Research on Cost Management and Control in China's Budget Hotels

Kunli Xiao
Sichuan Institute of Industrial Technology, Deyang, Sichuan, 618000, China

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Abstract: Budget hotels have been essential to the rapidly expanding business and tourism industry. Budget hotels often have low rates, offer minimal lodging services, and have few facilities. This type of hotel focuses on accessibility, efficacy, and scale effects. The long-term sustainable development of budget hotels is closely tied to cost control, which is the foundation for ensuring the operational profitability and competitive advantage of budget hotels. Reasonable cost control can improve the competitiveness of budget hotel costs and help them achieve a larger market share. At the same time, it contributes to the improvement of budget hotel operational efficiency and quality management. This paper introduces the concept of budget hotel cost control; aims to present the problems of budget hotel cost control through the internal and external environment analysis method, and presents corresponding coping strategies; and introduces the balanced scorecard management model, which provides practical theoretical guidance for hotel operators.

1. Introduction

Given the current economic crisis, budget-friendly lodgings are on the rise due to their excellent value for money. Budget hotels are also more and more concentrating on sustainable development, and have begun to implement environmental protection initiatives such as energy saving and emission reduction, waste management, and resource rationalization in order to reduce environmental impact and meet customers' needs for sustainable development. In various marketplaces, there is a trend toward segmenting operations based on demand in order to better address the needs of various consumer groups. Budget hotels, for instance, offer more business services and amenities, like meeting spaces and business centers, whereas in the tourism sector, hotels place more of an emphasis on the area's tourist attractions and features.

Many practical issues arise in the cost management strategies and economic operations of budget hotels. High competitive pressure and price-sensitive consumer groups make raising room prices difficult for budget hotels, thus limiting profitability. Relying on high occupancy rates to maintain normal operations, as low room rates necessitate a high occupancy rate in order to achieve profitability. Therefore, budget hotels need to develop appropriate sales and marketing strategies to increase occupancy rates. And it's a great challenge for budget hotels to manage prices whereas providing basic facilities and services as a result of operative costs, labor prices, instrumentation maintenance and different factors have to be compelled to be thought of. Through proper cost control and
optimization, hotels will improve aggressiveness, enhance gain, effectively manage resource utilization, and promote innovation and growth.

Most of the previous literature focuses on the study of cost management approaches, such as cost-operation method, target cost method \([1-2]\) and the study of cost management tools such as cost performance evaluation, cost modeling, and so on. There are very few studies on the issue of how to reduce costs without reducing service quality. By analyzing the internal and external environment of cost control management in budget hotels, this paper reveals the main problems of budget hotels that are of practical significance in cost control; and specifically applies the balanced scorecard to the cost management of budget hotels, which is a model that can help companies to assess and manage performance in multiple dimensions and control the quality of services to a certain extent, which provides theoretical guidance for hotel operators.

2. The concept of cost control of budget hotels

Cost is the budget value paid to obtain a material resource. Costs of economy budget hotels mainly include direct costs, direct labor wage costs, outgoing costs, damage costs (net inventory loss) and other indirect cost \([3]\). The net inventory loss is the loss incurred by the difference between the number of inventory counts and the number of inventory in the books. It is caused by unforeseen factors during the operation of the hotel, for instance breakage of tableware by housekeeping staff.

Hotel cost control refers to the process of monitoring, analyzing and controlling the costs of hotel operations through effective strategies and methods by the hotel operator. The purpose of cost control is to ensure the normal operation of the hotel under the premise of maximizing the cost reduction or increase revenue, reduce expenditures, eliminate unnecessary expenditures so as to improve operational efficiency.

3. Analysis of internal and external environment for cost control of budget hotels

Cost control of budget hotels requires comprehensive consideration of internal and external environmental factors, since internal and external environmental analysis can help budget hotels to fully grasp the market dynamics, optimize resource allocation, improve management effectiveness, so as to effectively control costs \([4]\). Only with a deep understanding of the changes and characteristics of the external market and the internal operating environment, can we formulate a more targeted cost control strategy according to the actual situation, and maintain a relative advantage in the competition.

3.1 Analysis of the external environment of budget hotel cost control

The external environment includes factors such as market competition, industry trends, laws and regulations, and policies. Analyzing the external environment can help hotels understand changes in market demand, competitors' strategies and trends, and the impact of relevant laws and regulations on cost control. By understanding market demand and competition, hotels can develop more accurate pricing strategies and purchasing plans to reduce operating costs. Factors affecting the external environment of hotel cost control include: economic environment factors, technological environment factors, and industry competition factors.

