

Evaluation of Hotel Performance Based on Financial Management, Marketing and Operations and Management Practices Issues: Case Study on Erbil International Hotel

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Abstract

This Erbil International Hotel plays an important role in Iraq tourism industry. It offers many facilities and services for travelers and tourists from domestic and international market. Erbil International Hotel has ten storey and attractive building located in the heart of the city of Erbil (the capital city of Kurdistan Region). It is a private ownership hotel. The main revenues of Erbil International are room, food and beverage. Its main investment had in property, workforces, and equipment's. From the financial performance of Erbil International Hotel from 2005 to 2010, it indicates that total revenue of the Hotel was not enough to compensate the rising cost. Besides, the hotel has high fixed cost in the salaries and wages, cost of utilities and depreciations are the major items that have affected on costs and low profit margin. For five consecutive years from 2006 to 2010, the hotel has suffered a loss. This was due to the shortage of liquidity and low profit margin. The management failed to operate and managed the hotel efficiently based on the financial management, marketing issue and operations and management practices issues. Thus, this consultation project intends to provide Erbil International hotel with plans and strategies after carefully examine and analyze their financial performance problems by using financial ratio analysis, 4P's analysis, SWOT analysis, internal and external factors analysis summary, and TOWS matrix.

Keywords: Hotel performance, financial management, marketing issue and operations and management practices issues

1.1 INTRODUCTION

Erbil International Hotel has ten storey and attractive building located in the heart of the city of Erbil (the capital city of Kurdistan Region). Erbil International Hotel emphasizes value for money and comfort, is an ideal venue for business and leisure travelers with modern accommodation and traditionally warm hospitality. Guest can look forward to affordable accommodation highlights such as a prayer room, a meeting room, a laundry service, a restaurant and a small convenience store. It offers many facilities and services for travelers and tourists from domestic and international market. Erbil International Hotel is a medium-size hotel and it is a private ownership hotel. The hotel was constructed and completed in 2004 and is since then the first 5-star hotel in Kurdistan Region by western standards. The hotel is located at the 30 Meter Street, 2 km from the historical citadel of Erbil. The hotel has a good connection to Erbil International Airport by having an Airport Transfer service.

However, Erbil International Hotel is located in the connecting point of the scattered units of University of Hawler (UOH). This strategic location creates many opportunities for the hotel to accommodate various activities like conferences and seminars conducted by the university.

Erbil International Hotel also has multifunctional rooms ideal for conferences, meetings and other events. It offers a wide range of meeting facilities such as overhead projectors, television, video, stationery, meal catering and refreshments not to mention accommodation for stay-in meetings or seminars. At Erbil International Hotel guests can be assured of only the best of service, as their friendly and efficient staff is ever willing to provide complete assistance.

1.2 The Issue

Mostly in the tourism industry, the demand for service remains unpredictable compared to other service industries such as education, finance or healthcare. This is due to the challenges faces by the tourism industry such as the seasonal fluctuations in demand which comprises a vibrant and steady state of change in industry. In contrast with tangible goods which can be delayed for future consumption, the perishable and intangible nature of service means that it cannot be stored for future consumption. Therefore, this creates problems such as over use of facilities during the peak period and under-utilization of facilities during the non-peak period. From 2003 till 2009, the global tourism sector faced a number of pressing challenges; not to mention the global economic slump US-Iraq wars and second wave of influenza A (H1N1) disease continue to impact both leisure and business travelers.

From the financial performance of Erbil International Hotel from 2005 to 2010, it indicates that total revenue of the Hotel was not enough to compensate the rising cost. Besides, the hotel has high fixed cost in the salaries and wages, cost of utilities and depreciations are the major items that have affected on costs and low profit margin. For five consecutive years from 2006 to 2010, the hotel has suffered a loss. This was due to the shortage of liquidity and low profit margin. Figure 1.1 and 1.2 shows Total revenue and total expenses and cost sales and cost of revenue of the financial statement of Erbil International Hotel from 2005 to 2010 as follows:

In 2005, Erbil International hotel recorded its total revenue of IQD 48791248. However, the cost of sales of the hotel for 2005 amounted to IQD 30,765,672.74, or accounted to 63.06% of the total revenue. The selling and administrative expenses of the hotel for 2005 amounted to IQD 2571878, or accounted to 5.27% of the total revenue. The interest expense of the hotel for 2005 amounted to IQD 323050, or accounted to 0.66% of the total revenue, the hotel net profit for this year accounting to IQD (15130648) as shown in table 1.1 and 1.2.

In 2006, Erbil International hotel recorded its total revenue of IQD 43381685. However, in 2005, its total revenue amounted to IQD 48791248. This is a decrease of 9.09% in 2006. The cost of sales of the hotel for 2006 amounted to IQD 78,710,834.30, or accounted to 177.43% of the total revenue. The selling and administrative expenses of the hotel for 2006 amounted to IQD 1748507, or accounted to 3.94% of the total revenue. The interest expense of the hotel for 2006 amounted to IQD 111805, or accounted to 0.25% of the total revenue, the hotel also suffers a loss accounting to IQD (36208377) as shown in table 1.1.

In 2007, Erbil International hotel recorded its total revenue of IQD 43381685 as shown in table 1.1. However, in 2006, its total revenue amounted to IQD 43381685. This is a decrease of 2.21% in 2007 as shown in figure 1.3. The cost of sales of the hotel for 2007 amounted to IQD 78,302,545.15, or accounted to 180.50% of the total revenue. The selling and administrative expenses of the hotel for 2007 amounted to IQD 1759124, or accounted to 4.05% of the total revenue. The interest expense of the hotel for 2007 amounted to IQD 80061669, or accounted to 0.25% of the total revenue. The hotel also suffers a loss accounting to IQD (36788504) as shown in table 1.1.

In 2008, Erbil International hotel recorded its total revenue of IQD 45709917. However, in 2007, its total revenue amounted to IQD 43381685. This is an increase of 5.37% in 2008. The cost of sales of the hotel for 2008 amounted to IQD 80,729,348.99, or accounted to 176.61% of the total revenue as shown in table 2.1. The selling and administrative expenses of the hotel for 2008 amounted to IQD 1909913, or accounted to 4.18% of the total revenue. The interest expense of the hotel for 2008 amounted to IQD 115334, or accounted to 0.25% of the total revenue, the hotel also suffers a loss accounting to IQD (37044680) as shown in table 1.1.

In 2009, Erbil International hotel recorded its total revenue of IQD 44361810 as shown in table 1.1. However, in 2008, its total revenue amounted to IQD 45709917. This is a decrease of 2.95% in 2009. The cost of sales of the hotel for 2009 amounted to IQD 80,729,348.99, or accounted to 179.75% of the total revenue as shown in figure 1.4. The selling and administrative expenses of the hotel for 2009 amounted to IQD 2048054, or accounted to 4.62% of the total revenue. The interest expense of the hotel for 2009 amounted to IQD 88397, or accounted to 0.20% of the total revenue. The hotel also suffers a loss accounting to IQD (37516119).

