chosen for the work method was an important calibre chosen since there is a lot to go through when it comes to comparing costs in very different environments yet in same business structure. As the author has been very closely involved with teams in both hotels and can also see perspective from headquarters on both properties it gives a significant advantage in analysis of possibilities of change being considered and implemented.

To review Stockholm and Tampere hotels' Profit and Loss statements of 2022 and 2023 years horizontal, vertical trend analysis methods (Abor, J. 2017) were used in all positions. However, variable cost analysis and historical cost analysis was complicated due to accounting errors since 2022 books were run by external accountants and there were no financial controllers in place to align their bookings with The Dutch Hotel common practices. From Jan 2023 the group took back control to its inhouse accounting and the author took place as financial controller for Stockholm hotel. The financial situation is more critical in Stockholm and this is why the author largely concentrated its effort on understanding deeper the scale of the problem in Sweden rather than Finland.

Comparing these 2 hotels has been a challenge on its own, since they have very different set up in terms of departmental structure and even brand wise as it is two different Marriott brands. Stockholm hotel runs a Spa, outsourced restaurant whereas the Finnish hotel has it's own restaurant but no Spa or Sauna facilities which are very important to Finnish customers or visitors of Finland.

5.4 Ethical considerations

When working on collecting the company data set the author was faced with the company's desire to remain confidential. Important company information such as P&L statements were only shared with the supervisor and the examiner. To avoid potential for any form of legal harm all the company data for two years in question is not part of appendices. Reporting sensitive information can lead to data breach, therefore, following precautions were taken: data pseudonymization which meant that all identifying the company information was replaced with fake identifiers.

6 CONCLUSIONS

Hospitality in the Nordics has been hit particularly hard by the global pandemic and following years of war in Ukraine and the energy crisis. When the industry is working within restrictions and limitations in combination with the general drop in demand, it facilitates change to the operating conditions of many hotels (Eckhardt, E., 2022). However, at the same time, hotels are expected to match all the quality requirements. This

led the author, an assistant financial controller of the Dutch Hotel Group, to dive into the cost evaluation of two Nordic hotels where the holding struggles to establish cost-effective operations.

In the process of the research, the costs of the Nordic cluster of the hotels of the Dutch Hotel Group were analysed in their monthly and yearly overview through the years 2022 and 2023. Following the research questions these were the findings:

Firstly, it was quite challenging to find any comparable and applicable suggestions in the literature reviews on cost-cutting measures, however, what stood out was :

- Academics confirm that profitability of hotels largely depends on the weight of variable costs on the whole cost structure (Akbar, Y. H., & Tracogna, A., 2018). Therefore, more detailed review was performed on variable costs of two Nordic hotels.
- Manipulations with Franchise fees and management fees can indeed bring the weight of large portion of variable costs (Brignall, T., 1997).
- As service authenticity is something that the Dutch Hotel Group is determined to keep on a high level, any cost-cutting measures should be introduced with great caution. Price-sensitive customers can easily turn away (Brown, J.R. & Dev, C., 2000).

Second, when reviewing the cost structure of both properties it was discovered that most of the costs in P&L statements are attributed to mixed and variable costs. At the same time, what was found, fixed costs are not flexible matter to change. Kotas (1997) and Bingal (1997) both confirm that the portion of fixed costs in hotel industry often makes around three quarters of the total costs. In case of Stockholm the portion of rent makes more than 85% of all the fixed costs (Fig.3 Rent comparison to other fixed costs. Stockholm, 2023) and has to be the main point of renegotiating with the landlord. As rent commonly negotiated by assets management team, this should be considered one of the main priorities for Stockholm hotel.

To answer the third question of the research, the main focus of the discussion chapter was placed on Personnel costs and A&G, and POM expenses from the group of undistributed

costs section of P&L as those were seen as potentially more flexible to change and within the agency of the financial controller and General manager of the hotels.