3.1.1 Economic environmental factors

Through external analysis of the economic environment, it is possible to understand the impact of economic fluctuations on hotel costs, predict future cost trends, and adjust purchasing, supply chain, and operating modes to optimize cost-effectiveness and help hotels achieve good economic performance and sustainable development in a competitive market. The transformation of China's
economy has provided a broad development space for budget hotels and has had a significant impact on hotel cost control. At present, from a macro perspective, there are two deep transformations that must be completed in China. The first is the transformation from investment-driven to consumption-driven, and the second is to promote the transformation and upgrading of the manufacturing industry with the innovation of the service industry and vigorously develop the service industry. With the advancement of consumption-driven model, people's demand for tourism and hotel consumption continues to grow. This brings market opportunities for budget hotels, but also increases the pressure on hotel supply. Consumption-driven model requires more focus on consumer experience and service quality. The development of the service industry has led to the expansion of the consumer market, and more and more people are choosing to stay in budget hotels, which are flexibly responding to cost control through measures such as cooperation with the service industry, human resource management, application of technology, and market expansion in order to achieve sustainable development.

3.1.2 Technological environment factor

Hotels are labor-intensive industries, and the impact of technology on cost control in budget hotels is not as significant as the impact of other factors, but changes in technology have a positive impact on cost control in budget hotels. Through the application of technology in automation, data analytics, e-commerce, supply chain optimization and collaborative efficiency improvement, hotels can achieve more efficient operations and services, reduce costs and improve competitiveness.

3.1.3 Industry Competitive Environment Factors

The bargaining power of budget hotels is weaker than that of star hotels, mainly due to the fact that the pricing of budget hotels in the market is at the low end of the range and the price sensitivity of customers to budget hotels is relatively low \(^5\). In the case of low price and high efficiency, the competitors of budget hotels mainly come from within the industry, which makes budget hotels can only maintain a certain profit and market share by doing a good job of cost control and operating and serving with high quality.

3.2 Internal analysis of cost control in budget hotels

The internal environment includes the hotel's own management system, organizational structure, personnel quality and resource allocation and other factors. By analyzing the internal environment of the hotel, we can find and solve the internal problems and contradictions, improve the efficiency of work and resource utilization, and reduce unnecessary waste and costs. The management level of budget hotels is mainly reflected in the three aspects of financial management, personnel management and operational management.

3.2.1 Financial management factors

Cost control is of great significance in the financial management of budget hotels, which can improve the profitability of hotels and make them more competitive by reducing costs. Cost control can promote the hotel's operation more efficiently and reduce the waste of resources and time. Cost control can ensure the financial stability of the hotel, avoiding operational risks and capital constraints. Cost control points in the financial management of budget hotels can include several aspects of labor, procurement, energy, and inventory.

Labor costs mainly include employee salaries, benefits and training costs. Labor cost is an important part of hotel operation, by controlling labor cost can improve efficiency and reduce
operating costs. Purchasing cost control mainly includes the purchasing cost of daily supplies, equipment, food and so on. Reasonable purchasing strategy and supplier management can reduce purchasing costs and ensure the quality of purchased items and the stability of supply. Energy cost control mainly includes the cost of water, electricity, gas and other energy use. Effective use of energy, energy management and energy saving measures can reduce energy consumption and save costs. Inventory cost control is mainly through reasonable inventory management to control warehousing costs and waste of expired items. Regular inventory counting and management can ensure the accuracy and timeliness of inventory, avoiding inventory stagnation and financial difficulties.

However, in order to reduce costs, one may choose to use cheaper items or services, but the quality may suffer, thus affecting customer satisfaction and the reputation of the hotel. In the highly competitive budget hotel market, cost control is the key to remain competitive, and failure to provide both high quality services and reasonable prices may result in loss of market share. Therefore, budget hotels need to take cost control and service quality into account when managing their finances to ensure that they provide a good customer experience while reducing costs.

3.2.2 Personnel management factors

Cost control points in personnel management of budget hotels include human resource planning, employee recruitment and selection, employee training and development, employee performance management, and employee benefits. Harsh cost control leads to employees feeling dissatisfied and leaving, increasing employee turnover and affecting the stable operation and service quality of the hotel. It may also lead to insufficient employee benefits to retain good employees, resulting in frequent turnover and affecting the hotel's image and customer satisfaction. Through reasonable personnel management control, employee-related costs, such as recruitment costs, training costs and welfare costs, are optimized, thus reducing the hotel's operating costs. Effective personnel management can improve the efficiency and output of employees, reduce the waste of human resources and improve the overall operational efficiency of the hotel. Through scientific performance management and training and development programs, employees are motivated to improve their performance level, thus increasing the hotel's competitiveness and market share. Reasonable personnel management can ensure that the hotel has adequate staffing and training to provide quality services and enhance customer satisfaction and reputation.