In 2010, Erbil International hotel recorded its total revenue of IQD 44381686. However, in 2009, its total revenue amounted to IQD 44361810. This is an increase of 0.04% in 2010. The cost of sales of the hotel for 2010 amounted to IQD 83,302,545.15, or accounted to 187.70% of the total revenue as shown in table 1.2. The selling and administrative expenses of the hotel for 2010 amounted to IQD 1759125, or accounted to 3.96% of the total revenue. The interest expense of the hotel for 2010 amounted to IQD 108521, or accounted to 0.24% of the total revenue. The hotel also suffers a loss accounting to IQD (40788505).

Figure 1.3 shows Net Profit of the financial statement of Erbil International Hotel from 2005 to 2010 as follows

For six consecutive years from 2005 to 2010, the company has suffered a loss. This was due to the shortage of liquidity and low profit margin as shown in table 1.1 and 1.2 above. The management failed to operate and managed the hotel efficiently based on the following analyses as shown in figure 1.3:

- Financial management – This is due to the shortage of liquidity and its low profit margin.
- Marketing Issue This symptom concern with low of occupancy rate, market awareness and limited ICT application.
- Operations and Management Practices Issues This symptom include value add services, lack of HRM process in recruitment and training, and lack of strategic management practices which has a direct correlation with price or value to increase performance of the hotel.

1.3 OBJECTIVES

There are several objectives of the report as listed below:

- 1.3.1 To analysis on how to improve the Erbil international performances regarding financial analysis, marketing analysis, and operation and management practice.
- 1.3.2 To examine and consider potential strategic growth.
- 1.3.3 To seek an in-depth understanding of the various environmental and market factors influencing the

Performance of the Erbil international hotel.

1.3.4 To formulate strategies for Erbil International hotel and describe their implementation procedures for better performance.

1.3.5 To make recommendation to Erbil international management regarding its hotel performance.

1.4 METHODOLOGY

Basically the study relies on the data obtained from primary and secondary sources. Primary data was derived mainly from:

1.4.1 Interview and discussion with the seiner and several offices in many levels.

1.4.2 Personal visit to Erbil International Hotel.

While secondary data was collected through:

1.4.3 Financial report

1.4.4 Official information from Ministry of Tourism Iraq.

1.4.5 Journals, magazines and annual reports.

1.4.6 Erbil International documents.

1.4.7 Various written materials and related websites.

1.4.8 Literature review.

1.5 SCOPE OF THE STUDY

The study only concentrates on how to increase the sales performances and revenue, the study will touch on how to improve the entire Erbil hotel management and operation. In other word, it focuses on the strategic performance growth. The study also covers the financial and human resource segments. Moreover, the management prefers to disclose the financial performance and all the related records for public view. As the hotel is newly acquired and the new management has started since the beginning of the year 2010, many operational data such as tourism profile and hotel tourism feedback are not available.

1.6 LIMITATIONS OF THE STUDY

A main limitation in gathering data about the hotel is that the hotel has no proper and independent website so that both customers and researchers can access to fetch information of their interests.

1.7 Contribution to the Hotel

As a result of this consultancy project, Erbil international hotel has gained the following benefits:

1.7.1 The hotel management has the ability to know how is the hotel is related to the macro business environment.

1.7.2 The hotel management has a collection of internal as well as external data regarding the hotel industry in Erbil.

1.7.3 The hotel management has got the data analyzed on the hotel industry level and strategic analytical framework for further problem analysis.

1.7.4 The hotel management has been offered many operational as well as financial and marketing strategic recommendations based on the analysis conducted throughout the study.

3.1.6 Major Factors impacting Hotels in Erbil (PEST ANALYSIA)

3.1.6.1 Political Factor

The uncertainty of the political problems is based on the increasing violence and political situation in the Southern of Iraq. This gives an overall negative sentiments, bad image, and decline in tourists to the tourism industry in Iraq .by in the first half year of 2005, the number of tourists enters to Kurdistan border from Turkey has decreased 10% due to the above political factor.

3.1.6.2 Economy Factor

Iraq tourism and hotel industries are complementary since the hotel is a temporary home of travelers who are travelling around places. Accommodation is one of the key factors encouraging travelers to travel. Besides accommodation, food and beverage, hotels also provide recreation facilities that are swimming pool, golf course. Travel agents, airline agents, car rent services, and limousine services can be found in hotels. The hotel business is an important mechanism of the tourism industry.

Foreign tourists gradually increased in the second half of 2006 to 2007. It had been estimated by private sector that the number of foreign tourist arrivals would reach 6.4 million persons at the end of 2007. The continuous growth of international tourists during the past decades spurred the new investment, and stimulated the construction of new hotels and resorts in Iraq. Statistics from the Office of SME Promotion revealed that there were total numbers of 2323 hotels in Iraq, during the year 2003. Several small hotels and resorts along coastline were totally destroyed by War, and several resorts were rebuilt and reopened at the end of last year. Therefore, it was estimated that in 2006, there were approximately 2,800 hotels located all over Iraq with approximately 164,739 guest rooms.

As part of the tourism industry, the hotel industry is vital to the Iraqi economy in creating employment for the local communities, and leading to better GDP and standards of living, land development for hotel construction

brought infrastructure, civilization, and technology transfer to rural communities. The hotel business eases the employment burden, helps distribute income and gives rise to many other related businesses. Employment in rural communities reduces the social class gap and helps resolve the migration to capital city problem.

In addition, tourism also plays a crucial role in helping low-income groups improve their livelihood through involvement in tourism-related activities, such as rural homestay program, eco-tourism and agro-tourism, tour guide activities as well as handicraft industries.

3.1.6.3 Social Factor

From the historical aspect, Erbil can also promote many historical landmarks in Kurdistan and other places in Erbil. International guests, love to spend time with a relaxed pace of life and a little history on the side. This creates many opportunities for Hotel to focus on promoting Erbil historical sites such Erbil Musium- Shaqlawa-Bekhal-Gali Ali Bag -Jundian-Chinarok-PashaiGawra Castle-Hawler (Erbil) Citadel-Choli Minaret-Dween Castle-Xanzad Castle-Erbil Qaisari-Shanadar Cave -Bestun Cave-Sculpture in Harir Mountain -Sculpture of Sanharib-KoyaQaisari- Qaisari Bazar-Nishtiman Market-Iskan Market-Majidi Mall (City Center)-Naza Mall-Maxi mal -Sultan shops-BRZ, and many more.

3.1.6.4 Technology Factor

Technology changes are changing the way business operates. The Internet is having a deep penetrating impact on the marketing mix strategy of businesses. 24 hours a day services is now available to consumers. This revolution in technology means a much faster exchange of information that can really help businesses enabling them to respond quickly to changes in their operating environment.

Technology can be applied and can be used for Hotels in different ways such as the reservation, room type and price. They can use technology for market channel expansion and package promotion.

3.2 Analysis of Competitors in the Hotels Industry

There are three hotels that are considered as nearest competitors to Erbil International Hotel since they are doing similar business namely Hawler Plaza Hotel, Chwar Chra Hotel and Helin Plaza Hotel.