Personnel costs do have fixed portion formed by total number of monthly FTEs but also have variable portion of all extra hours worked and vacation pay accumulated. It requires close monitoring in the Nordic cluster which is also supported by Gemar and other scholars. Employee cost per operation revenue ratios should not exceed 43% as it would move it 3 times more closer to bankruptcy (Gemar, 2019). Both hotels sit at a comfortable 22% in year 2023, and in 2022 it is 26,9% for Stockholm and 22,6% for Tampere. To further improve the numbers it was advised to facilitate more training time through already existing tools and cross-training opportunities, further advancement with scheduling software trainings for General managers and HR personnel and to consider opening a position of Front desk manager in Stockholm.

From the group of undistributed per department cost groups that were looked at during the research, A&G and POM costs (together with Utilities) stood out as those positions that vary monthly and yearly a lot on P&L and were proven to be the most difficult to budget or forecast accurately for. Those groups of expenses do not influence departmental GOP but significantly change Hotels' bottom line results.

In A&G group HR administration costs, audit charges and professional fees are part of fixed costs and operational expenses, credit card commissions fall under variable costs. The 2023 A&G costs swallowed approximately 10% of the revenues of Stockholm and Tampere. It was noted that it would be important to consider one payroller for the Nordics or the whole holding as that would significantly cut costs and communication between all parties involved, by removing redundancy and utilising centralisation, however the exact impact is hard to assess without in depth studies of operating procedures of the payroll process of the Dutch hotel group, something out with the scope of this work.

The Property operations and maintenance costs identified as highly variable between each other and as it was concluded that Departmental set up was largely responsible for it, however, in both hotels it has proven to be successful operation wise, but accounting wise and forecasting wise it can be improved if only more accurate data from the energy suppliers and maintenance vendors is given. More focus can be put on the set up of the

environmental management systems, as proposed by Sinding in 2001 work. That can potentially help to reduce waste costs by 15% in Tampere where they have a fully running restaurant on their expense. In the Stockholm hotel Envac systems, that are already in place, should start to be used in order to take away all general waste related costs.

Next step for the future work can further investigate how innovations in the hospitality industry can help to further optimize cost accounting without making a compromise on the quality of the services offered.

Overall, as presented in this review of the costs of the Nordic cluster of the Dutch Hotel Group, many of the P&L items are subject to change but most of them are out of scope of the influence of the assistant financial controller and general managers of the hotels. Small changes that can be implemented as per advise here, would guarantee that hotels are on the right track to improving their financial performance.

6.1 Limitations of the study

The presented study is mainly focused on a couple of positions in P&L analysis of two properties in the Nordics, however, it would be beneficial to look at all independent cost centres and compare between years and hotels, define best practices. It can be sufficient material for further research.

The study has been limited to the data set The Dutch hotel group was willing to share. It did not wish to disclose any other company and property information, such as budgets, monthly forecasts, P&L statements of other European properties. In this way it was not possible to justify how far off the budgeted figures were yearly results or how different the 2022 and 2023 numbers are to other European properties of the Dutch Hotel Group.

The study is also restricted by USALI structure that defines departmental profit not always in a consistent way. For instance, POM, Engineering and Utilities expenses are not seen within departments (Rooms, F&B, Spa) but rather as independent groups of costs. At the same time those costs also affect profitability of the whole hotel and therefore, should really be distributed per department. Despite that, USALI structure of accounting standards and departmental analysis does not take this in consideration.

6.2 Suggestions for further studies

There is quite some potential for future investigative research in terms of cost-cutting measures in hospitality in general and particularly applicable for the Nordic hotels. As per expected high quality standards the Nordic hotels often struggle to balance their costs and insure sustainable growth for the business. The same has been seen throughout the presented research. However, as it was not possible to touch on every position in hotels P&L statements it leaves a big room for future cost comparison in order to improve operations in both Nordic properties.