3.2.3 Operations Management Factors

In budget hotel operations and management, there is a need to balance cost control and the provision of quality services to ensure that customer satisfaction and loyalty are maintained while costs are reduced. Hotel room costs, food and beverage costs, energy costs, as well as operating equipment costs and marketing costs are the main costs and expenses of economy hotels. Whereas the costs of hotel costs need to be coordinated across departments, each department is a relatively independent unit when it comes to practicing cost control. The reservation and sales team should work closely with the operations department to adjust room rates and room types in a timely manner according to room bookings and guest traffic to ensure optimal room utilization and revenue. The front office department needs to communicate with the guest room department in a timely manner about the cleaning and maintenance of the rooms to ensure that the rooms and facilities are in good condition, which will increase the occupancy rate of the rooms and customer satisfaction, and thus increase profits. The catering department and the guest room department should coordinate with each other to grasp the check-in and check-out time of the guest rooms, and arrange the catering staff and prepare the ingredients according to the flow of customers, so as to minimize the waste and increase the catering revenue. The F&B department needs to maintain communication with all departments,
regularly evaluate and analyze all expenses and revenues, and provide timely financial data and reports, which can help each department understand its own financial performance and then adjust its business strategies and actions.

In terms of organizational structure, the organizational structure of economy hotels is flat, with less hierarchical structure and relatively streamlined staffing, and all the matters on the operating procedures are ultimately implemented by the general manager. And in order to save costs, budget hotels pulling staff often need to bear the pressure of multiple positions and tasks, which may affect the efficiency of the work and the concentration of the staff, and negatively affect the quality of service, which can be achieved through precise planning and optimization of the workflow, reduce redundant links and inefficient steps, improve staff efficiency, and achieve cost savings and control. As budget hotels have fewer organizational levels, this may lead to difficulties in communication and coordination. The transmission and flow of information may not be timely and effective enough, easily resulting in information asymmetry and misunderstanding, affecting overall cost control. Economy hotels can establish effective communication channels and coordination mechanisms to ensure timely sharing and transfer of information, improve the efficiency of collaboration between departments, and avoid unnecessary losses incurred by costs.

4. The main problems of cost control in budget hotels

4.1 Balancing quality and cost

While pursuing cost control, hotels need to maintain the level of quality in their services and products. However, low costs may lead to the recruitment of insufficient quality personnel and the use of cheap materials or equipment, thus affecting customer satisfaction and the image of the hotel. Budget hotels usually compete on price as their main advantage, but if service quality is neglected in the pursuit of cost control, customer satisfaction may plummet. Customers may be disappointed, turnover may increase, and word-of-mouth and reviews may suffer. If quality and cost are out of balance, hotels may not be able to stand out from the competition and lose market share, and their brand image may be tarnished, making it difficult to build a good reputation and a loyal customer base. Budget hotels need to seek profit in price competition and provide appropriate services and facilities. Maintaining a balance of strategic positioning while pursuing cost control is a challenging task.

4.2 Lack of clarity on the object of cost management control

Operational managers of budget hotels generally only target separable and independent costs, while ignoring joint costs [6]. The value of joint costs is very important for budget hotels, it helps to confirm whether the allocation of resources is reasonable, optimize decision-making to achieve the goal of cost control and profit maximization, and it is an important basis for managers to make effective decisions and business management. Joint costs usually involve resources and services that are shared by multiple departments or services. If budget hotels do not explicitly include joint costs in the scope of cost control, it will result in unfair cost sharing, each department pursuing cost minimization as well as reuse of resources, which ultimately makes it difficult to accurately measure and control costs.

4.3 Budget hotel internal cost control system is not perfect

China's budget hotel industry has a late start, the development of the characteristics of the rapid development of China's economy hotel internal cost control system is very imperfect. Most of the
original records of budget hotels are not sound enough, the inventory system of assets is not perfect, quota management, measurement and acceptance and sales and other basic management system is not perfect, and even some hotels have no income and expenditure plan, no reporting system phenomenon. There is no cost budget and expense management system, the hotel can not find and respond to the unreasonable growth of costs in a timely manner, resulting in cost overruns. Then there is no perfect cost tracking mechanism, which will make it difficult for the hotel to accurately understand the specific costs of different segments or departments, but only to the overall cost of management, so it is difficult to analyze and control different cost items, affecting the cost-effectiveness of the enhancement. The lack of a perfect internal cost control system may make it impossible for the hotel to accurately assess its operating performance and difficult to conduct in-depth research and analysis of the relationship between costs and revenues, which ultimately affects the accuracy of operating decisions.