Based on information show that Erbil International Hotel is directly competing with Helin Plaza Hotel in Erbil .However, it has other indirect competitor hotels and resorts that provide varieties of products and packages. Figure 3.8 exhibited Erbil International Hotel positioning map in Erbil.

The above positioning map clearly shows that most of the hotels in Erbil cater for medium priced general market. It also shows that Erbil International Hotel occupies a unique position as a corner -range specialized market in Erbil. Most of the competing budget hotels are located within a radius of at most 22Km. Further analysis in the subsequent sections will examine the potential opportunities in the up-market in the state of Erbil.

3.3 ANALYSIS OF CONSUMER SEGMENTS

The hotel industry comprises a main part of the tourism industry. Presently, the industry contributes directly to create employment and indirectly facilitates tourism and commerce. The market for the hotel industry can be divided into three major consumer segments based on purpose of visit, namely the business traveler, the leisure traveler, and airline cabin crew. Table 3.4 shows the analysis of customers of Erbil International Hotel.

3.4 PORTER'S FIVE FORCES MODEL OF ANALYSIS

Porter's five forces model of analysis was used to examine the impact of industrial forces on the Erbil International Hotel.

3.4.1 The Intensity of Rivalry among Existing Hotels: MODERATE

In Erbil, Erbil International Hotel is the only five star-rated hotels in Erbil, the capital city of Kurdistan Region. Moreover, its building is one of the highest in the city so that it is visible from different parts in the city. In relation to that, it stands out among all other hotels in terms of appearance and facilities offered. Being in the heart of the city, Erbil International Hotel is the only hotel that has the conference and banqueting facilities that can cater for more than 1000 to serve in the arrangements for different scientific seminars and conferences. It also suits the needs of the community for their various social and wedding functions.

Generally, Erbil International Hotel has one direct competitor namely Helin Plaza Hotel which is Four-rated hotel and located 15 km away from Erbil Hotel. But the location of Erbil International Hotel in the heart of Erbil where all the government centers are around makes the hotel is the first choice for government civil servants and those who visit the city for official visits and training.

In terms of high standards, image, and reputation, Erbil International Hotel is the market leader among all the existing hotels in the city and the direct competition from Chwar Chra hotel has no major effect on the hotel business performance.

Based on the direct and indirect competition from Budget hotels and specialized resorts, one can say that the threat of this competition is considered relatively moderate as the hotel has been targeting the corporate agencies and business and traveler customers.

Hence in general we can conclude that the threats from the rivalry of existing competitors can be considered as moderate.

3.4.2 Threat of New Entrants: LOW

The strong market potential exists in Kurdistan especially in several areas such as Dohuk and Sulaemana due to booming tourism industry. The demand for budget accommodation is even higher. Consequently, there is potential to invest in low and budget hotels/guesthouses. However, in Helin plaza district, due to locality, the entry barriers for High budget hotels market is consider high. Beside several government procedures, the initial investment is fairly big. For instance, it will cost the investor more than USA 4 million to develop another hotel of similar size and facilities with Erbil International Hotel. In other word, return of investment does not seem very attractive.

3.4.3 The Bargaining Power of Guests: MODERATE

Since Erbil International Hotel is the only Five star-rated hotel in the city, business travelers, and international tourists who are crossing to either Dohuk or Turkey has no more choices in choosing where to spend few days. Furthermore, civil servants who want to be close to the place of their official mission will be enabled to bargain especially if they came along from other states.

In other words, if the customers want to stay in a reasonable quality hotel that provides comfortable, convenience, and support facilities, they will have no other alternatives especially in Erbil. Additionally, the prices are slightly different between low budget hotels in the city and Erbil International Hotel. Hence, the guest bargaining power will be considered moderate.

3.4.4 The Bargaining Power of the Suppliers: LOW

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and Hotel that provide it the raw materials used to create products and services. Suppliers cannot exert an influence on the producing industry that the result of Erbil owner's decision making not depending on suppliers.

3.4.5 The Substitute Services: HIGH

Newly many homestay, guest houses, budget hotels are being set up as the demand for such products has been growing. These new enterprises have Moderate level of quality standard and therefore, they are able to offer Moderate priced hospitality products ranging. But the level of these products has moderate level of quality to be close to products offered by the high class and star-rated hotels such as Erbil International.

In Erbil, the products offered by other hotel can be substitutes for corporate guests, business travelers, or western visitors and hence the threats of substitutes for Erbil International hotel are considered high.

Finally, as a conclusion the strength of forces against Erbil International hotel can be summarized as follow.

4-PROBLEM ANALYSIS

This section analyzed Erbil International Hotel financial performance problems by using financial ratio analysis, 4P's analysis, SWOT analysis, internal and external factors analysis summary, and TOWS matrix.

4.1 Financial Ratio Analysis

Based on financial statement for Erbil International Hotel the consultant is able to perform the following analysis to analyze the success, failure, and progress of Erbil International Hotel business:

The results of the quick ratio indicate that the liquidity of the Hotel less than 1, that is 0.54, 0.45, 0.41, 0.38, and 0.38, respectively. The quick ratio decreased year after year and it become 0.38 in 2010, If the quick ratio is significantly lower than the current, then it indicates that Erbil International Hotel is heavily dependent upon inventory such as food and beverage.

The results of the current ratio indicate that the liquidity of the Hotel under 1, that is 0.59 in 2006, 0.49 in 2007, 0.45 in 2008, 0.41 in 2009, and 0.40 in 2010, respectively. Erbil International Hotel should be weak of the fact that it cannot pay off its short-term debt if necessary.

The results of working capital have a negative value. This indicates that Erbil International Hotel is having problems with the working capital and thus affects the ability of the Hotel to meet overall operation of the Hotel.

The results of debt ratio have value under 1, that is 13%, 17%, 15%, 18%, 21% in 2006, 2007, 2008, 2009, and 2010, respectively. This indicates that Erbil International Hotel has primarily financed through equity. Besides, a creditor will perceive less risky in its business, making it easier to obtain credit.

The results of gross margin ratio have fluctuated in value, that is 15.05%, 3.43%, (1.71)%, (0.18)%, and 0.49% in 2006, 2007, 2008, 2009, and 2010, respectively. This indicates that Erbil Hotel is having problems with sales and is not available to pay the overhead expenses of the hotel.

The results of net profit margin ratio have a negative value that is 1.65%, -7.48%, -16.59%, -12.08% and -12.08 in 2006, 2007, 2008, 2009 and 2010, respectively. Significance indicators are higher costs than sales. Besides, the salaries and wages cost of utilities and depreciations are the major items that have affected on costs and are also followed by high fixed costs.