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Appendices

Total Accommodation Sales

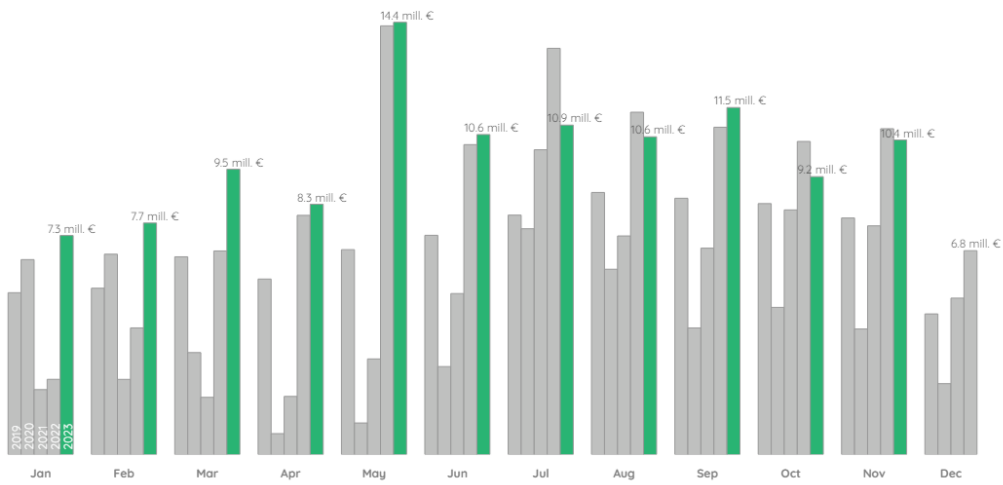


Figure 1. Total accommodation Sales Tampere (2020-2023), Visitory 2023.

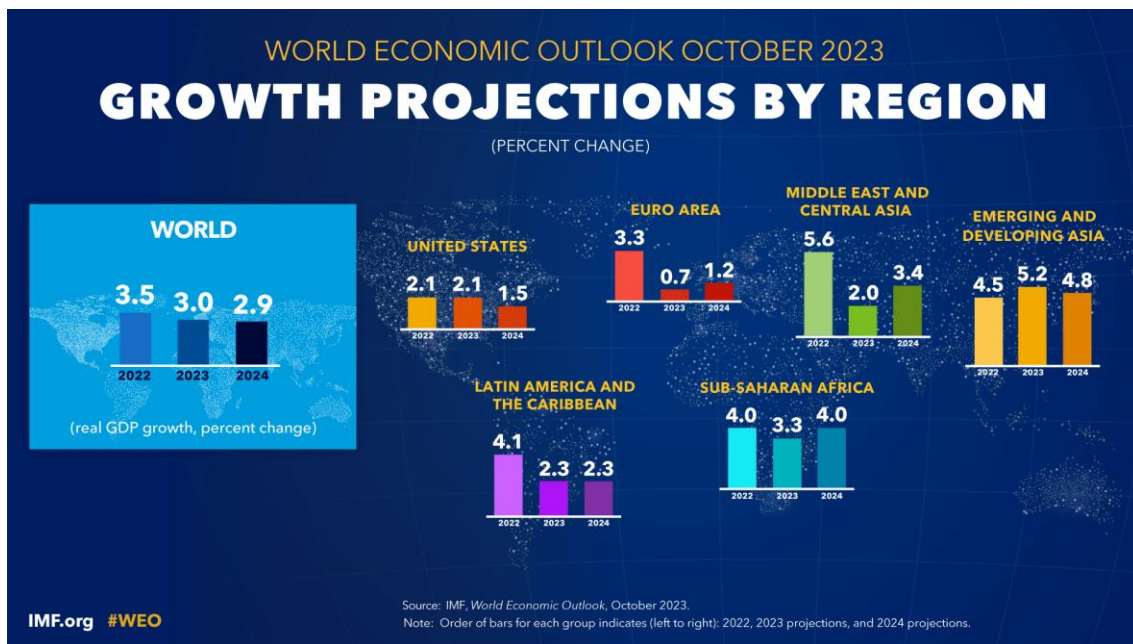


Figure 2. Growth per region, International monetary fund, 2023.