4.4 Weak employee participation in hotel cost control

Referring to previous literature, several scholars Yue pointed out that the most common problem in hotel cost management is the weak awareness of cost control among all hotel staff\(^{[7]}\). Cost control requires the coordination of all departments and the participation of all employees to maximize benefits. Employees can help the hotel to save energy, reduce material waste, optimize inventory management, etc., to reduce unnecessary waste, which in turn reduces operating costs and improves profits. As well, by participating in cost control, employees can feel their impact on the success of the hotel. When employees realize that they can have a positive impact on the hotel's economic situation through their actions, they feel more responsible and belonging and work harder. However, in terms of ideology, most employees believe that cost control is something that has nothing to do with them, and that it is the business of the hotel operator or related personnel such as finance. Weak awareness of cost control among employees will result in unnecessary cost wastage and the competition of the company will decline.

5. Solution Countermeasures for Cost Control in Economy Hotels

5.1 Reasonable market positioning

In the hotel industry, a reasonable market positioning can help the hotel find the most suitable for its cost and target customers, so as to better satisfy the customers' needs and improve the competitiveness in the market. If the target customers of the hotel are businessmen who travel short distance, then the hotel can better meet their needs by providing some extra services. In addition, the hotel can also fulfill the needs of the target customers through pricing strategy. If the business people pay more attention to the service quality and facilities of the hotel and care less about the price, then the hotel can provide high-priced rooms and high-priced services to meet their needs.

5.2 Introducing Balanced scorecard cost management model

Referring to scholars Chen Tianrong's study on the cost management of budget hotels, this paper also introduces the balanced scorecard cost management model for research \(^{[8]}\). The balanced scorecard management mode can comprehensively and systematically grasp and manage costs. And by integrating cost management into the performance evaluation system, hotels can ensure that their cost management strategies are consistent with their strategic goals, thus promoting overall performance improvement. This paper focuses on four aspects of cost control: financial, customer, internal operation, and learning and growth.
From the financial aspect, through in-depth analysis of the hotel’s financial data, hotel manager can find out the reasons for the increase in costs. Moreover, hotel can achieve the goal of cost reduction via the adjustment and optimization of resource allocation. For this dimension, effective measures that can be taken include formulating a reasonable cost budget, establishing an effective cost control index system and monitoring the actual implementation of costs.

Customers are the lifeline of economy hotels, so customer satisfaction should be fully considered in cost management. By improving service quality, improving customer experience and establishing a customer relationship management system, budget hotels can increase customer loyalty and repurchase rate, thus realizing cost control and profitability.

In terms of internal operation, rational utilization of human resources and improvement of work efficiency are crucial to cost control of budget hotels. The core competitiveness of budget hotels is the adoption of a standardized service model and efficient operational efficiency. Translating this into specific indicators, incentives, workflow optimization, equipment utilization and other indicators can be considered to improve operational efficiency.

Budget hotels also need to continuously learn and improve their management mode and business philosophy. The main thing is to strengthen staff learning and training, improve motivation, and use knowledge and ideas to drive staff to implement cost objectives. On the one hand, training programs can be introduced to comprehensively improve the level of employee awareness, and cost management can be included in the assessment. On the other hand, emphasize the work innovation, stimulate the staff’s innovation power, in order to reduce the cost of various hotel affairs.

6. Conclusion

Having a clear market positioning is crucial in the operation of a hotel. Accurate market positioning can better understand customer needs and provide products and services that meet their expectations, reducing unnecessary waste. Proper market positioning and maintaining a balance between quality and cost will help to increase customer loyalty and satisfaction to gain a larger market share.

The introduction of the Balanced Scorecard model takes non-financial factors into account, providing hotel operators with a systematic and comprehensive management approach. Traditional cost management tends to focus on the financial aspect and ignores the impact of other key indicators. The introduction of the Balanced Scorecard makes performance evaluation more comprehensive and balanced, and hotels can identify potential shortcomings and make timely improvements by measuring cost performance in other dimensions. This helps the hotel to optimize various business processes, reduce unnecessary waste and improve the efficiency of resource utilization. This model makes the use of resources by each department more transparent and enables better coordination of resource allocation, which in turn promotes the improvement of overall business efficiency.

References