The results of inventory turnover ratio that is 4 days, 5 days, 5 days, 4 days, 5 days in 2006, 2007, 2008,

2009, and 2010, respectively. This indicates that Erbil International Hotel is able to sell its products, such as its food and beverage in a week.

value that is 1.17%, (3.62)%, (7.52)%, (6.45)%, (6.30)% in, 2006, 2007, 2008, 2009 and 2010, respectively. This ratio tells the owner whether or not all the effort put into the hotel has been worthwhile. However, it is not significant because Erbil Hotel does not make any profit. This results indicate that the incapacity of the hotel to make better use of its capital.

The results of the return on assets have a negative value that 1.0%, (2.7)%, (6.12)%, (5.03)%, and (4.72)% in 2006, 2007, 2008, 2009 and 2010, respectively. The low ratio indicates that Erbil Hotel has inefficient the use of business assets.

The results of accounts receivable turnover, that is 53 days, 39 days, 54 days, 48 days, and 60 days in 2006, 2007, 2008, 2009 and 2010, respectively. This indicates that Erbil Hotel has longer time to collect payment from its customers. If receivables are excessively slow in being converted to cash, liquidity could be severely impaired.

4.2 4P's ANALYSIS

Marketing mix is the set of the marketing tools that the Hotel uses to pursue its marketing objectives in the target market (Kotler, Ang, Leong and Tan, 1999). Theories of marketing management and strategy need to evolve and change to keep pace with changes in the marketplace and in marketing practice (Goldsmith, 1999). Furthermore are frequently used by a marketer to plot a plan, and place the foundations of fresh projects/campaigns, it is a astonishingly useful strategy that has been used ever since the early 1960's, and will be constant for as long as new-found projects/campaigns are being produced.

4.2.1 Product

The product aspects of marketing deal with the specifications of the actual goods or services, plus how it relates to the Customers needs and wants. The range of a product normally includes supporting elements such as warranties, guarantees, and support. There are four types of rooms:

Luxurious elegance and comfort unite in harmony to bring you the 167 rooms and suites. They bring for you all the amenities of a five star hotel but with special attention to the smallest details. All the rooms are equipped with internet connection, direct telephone lines, safe deposit boxes, Mini Bar, Hairdryer, TV's with international channel selection, wake-up Service and 24 hour room service, and the Presidential Suite, covering an entire area of 90 m², ensures high standard level of furniture, fixture, finishing and complete privacy.

Currently, the image of Erbil International Hotel is a well-known among Iraq, Turkey, and Iran tourists.

4.2.2 Price

The room rate of Erbil Hotel International Hotel is divided by types of rooms from ID 240 000 to 610 000 per room/night as follows:

All room rates are inclusive of service charge and government tax. Besides, Erbil International Hotel also has offered discount rates available except during festival days and Children less than 6 years old sharing their parents' room are free of charge Therefore, the room rates are slightly higher compatible with other hotels in its range in Erbil.

4.2.3 Place

The distribution forms the physical connection between the Hotel and the final users of the product. Having a good distribution is very important and may even produce a sustainable competitive advantage. The main objective of a distribution is to decide to what extend and where should be the product available that the target audience is able to obtain it.

Erbil International Hotel has a sales department that is responsible for sales and all the marketing activities such as advertising and promotion. But unfortunately, the hotel has no proper website where customers can know what are the services being offered by the hotel and make their on-line booking. Moreover, the hotel is heavily dependent on the groups of customers from government agencies. Also it serves free independent customers and business travelers seeking business opportunities. The hotel has no marketing information system where data about customers' profiles and feedback can be easily sought for the proper establishment of customer relationship management (CRM) system and currently 2011 the channels of distribution depend on tour/ travel agents and selling officer. However, mostly customers are able to book their rooms in advance via tour and travel agents or connect with selling officer directly. However, so far, there is not booking made online.

4.2.4 Promotion

Promotion represents the various aspects of marketing communication, that is, the communication of information about the product with the goal of generating a positive customer response. Marketing communication decisions for Erbil International Hotel include:

- Advertising Green Ad, radio.
- Personal selling sale office department.
- Sales promotions (On festival days: normal rate including breakfast and on non-festival days: discount

- 30% - 35% for group tours and discount 15% - 20% for non-group tours.
- Public relations & publicity.
- Marketing communications budget.

4.3.1 SWOT Analysis of Erbil International Hotel

4.3.1.1 Strengths

- Erbil International Hotel is the only five star-rated hotels in the city of Erbil. It has a strategic location in the heart of the city, Erbil, close to the shopping hub, business centers, and government offices.
- Erbil International Hotel is easily accessible from all the surrounding cities and towns since its location is very clear in the heart of Erbil, and it is located within one of the highest building in the city which is visible from different directions.
- It is also in the heart of the various units of university of Hawler where many scientific conferences, seminars, and social activities could be arranged for.
- Erbil International Hotel is considered as the market leader among all other hotels in Erbil In terms of image and available facilities.
- Erbil International Hotel is the only hotel in the city that has banqueting and conference facilities that cater to a capacity of up to 800 guests. These facilities come together with well prepared banqueting teams that can arrange for out service upon request.
- It is properly designed to be a high level class hotel. All the rooms are equipped with amenities and facilities required to meet the needs of guests.
- Erbil International Hotel has very good service level to keep its guests safe and entertained during their stay. However, the hotel is designed based on the high safety standards with the safety maps are everywhere in case of any emergencies.

4.3.1.2 Weaknesses

- Erbil International Hotel facing may problem related to financial performances which are unstable financial position - Liquidity problems with insufficient cash flow and high fixed costs which it result in low profit margin.
- Erbil International Hotel has no human resource department and it also give less attention on its human capital issues and it is only concerned with its guests and customers.
- Erbil International Hotel has no regular academic qualifications in the hotel management, and the working staffs, including the receptionists and restaurant staff, have poor communication skills in English to entertain and respond to the needs of non-local guests. Thus, the problem in terms of human resource management includes it is There is no human resource planning, Poor recruitment and selection system, and lack of training.
- The hotel does not have website where the guests can seek information about the facilities offered by the hotel. Moreover, the hotel does not have on-line booking facility to enable customers to access to the hotel products and services,
- Wi-Fi facility is very poor so that the guests cannot interact or manage their own businesses from the comfort of the hotel.
- Erbil International Hotel even though the highest class hotel in Erbil, but it is not well known outside Kurdistan. In other words, it lacks market awareness domestically and internationally. Erbil International Hotel is patronized by mainly guests from government agencies and internal guests.
- Erbil International Hotel generally offers low quality products compared to hotels in the same business class in other states. This comparison will affect the perceived quality of products offered to its guests.

4.3.1.3 Opportunities

- Healthy economic growth 2010 at growth rate 3% to 5% is expected. The recent fourth quarter gross domestic product numbers reflected the successful implementation of the stimulus package by recording a growth of 3.5%.
- Iraq government plans to increasing number of international tourist arrivals who seek high level standards hospitality products and considered as high profitable guests. The number of international tourist arrivals is expected to grow by more than 5% in the year 2010 than that of the year 2009 and so this creates many opportunities for the hotel industry to expand and establish new hospitality businesses.
- The government of Kurdistan set up the regulations to encourage investing in the hotel industry by introducing many incentive schemes. According to that, existing hotels in the state can enjoy all the incentives in order to be able to attract more numbers of local and international guests.
- Erbil International Hotel is the only hotel in the city of Erbil with banqueting and conference facilities that can cater for large number of guests. Therefore, it can be promoted a venue for government events, corporate events, and private functions. This includes meetings, seminars, conferences, product launches, annual dinners and wedding functions.