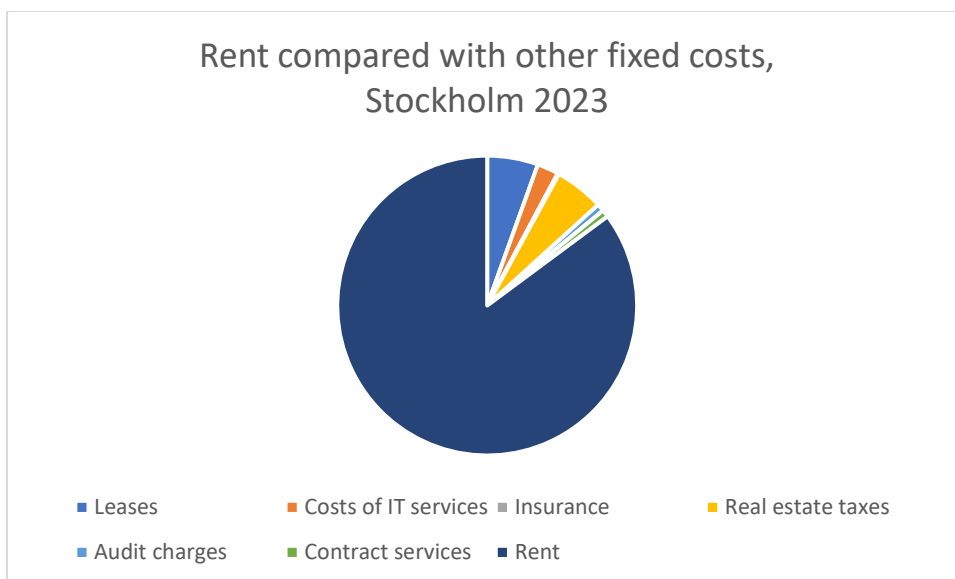


Figure 3. Rent comparison to other fixed costs. Stockholm, 2023.

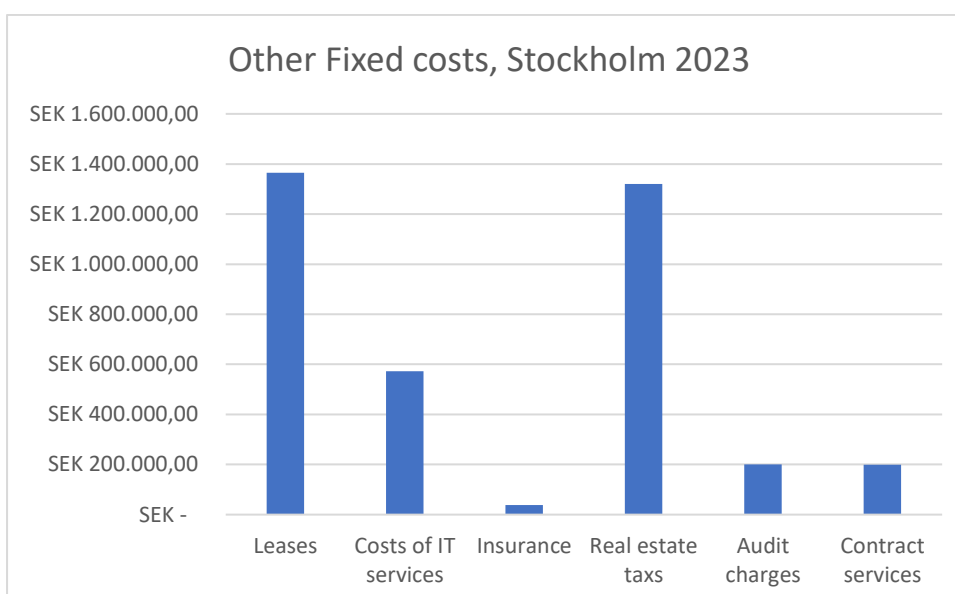


Figure 4. Other fixed costs, Stockholm, 2023.

Contracts SBIT monthly subscription	SEK 7 007.61
Contracts SBIT storage and optimization	SEK 4 396.67
Contracts on service market research	SEK 1 883.00
Other software contracts (Koddi)	SEK 3 333.33

Figure 5. Costs of IT and other contract services, Stockholm, 2023.

