

BELLAVISTA GOURMET HOTEL AND RESTAURANT

Mr. Homer Orlandi, heir of a family of chefs, is the owner of *Bellavista Gourmet Hotel and Restaurant*. Originally Mr. Orlandi inherited from his father the Bellavista Restaurant, located on the shores of Lake Garda. He continued a tradition of culinary excellence for which the restaurant had become famous. Over the Seventies, he decided to take advantage of the expansion of the tourist area where was located his restaurant and he started the construction of the hotel. In 1978 he opened the *Bellavista Gourmet Hotel* and over the next two years, he completed the construction of three tennis courts (two of which are covered) and a swimming pool.

Mr. Orlandi decided to keep the restaurant's management separated from that of the hotel. He therefore offered separately overnight service from catering, also because the customer of the restaurant was rather different from the one that require overnight service. Restaurant customers were regulars, often from the neighborhood, attracted by the good fame of food and dishes. That customer was willing to pay even higher prices in order to appreciate good food and good service. The hotel's customers were largely represented by businessmen in transit during work shifts and guests of enterprises located in neighborhood areas. During the spring and summer season, he could benefit from a consistent stream of holidaymakers, many of them coming from Germany, attracted by the mild climate.

Mr. Orlandi had held separate entrance and structure of the restaurant from the hotel, while ensuring service levels more than adequate even in the management of the latter.

He feared that a poor image of the hotel would inevitably ended up harming even at the restaurant.

The access to sports facilities was then set aside, in order to permit the exploitation of customer opportunities represented by both guests and inhabitants of the area.

The distribution of the demand for services had always represented a major problem to Mr. Orlandi.

Tourists and vacationers tended to concentrate in the months from May to September; travelers were absent in the heart of the summer and liked the week days. A significant share of the 160 guest accommodations often was not occupied.

The restaurant was always a good turnout, with very high spikes in the evening, especially on weekends. To deal with these phenomena and to contain the cost of personnel, which was a crucial component in management costs, Mr. Orlandi had long adopted the policy of

use of seasonal workers in tasks that do not require significant training time and not impact significantly the quality of service provided.

In recent times, Mr. Orlandi complained increasing difficulty to understand the trends of the season and a modest economic result.

At the beginning of 1990 Mr. Orlandi started some investigation on the management of the last three years.

He reclassified financial statements of the period 1987-89 (see Tab. 1 and 2), but it emerged no clear indications on the malaise perceived by Mr. Orlandi.

He had the impression that some of the many activities that now ran through the hotel facilities weren't productive enough.

And then, again, was fought between the idea of yield management to third parties in any of these activities or to supplement even more overnight services, catering and access to sports facilities in order to better exploit the high volumes of mid-level tourism, which was met by Germany.

Mr. Orlandi was frightened because they understand that would not have been able to manage this complexity personally. He didn't know how to delegate the various management responsibilities and, furthermore, was afraid of losing control of the company. Meanwhile, he had prepared a series of information about accommodation services and restaurant (see tab. 3), on the staff (see tab. 4), on the main cost factors related to the various activities (see tab. 5). This information should help you better understand the economic trends of the various activities.

He had also prepared some historical data that help identify the hoped for improvement of economic performance (see tab. 6).

Tab 1: reclassified income statement data (€/000)

BELLAVISTA GOURMET HOTEL			
	1989	1988	1987
REVENUES	6,010	5,460	4,580
CONSUMPTIONS	1,157	1,005	857
RENTALS	264	246	191
STAFF	3,462	3,019	2,363
EXTERNAL SERVICES	70	66	147
MAINTENANCE	227	228	151
DEPRECIATION	525	505	455
COMMERCIAL COSTS	67	66	55
ADMINISTRATIVE COSTS	75	79	73
OVERHEAD COSTS	104	107	78
OPERATING INCOME	59	139	210
BORROWING COSTS	13	15	12
EXTRAORDINARY ITEMS	-3	14	-2
PRE-TAX INCOME	43	138	196
TAXES	17	49	86
NET INCOME	26	89	110

Tab 2: financial statements reclassified data (€/000)

BELLAVISTA GOURMET HOTEL			
ASSETS	12/31/89	12/31/88	12/31/87
CASH	15	18	12
CHECKING ACCOUNT	170	45	65
TRADE RECEVABLES	45	24	25
TAX CREDIT	23	20	12
INVENTORIES	32	18	23
REAL ESTATE	650	835	816
PLANT	450	420	390
FURNITURE	400	350	305
VEHICLES	35	25	21
ASSETS	1,820	1,745	1,669
LIABILITIES	12/31/89	12/31/88	12/31/87
SUPPLIERS	382	228	197
OTHER PAYABLES	128	86	28
TAX FUND	23	50	48
MORTGAGES	180	240	300
EMPLOYEE BENEFITS	452	412	328
SHAREHOLDERS EQUITY	500	500	250
RESERVES	100	100	350
RETAINED EARNINGS	29	40	58
PROFIT FOR THE PERIOD	26	89	110
LIABILITIES	1,820	1,745	1,669

Tab 3: additional analytical Information (data refer to 1989)

<u>OVERNIGHT SERVICE</u>	
number of rooms available	160
opening days/year	350
<u>RESTAURANT SERVICE</u>	
number of covered useful/day	170
opening days/week	6
opening weeks/year	50

Tab 4: employee information (average data year 1989)

	overnight	restaurant	sports	accommodation and restaurant
employees (annual)	45	16	2	
average annual cost	€38,000 .00.	€40,000 .00.	€40,000 .00.	
Employees (seasonal)	18	0	4	
average annual cost	€40,000 .00.	0	€18,000 .00.	
annual common employees				8
average annual cost				\$30,000 .00.

Tab. 5: analytical cost Information (1989 exercise data)

	overnight	restaurant	IMP. Sportsmen
Consumptions	€. 146,000 .00	€. 975,000 .00	€. 36,000 .00
Rentals	€. 182,000 .00	€. 76,000 .00	€. 6,000 .00
Purchase External Services	€. 24,000 .00	€. 42,000 .00	€. 4,000 .00
Maintenance	€. 165,000 .00	€. 24,000 .00	€. 38,000 .00
Depreciations specific structures	€. 155,000 .00	€. 64,000 .00	€. 88,000 .00

Tab. 6: historical trends detected (average annual data)

	1989	1988	1987
OVERNIGHT SERVICE			
average price/room	€. 105 .00	€. 100 .00	€. 90 .00
ROOM OCCUPANCY RATE			
(% of rooms occupied)	65%	70%	68%
RESTAURANT SERVICE			
average revenue/overcast covered/number day	€. 46 .00	€. 42 .00	€. 36 .00
	130	102	95
SPORTS FACILITIES			
annual revenues	€. 394,000 .00	€. 254,800 .00	€. 126,800 .00

Questions:

1 – *“At the beginning of 1990 Mr. Orlandi started some investigation on the management of the last three years. He reclassified financial statements of the period 1987-89, but it emerged no clear indications on the malaise perceived by Mr. Orlandi”.*

Analyze the economic and financial situation of the company, using the balance sheet data and by calculating the indicators that you feel are most appropriate: Is Mr Orlandi's perception correct? What problems emerge from the analysis?

2 – *“He had the impression that some of the many activities that now ran through the hotel facilities weren't productive enough”*

Prepare an income statement that highlights the specific marginality of the each single business units (hotel, restaurant, sports). Which of the business units has the best results? Why? Do any of the business units have a negative marginality? Why?