- Erbil International Hotel focus on promoting Erbil historical sites This creates many opportunities for Erbil International Hotel to attract International guests, especially western, love to spend time with a relaxed pace of life and a little history on the side.
- There are more difficult for other companies to enter in the hotel industry depending on factors that is high initial investments and fixed costs, cost advantages of existing hoteliers, and brand loyalty of customers etc.
- Acquiring a comprehensive information technology system by the hotel will help the management to capture and retrieve operational information.
- The hotel website, if launched, can maximize the hotel exposure to both local and international guests. Moreover, it will help guests to plan their trips by getting the required information regarding the service provided. Also, it will facilitate on-line booking capability as the first initiative towards e-commerce excellence.

4.3.1.3 Threat

- Increasing competitors from the substitute product (service apartments, guest house).
- Terrorist activities that have an increasing trend may affect the global tourism industry especially in Iraq.
- There is a lack in promoting the cultural sites in Erbil as one of the most attractive places in the state, especially for western guests, through the arrangement of international cultural festival.
- Intensified competition from neighbouring country who will continue to compete for the international tourism market.
- The budget hotels in the state and new comer resorts are far ahead than Erbil International Hotel in terms of e-commerce and on-line booking system adoption. This may draw local and international guests who plan their trip based on the information available in the internet.

4.4 INTERNAL FACTORS ANALYSIS SUMMARY (IFAS)

We will proceed with IFAS to organize the internal factors derived from earlier SWOT analysis into the generally accepted categories of strengths and weaknesses as well as to analyze how well the management responded to these specific factors in light of the perceived importance of these factors to the Erbil International Hotel. Each factor is given a weight of 1.0 (most important) to 0.0 (not important) based on the factor's probable effect on the Erbil International Hotel strategic position. The higher the weight, the more important is this factor to the current and future success of the firm. Later, each factor is rated from 5 (outstanding) to 1 (poor) based on how well the management responding to the factors concerned. Then weight score is calculated by multiplying the weight and rating. The score of IFAS are as follows:

Based on the IFAS analysis, the total weighted score is 2.60. This shows that Erbil International Hotel is slightly below average in responding to the internal strategic factors in its current and expected internal environment. Hence, the hotel need implement more effective strategies improvement especially to effectively capitalize its strengths and lessen its weaknesses to enhance its strengths and overcome its weaknesses.

4.5 EXTERNAL FACTORS ANALYSIS SUMMARY (EFAS)

The EFAS analysis of the Erbil International Hotel originated from the SWOT analysis conducted previously. Similar to IFAS analysis, each factor is given a weight of 1.0 (most important) to 0.0 (not important) based on the factor's probable effect on the Erbil International Hotel strategic position. The higher the weight, the more important is this factor to the current and future success of the Hotel. Later, each factor is rated from 5 (outstanding) to 1 (poor) based on how well the management responding to the factors concerned. Then weight score is calculated by multiplying the weight and rating. The score of EFAS are as showing in table

Based on the EFAS analysis, the total weighted score is 2.80. This indicates that Erbil International Hotel is slightly below average in responding to the external strategic factors in its current and expected external environment. Consequently, Erbil International Hotel needs to formulate more effective strategies to grasp the opportunities and reduce the threats in the external environment.

4.6 TOWS MATRIX

Further to the SWOT analysis done, TOWS matrix enables Erbil International to formulate strategic choices in term of available resources. It is a systematic analysis that facilitates the external threats and opportunities with the internal weaknesses and strengths of the organization. These strategic choices will be used to provide the hotel later with strategic recommendations to improve the current business performance to achieve better strategic position. The Erbil International TOWS matrix produces the following result:

5- CONCLUSION AND RECOMMENDATION

5.1 conclusions

Throughout this consultation project, many strategic recommendations- based on comprehensive analysis- were proposed to the hotel management to enhance its strengths and minimize the effects of its weaknesses to be able to capture the business opportunities and avoid environmental threats. Hence, by adopting the right strategies, the hotel has a great potential to enhance its performance and decrease its future cost of sales performance.

Analyzing financial performance by ratio analysis enables Erbil International Hotel management to spot the hotel's trends and to compare its performance for the five consecutive years from 2006 to 2010. Ratio analysis helps Erbil International hotel management to conduct in good judgment. The uses of performance measurement tool such as Balanced Scorecard also provide useful guideline to the hotel's operations. However, developing in technology, collaboration and human resources are essential to improve profit ability and quality of Erbil International Hotel performance.

5.2 Recommendation

The recommendation for Erbil International Hotel is to improve better performance in profitability and operation. From the Area of investigation based on competitor analysis, customer analysis, problem analysis, and SWOT analysis of Erbil International Hotel, the recommendations are as follows:

5.2.1 Financial Management Issue

The potential improving the financial management performance for Erbil International Hotel depend on liquidity, profit and profit margin to meet its obligations, Erbil International Hotel must take some necessary steps in order to stay in the line of safety regarding their financial obligations in general and in the short term, in particular, and as the following:

- Avoid pre-paying expenses or accounts payable to keep funds inside the hotel for as long as possible. Discounts may be an exception.
- Monitor the impact tax payments if necessary may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- Set shorter terms for accounts receivable if possible, throw decreasing day.
- The collection from multiple forms of payment, such as credit card and debit cards should not be delayed less than one month since this will affect the cash flow of the hotel.
- Sell unnecessary furniture's or assets so as to increase its cash flow. These are assets that are not being utilized and are not contributing sufficiently in generating the income and cash flow of the hotel.
- Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly basis to help predict/prepare for potential future cash shortfalls.
- Reduce unnecessary spending such as its overhead expenses.
- Use monthly payroll schedule if possible – to avoid unnecessary increase in payment of payroll.
- Keep an accurate payables schedule on a week basis. This can help the hotel know which payments need to be made each week to avoid any late charges or double billings.
- Opted for alternatives financial loan or assistance; such as from SME Bank. This will generate the hotel working capital.
- Generate accurate financial reports on timely basis – within 39 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- Reduce payroll costs, including any overtime expenses as applicable, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.
- Monitor the costs going into all office suppliers. With more important costs being monitored closely, many hotels forget to look at this smaller cost, and often allow it to be higher than necessary.
- Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system. This allows management to have the ability to pull variance reports to compare budgeted revenues and expenses with actual revenues and expenses.
- Closely monitor utility usage and consider more efficient options if applicable. Also, look for options that are faster and can be more easily installed to save on overhead costs and time.
- State the hotel's policy for damage done to rooms and be sure to charge for losses.
- Remind customers to be environmentally friendly by not using too much water or by reusing towels. This can save on costs.
- Control waste and guest/employee theft. Implement strong inventory controls, such as inventory counts and daily room checks. Charge for missing items.
- Adopt wellness programs for employees to control insurance costs and enhance the productivity of the workforce. For example, consider a 6 week motivational competitive exercise program to spark employees to work out and build camaraderie.
- Eliminate/reduce some overhead or fixed costs to decrease monthly expenses. Small decreases in overhead will typically yield large cash savings over time.
- Search out low cost and reliable vendors to get the best prices through competition, while maintaining quality. Take advantage of volume discounts if possible and beneficial (the discount needs to be larger than storage cost).