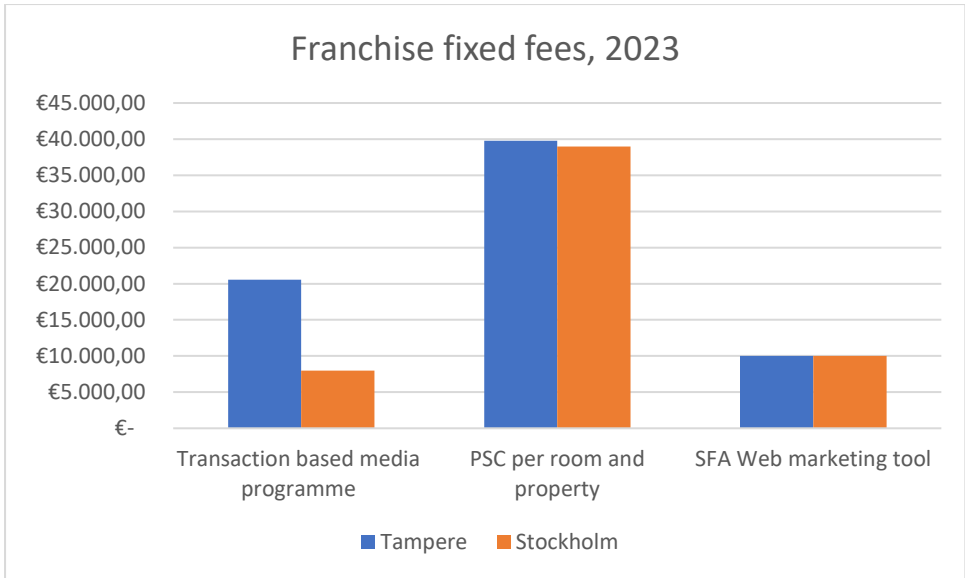


Figure 6. Franchise fixed fees. Stockholm, 2023.

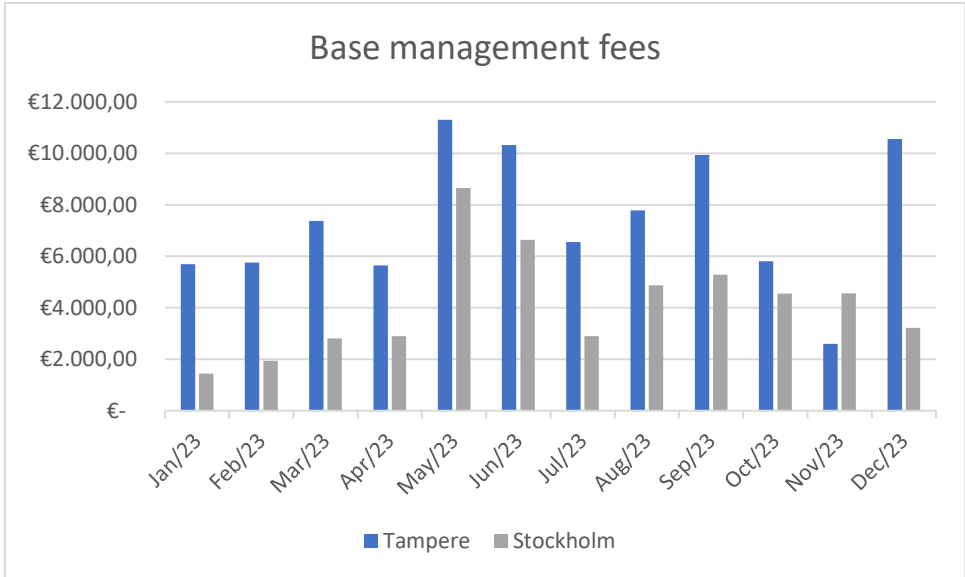


Figure 7. Base management fees. The Nordic cluster, 2023.



Figure 8. Stockholm hotel Personnel costs, 2023.