5.2.2 Marketing Issue

5.2.2.1 Market Awareness and occupancy rate

- The hotel should follow an aggressive marketing and promotional activities both at local and international levels to show the region tourism potentials from one hand and to show the hotel's capabilities in the hotel industry from the other. The marketing efforts of the hotel should be based on Integrated marketing Communication to enhance the market awareness and communication. This strategy will be mainly based on the information that facilitates all the strategic planning practices and marketing activities. With this marketing strategy, the hotel will focus on presence in most of the exhibitions and travel fairs. Also, using the intensive media will help the hotel to rebrand its products. In the same line, Erbil International Hotel should be introduced to the public in various occasions such as arranging for festivals and anniversaries.
- Erbil International Hotel should find the opportunity to collaborate with its hotel's neighbors, travel agencies, local government and other stakeholder to build business. There may be potential for Erbil International Hotel to either get guests from or send guests to many local businesses, improving the overall experience for those customers.

5.2.2.2 ICT Application

Online marketing includes a range of activities that should be considered for Erbil International Hotel marketing strategy. Therefore, a blend of website development, search engine optimization, social media and pay-per-click advertising should be used where appropriate. In order to enhance the sales performance and strategic growth and raise the average occupancy rate, Erbil International Hotel needs to adopt effective information and communication technology. This technology will include the establishment of the hotel's website to enable its customers to know about the various services offered and plan their trips by making their on-line-booking. Also, ICT technology will help the hotel in future planning that should be based on the market information system and customers' feedback. Moreover, the ICT initiatives will facilitate the hotel's effective marketing and operational plans.

5.2.3 Operations and Management Practices Issues

5.2.3.1 Value Added Services

Erbil International Hotel in order to be able to provide its customers with the best value for money through low cost and unique products, the management should efficiently utilize the available resources and capabilities to create the competitive advantage. Erbil International Hotel needs to enhance its strategic abilities to be unique in the hotel industry along some dimensions that are highly valued by its customers. Differentiation strategy that adopted by Erbil International Hotel should be starting with deep market analysis to know different targeted customer groups in terms of their needs and preferences. Then these needs and preferences are satisfied by developing new products and services that provide the best value for money.

5.2.3.2 HRM

- The Human Resource Management team of Erbil International Hotel must be straightforward communicators and able to support senior management and department heads in all aspects of recruitment, orientation, training and development, employment issues, staff relations, and organizational development.
- The Human Resource Management team must constantly communicate with all levels of staff to guide the hotel's commitment to service. At times, this means making the most of staff strengths and developing staff and at other times researching and examining issues or situations carefully.
- Sets all recruiting and employment activities for both Management and hourly positions on a timely basis. This includes organized and structured processes for recruiting, interviewing, hiring and the retention of qualified associates. There should be current and detailed job descriptions and specifications for all positions to make certain that everyone's expectations are understood.
- Coordinates or provides organized orientation or on-boarding for all new staff at the earliest opportunity and preferably before any guest contact. This support of the investment in "human capital" of the Erbil International Hotel is essential. This initial contact allows the Human Resource Management team to function as a strategic partner to the General Manager and/or owner, and establishes the value of day-to-day human resource management oversight throughout the hotel.
- Administers the salary policies and programs. This includes preparing or overseeing payroll, benefits enrollment and billing. Human Resource leadership should also review and recommend to ownership or management potential new programs based on evolving needs in the workforce or the market.
- Directs and coordinates performance evaluations for hourly and non-exempt associates. Human Resource must have a well-organized system to keep this communication process effective and equitable. Human Resource should also review and recommend salary ranges adjustments to ownership or management as needed every 12 to 18 months, via local wage surveys.
- Coordinates management development and associate training. This might include preparing with department heads a list of top talent within the hotel and introducing talent development plans. Specific training

on systems and area-specific protocols, however, should remain the responsibility of the department head, and training programs may include brand-specific and/or local focused training.

- Prepares annual budget forecasts for the Human Resource Management, This is especially important relating to benefits and training expenses.
- Directs and administers associates' reward and recognition program. This might include an annual associate attitude survey, which should be reviewed by ownership and corporate management.

5.2.3.3 Strategic Management Practices

5.2.3.3.1 Strategic planning practices

The hotel should build its future plan on intensive strategic planning practices designed and implemented by qualified team to be able to respond accordingly to the future uncertainties and ever-changing business environment. Moreover, all the strategic business units or various departments should be effectively involved in the process of planning and implementation to ensure the commitment that guarantees the achievement of overall organizational goals.

5.2.3.3.2 Balanced Scorecard System

Erbil International Hotel should use the guideline of Kaplan and Norton's Balanced Scorecard (BSC) as a performance measurement tool and a way to measure and track performance over time in order to assess if goals are being met (Kaplan & Norton, 1992, 1993, 1996). It is a way of ensuring that hotel monitor performance parameters other than the traditional financial. In the past, Erbil International Hotel is concerned about how it is performing in respect of how it is progressing towards the achievement of its overall mission and goals. It wants to measure and monitor how it is doing, realizing that examining only financial outcomes will not provide the full picture of its overall performance. In other words, Balanced Scorecard measure is used to balance the financial perspective of an organization. It provides the organization with both internal business processes and external outcomes and help in translating the vision and strategies into actions. In general, four perspectives have been proposed by the Balance Scorecard system:

- Financial perspective;
- Customer perspective;
- Internal process perspective;
- Innovation and learning perspective.

The BSC approach provides the hotel with an ability to control and keep track of its key performance indicators. The guideline from BSC approach will help Erbil International Hotel use this tool to measure its performance as follows:

- The financial perspective Erbil International Hotel can consider to measure performance in term of total revenue operating, revenue per available room, and costs relative to budget on a daily, weekly or monthly basis.
- The customer perspective Erbil International Hotel can consider measuring customer satisfaction ratings, the number of complaints, and returning guests, with the vast majority considering these aspects at least monthly.
- The internal business perspective Erbil International Hotel can consider measuring complaint response, service errors, employee turnover, and payroll and revenue segment at least monthly.
- The learning perspective Erbil International Hotel can consider the identification of new markets on a regular, and also measure staff appraisals, staff targets and improvements on a quarterly basis.

Essentially, Erbil International Hotel should establish its strategic plans based on open workshops with employees and then these strategic plans should be made clear through appropriate communication channels. Moreover, the employees also should be made familiar with Balanced Scorecard to assess and evaluate the hotel's change initiatives. However, some indicators of BSC might be adjusted to suit the hotel business nature.