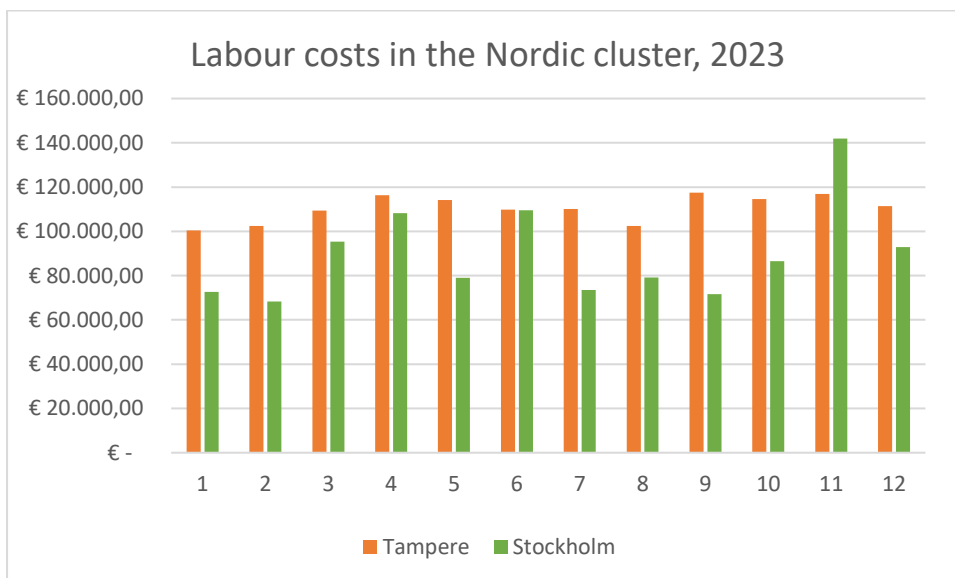


Figure 9. Labour costs in the Nordic cluster, 2023.

COS food	2022	2023	Variance
Tampere	EUR 292 638.00	EUR 352 471.00	20%
Stockholm	EUR 257 448.60	EUR 407 883.43	58%

Figure 10. Cost of sales food. The Nordic cluster, 2023.

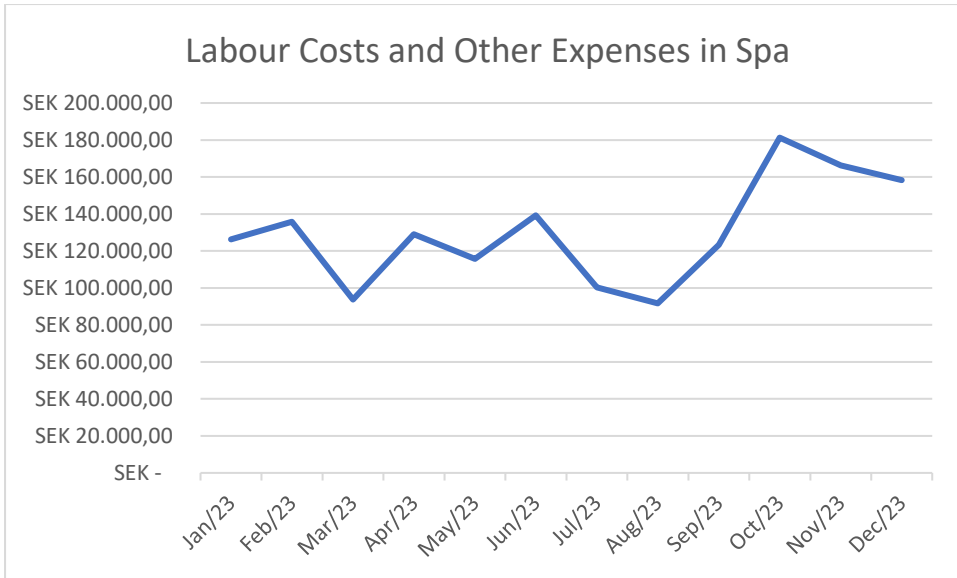


Figure 11. Labour Costs and other expenses in SPA. Stockholm, 2023.



Figure 12. Spa Swimming facilities costs. Stockholm, 2023.