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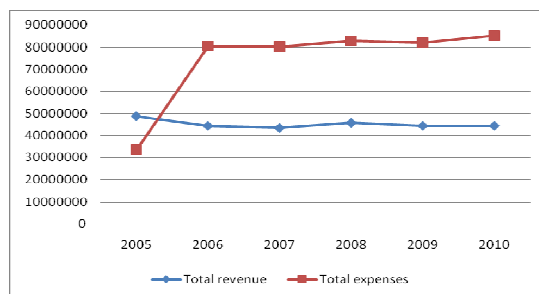


Figure 1.1
 Total revenue and total expenses of Erbil International Hotel from 2005 to 2010

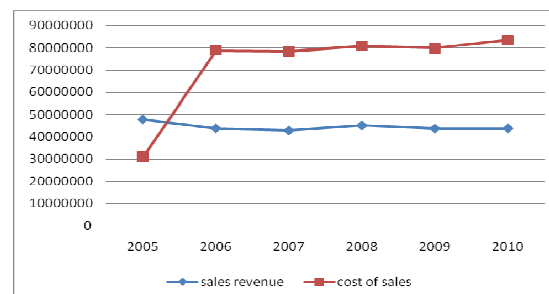


Figure 1.2
 Sales revenue and cost of sales of Erbil International Hotel from 2005 to 2010

Table 1.1
Summary of the Financial Statement of Erbil International Hotel (2005 – 2010)

	2005	2006	2007	2008	2009	2010
Revenue						
sales revenue	47842146	43793043	42804490	45069258	43700769	43804491
other revenue	949,102.03	569,726.37	577,195.06	640,658.14	661,041.13	577,195.06
Total revenue	48791248	43381685	43381685	45709917	44361810	44381686
Expenses						
cost of sales	30,765,672.74	78,710,834.30	78,302,545.15	80,729,348.99	79,741,477.95	83,302,545.15
selling expenses	2571878	1748507	1759124	1909913	2048054	1759125
Total expenses	33337551	80459342	80061669	82639262	81789532	85061670
Net profit before interest	15453697	-36096572	-36679984	-36929346	-37427722	-40679984
interest expense	323050	111805	108520	115334	88397	108521
Net profit (loss)	15130648	-36208377	-36788504	-37044680	-37516119	-40788505

Source: Erbil International Hotel Financial statement (2005 – 2010)

Note: 1 USD = 1177.50 IQD at 1/12/2010, Bank of Iraq.

Table 1.2
Summary of the Financial Statement growth of Erbil International Hotel (2005 – 2010)

	2005	2006	2007	2008	2009	2010
Total revenue	100	100	100	100	100	100
cost of sales	63.06	177.43	180.50	176.61	179.75	187.70
selling expenses	5.27	3.94	4.05	4.18	4.62	3.96
interest expense	0.66	0.25	0.25	0.25	0.20	0.24