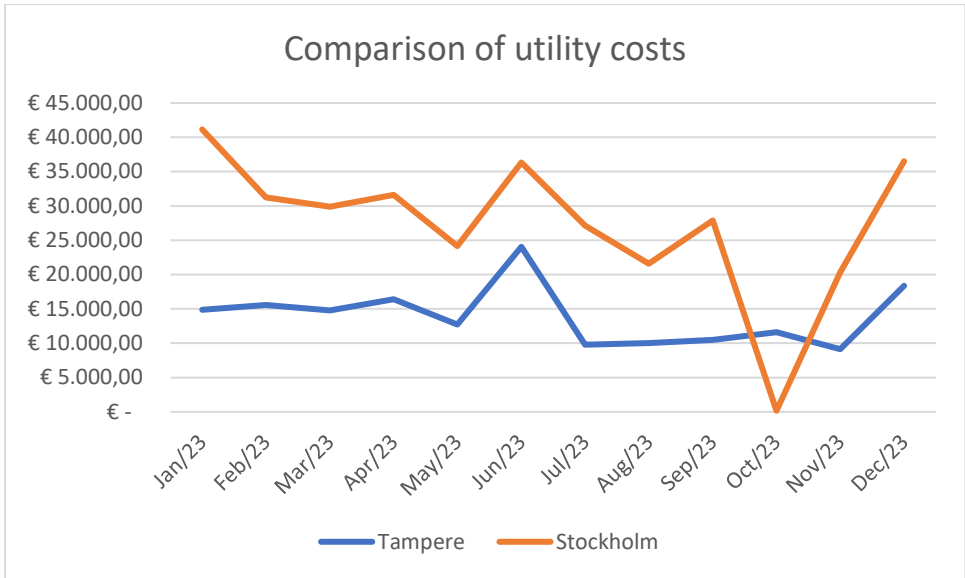


Figure 13. Utilities in the Nordic cluster, 2023.

POM expenses	2022	2023	Variance
Tampere	EUR 149 344.22	EUR 182 520.44	22%
Stockholm	EUR 44 281.43	EUR 112 632.48	154%

Figure 14. POM expenses in the Nordic cluster, 2023.

S&M expenses	2022	2023	Variance
Tampere	EUR 335 642.00	EUR 396 666.00	18%
Stockholm	EUR 221 542.95	EUR 312 913.71	-6%

Figure 15. S&M expenses in the Nordic cluster, 2023.

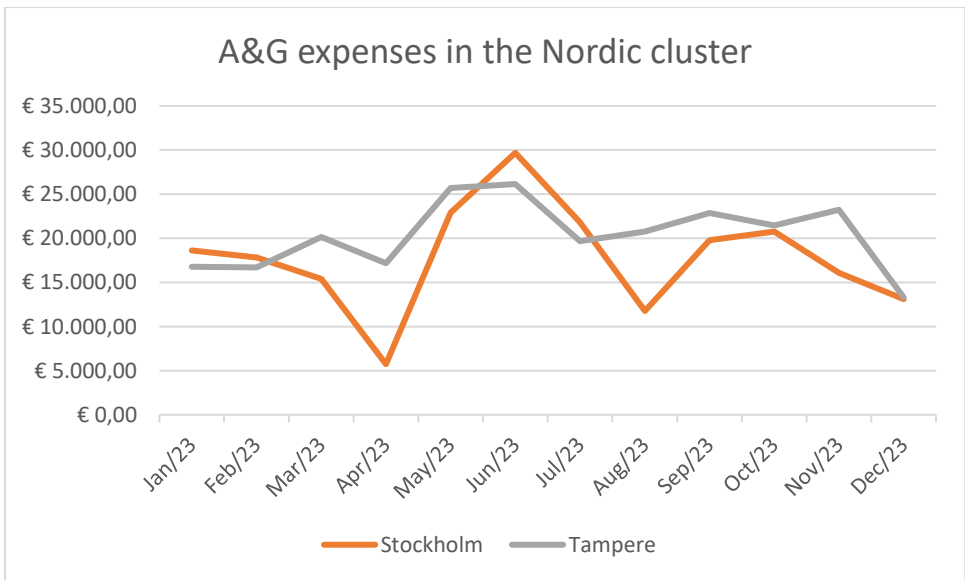


Figure 16. A&G expenses in the Nordic cluster, 2023.