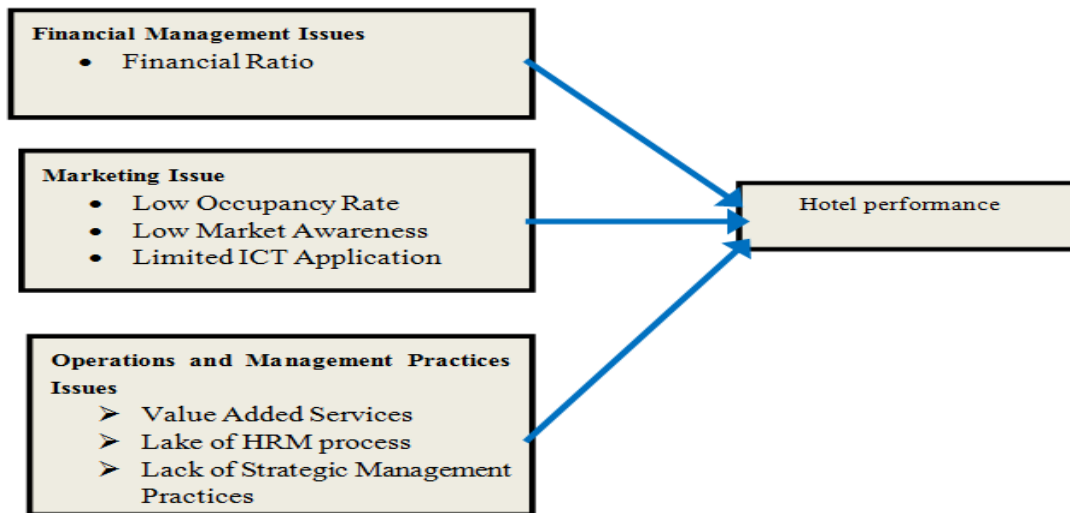


Figure 1.3 Conceptual Frameworks

Source: Iraq Hotel Association, 2010

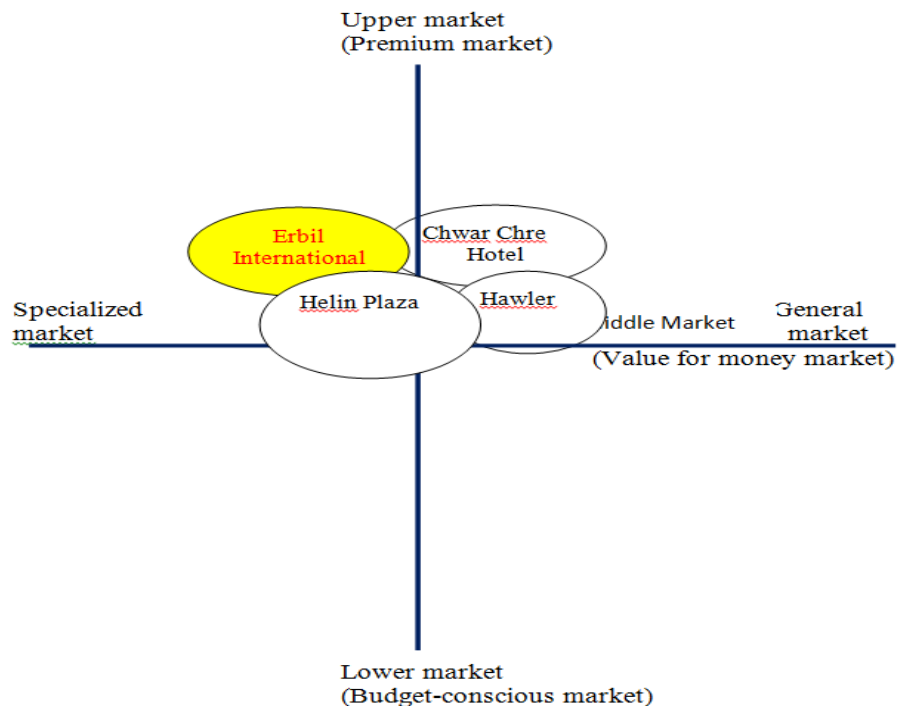


Figure 3.8: Erbil International Hotel positioning map in Erbil

Table 3.8 5W 1H of Erbil International Hotel

Who?	• Tourists from Iraq, Turkey, Iran, Syria, Germany and Arab Gulf
Who else?	G o v e r n m e n t officer, businessman, local client, airline cabin crew.
What are the purposes of visit?	Holidays. Business. Official visit. Convention. Visiting friends and relatives.
When do they visit?	Having festival days and long holidays. Having conferences, seminars, banquet
Where do they visit?	Erbil Musium- Shaqlawa-Bekhal-Gali Ali Bag -Jundian-Chinarok-PashaiGawra Castle-Hawler (Erbil) Citadel-Choli Minaret-Dween Castle-Xanzad Castle-Erbil Qaisari-Shanadar Cave -Bestun Cave-Sculpture in Harir Mountain -Sculpture of Sanharib-KoyaQaisari- Qaisari Bazar-Nishtiman Market-Iskan Market-Majidi Mall (City Center)-Naza Mall-Maxi mal -Sultan shops-BRZ
How?	Tour/Travel agents, walk-ins, groups and Conventions.

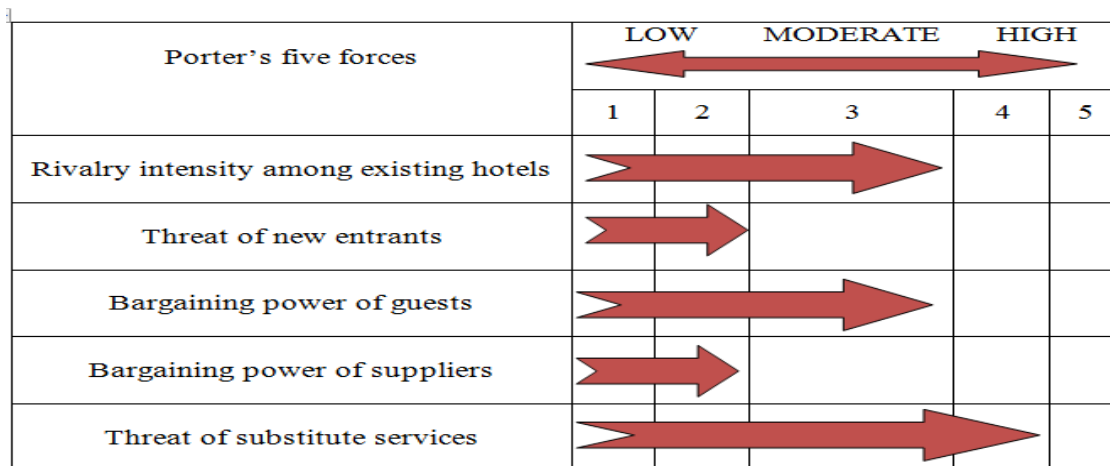


Figure 3.10: Strength of Market Forces

Table 4.1 Financial Ratio for Erbil International Hotel from 2006-2010

Ratio	2006	2007	2008	2009	2010
Liquidity Ratios					
Current Ratio	59%	49%	45%	41%	40%
Quick Ratio	54%	45%	41%	38%	38%
Working Capital	(1924279)	(2692473)	(3013126)	(3595611)	(3528769)
Leverage Ratio					
Debt Ratio	13%	17%	15%	18%	21%
Income Statement Ratio					
Gross Margin Ratio	15.05%	3.43%	(1.71)%	(0.18)%	0.49%
Net Profit Margin Ratio	1.65%	(7.48)%	(16.59)%	(12.08)%	(12.44)%
Management Ratios					
Inventory Turnover Ratio	4 days	5 days	5 days	4 days	5 days
Accounts Receivable Turnover	53 days	39 days	54 days	48 days	60 days
Return on Assets	1.0%	(2.7)%	(6.12)%	(5.03)%	(4.72)%
Return on Investment	1.17%	(3.62)%	(7.52)%	(6.45)%	(6.30)%

Table 4.4: Internal Factors Analysis Summary of Erbil International Hotel

Internal factors	Weight	Rating	Weighted score	Comments
Strengths				
Hotel facilities	0.15	5	0.75	The hotel has all the facilities for high class service and banqueting and conference facilities.
Hotel Market Image	0.10	3	0.30	the only five star and leader of the market in Erbil
Strategic location	0.10	5	0.50	in heart of the city, Erbil, close to the shopping hub, business centers, and government offices.
Middle class managers experience	0.10	3	0.30	
Weaknesses				
Secluded locality and low occupancy	0.10	2	0.20	Below the Average of hotel industry
Lack of training staff	0.15	1	0.15	no human resource planning
Low awareness	0.05	3	0.15	4P's problem
An Sufficient revenue	0.15	1	0.15	fixed cost very high
Application of ICT	0.10	1	0.10	No marketing information system
Total	1.00		2.60	

Table 4.5: External Factors Analysis Summary of Erbil International Hotel

External factors	Weight	Rating	Weighted score	Comments
Opportunity				
Healthy economic growth 2010	0.15	4	0.60	expected growth
Value added services	0.15	3	0.45	large capacity banqueting and conference facilities
The government regulations	0.10	2	0.20	introducing many incentive schemes
increasing number of international tourist	0.10	3	0.30	To explore culture and natural resources
Threat				
Intensified competition from neighboring country	0.10	2	0.20	Amazing Turkey and Syria
competitors from the substitute product	0.15	2	0.30	Improved service quality
Terrorist activities	0.15	3	0.45	Constant concern
Cost of technology investment	0.10	3	0.30	
Total	1.00		2.80	

Table 4.6: TOWS matrix of Erbil International Hotel

<p>Internal factors</p> <p>External factors</p>	<p>Strengths (S)</p> <ul style="list-style-type: none"> • Hotel facilities • Hotel Market Image • Strategic location • Middle class managers experience 	<p>Weaknesses (W)</p> <ul style="list-style-type: none"> • Secluded locality and low occupancy • Lack of training staff • Low awareness • An Sufficient revenue • Application of ICT
<p>Opportunity (O)</p> <ul style="list-style-type: none"> • Healthy economic growth 2010 • Value added service • The government regulations • increasing number of international tourist 	<p>(SO)</p> <ul style="list-style-type: none"> • Improving of employees' skills by training by the hotel. • Expand market compartment to improve marketing • Strategic alliance and cooperation 	<p>(WO)</p> <ul style="list-style-type: none"> • Improvement of marketing promotion effectively and efficiently • Emphasize on its potential development as tourism hub. • Rescheduling promotional tourism programs throughout the whole year.
<p>Threat (T)</p> <ul style="list-style-type: none"> • Intensified competition from neighboring country • competitors from the substitute product • Terrorist activities • Cost of technology investment 	<p>(ST)</p> <ul style="list-style-type: none"> • Maintain quality product and service to face the competitor. • Extensive promotion • Strengthen cooperation 	<p>(WT)</p> <ul style="list-style-type: none"> • Promote cooperation • Market segmentation • Act as gateway for tourists going into Turkey and Syria.

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