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**CUSTOMER PROFITABILITY ANALYSIS
USING ACTIVITY-BASED COSTING APPROACH
TO IMPROVE THE COMPANY'S COMPETITIVENESS
(A Case Study of Pangeran Beach Hotel)**

SKRIPSI



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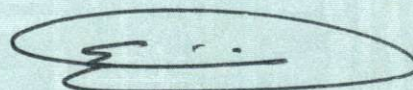
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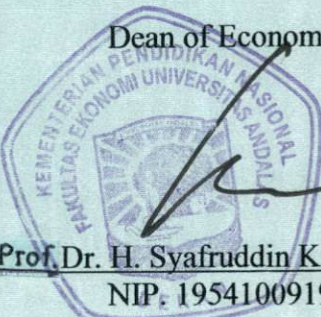


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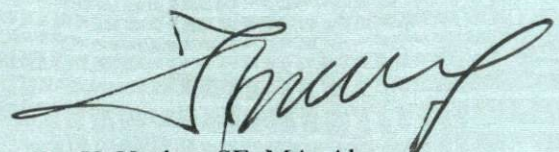
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Author

ABSTRACT

Profitability analysis is a tool which enables the users to evaluate company's performance. Customer profitability analysis idea is to figure out the customer service activities and cost drivers to determine the profitability of each customer or group of customers. The use of customer profitability analysis appears as a powerful tool to allow management to consider the cost and profit from a customer perspective. The information is applicable in decision-making process to support long and short-term customer related decision. The research is accomplished by using a case study over the data of 2009. Under activity based costing approach, the cost-to-serve for each customer segment has already identified. Based on its revenue and cost level some customer types are found; individual segment and group segment as an opportunistic customer who needs a low cost-to-serve and company segment classified as achiever customer who has the highest income but also requires the highest cost-to-serve. The result allows the hotel management to identify the non-value added activity and which customer segment requires the high customer cost-to-serve, so that the management can set the strategy to manage the cost and improve its competitive advantage.

Keywords: customer profitability analysis, activity-based costing, value added, non-value added, competitive advantage

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CHAPTER I INTRODUCTION

1.1 Background

Profitability analysis is a tool which enables the users to evaluate company's performance. It is used to estimate both the return and risk characteristic of a company. It also allows us to distinguish between performance primarily attributed to operating decisions and those that are tied to financing and investing decisions (Wild, 2004).

Customer profitability analysis idea is to figure out the customer service activities and cost drivers to determine the profitability of each customer or group of customers. The customer service here means all activities to complete the sale and to satisfy the customers' demand.

Using customer profitability analysis will bring significant advantage towards the company. Management will not only receive information about their revenue but also measure whether their key customer is as profitable as expected or in contrast decrease a significant portion of company's value. Thus, the customer profitability analysis is critical to the company since it enables the management to re-evaluate the customers and take a strategic decision over which customer segment should be kept and improved, or even eliminated (www.pwc.com, 2009).

As profitability analysis can be applied to many areas of industry, hotel sector exists within a tight competitive market. In order to improve its financial performance, hotel industry segmented their customers by

expanding multiple product features and services. Since it offers services, the existence of this business depends on the number of its customers. The more customers it has, the higher the revenue. No wonder, the main goal of the hotel is to attract more guests to use their service. The use of customer profitability analysis in hotel industry will help the management to identify which customer contributes a higher income and which brings loss to company.

Along with the effort in determining the most profitable customers, hotel industry is the best area to do a research about customer profitability analysis because hotel management has segmented its customers based on the various services. It means each customer or group of customer will contribute different amount of profit.

Pangeran Beach Hotel, as one of the most favorite hotel located in Padang, offers different services toward its customers. The various type of service offered by Pangeran Beach Hotel is the reason why author would be likely to do a research in the company. The implication of customer profitability analysis in this company can perfectly reflect the group of customers who contribute a higher income to the company.

Since its income contributed mainly by its customers, Pangeran Beach Hotel's management focuses most at customers' satisfaction. The management purpose is the satisfied customers will spread a positive word-of-mouth, and recruit new customers, which decrease customer acquisition cost. Moreover, management believes that customers'

satisfaction can reduce the risk associated with cash flow from its customers.

In order to maximize its profit, cost to serve customers is also a main consideration of a company. To determine the cost of serving customers and set the basis for evaluating the profitability, there are two approaches that can be applied; traditional method and activity based costing method. Under traditional method, management assumes the cost used is equal that is why in term of hotel industry, the cost-to-serve to the customer is the same. Activity based costing treats cost with different way as the traditional does. Under this method the cost is assigned based on the service offered. Activity based costing simply provides useful information for pricing its services and identifying activities where the costs can be reduced or value added.

The use of customer profitability analysis in hotel industry appears as a powerful tool to allow management to consider the cost and profit from a customer perspective. This information is applicable in decision-making process to support long and short-term customer related decision. It simply is a key to improve hotel operating performance.

For above reasons, the author would like to do the research entitled:

“Customer Profitability Analysis Using Activity Based Costing Approach to Improve The Company’s Competitiveness; A Case Study of Pangeran Beach Hotel”

1.2 Problem Definition

Based on the background above, the proposed issue can be formulated as follow:

- 1.2.1 What are the activities related to customers?
- 1.2.2 Which customer segment contributes a significant income; individual, group or company customers?
- 1.2.3 How could customer profitability analysis be used to improve the company's competitiveness?

1.3 Research Objective

The purposes of this paper are:

- 1.3.1. To identify the activities conducted by the hotel which are related to customers
- 1.3.2. To define the most profitable customer segment between several types of customers
- 1.3.3. To show how the customer profitability analysis could improve the company's competitiveness

1.4 Research Benefit

- 1.4.1 Describes the implication of profitability analysis using activity based costing to current hotel industry.
- 1.4.2 Allows management of hotel to calculate and understand profitability at the individual customer and service level and to analyze the revenue and cost driver
- 1.4.3 Provides the revolutionary insight over company's value
- 1.4.4 Shows some of the customer segments which were found unprofitable
- 1.4.5 Allows other parties to do similar research since the research relating to profitability analysis in service companies particularly in hotel industry is still limited
- 1.4.6 Defines which customer contributes a higher income between various types of customers
- 1.4.7 Improves the understanding of hotel market segment and customer profitability

CHAPTER II THEORITICAL FRAMEWORK

2.1 Profitability analysis

In general, the ability of a business to earn profits depends on the effectiveness and the efficiency of its operations as well as the resources available to it. Thus, profitability analysis focuses primarily on the relationship between operating results as reported in income statement and resources available to the business as reported in the balance sheet (Warren, 2005).

In analyzing profitability, we should focus on several measurements:

- 2.1.1 Ratio of net sales to assets is a profitability measure that shows how effectively a firm utilizes its assets. In computing the ration of net sales to assets, any long-term investments are excluded from total assets, because such investment are unrelated to normal operations involving the sale of goods or services.
- 2.1.2 Rate earned on total assets measures the profitability of total assets, without considering how the assets are financed. The rate earned on total assets is computed by adding interest expense to net income and dividing this sum by the average total assets.
- 2.1.3 Rate earned on stockholder's equity is computed by dividing net income by average total stockholder's equity.

- 2.1.4 Rate earned on common stockholder's equity focuses only on the rate of profits earned on the amount invested by the common stockholder. It is computed by subtracting preferred dividend requirements from the net income and dividing by the average common stockholder's equity.
- 2.1.5 Earnings per share (EPS) on common stock is computed by dividing net income by the number of shares of stock outstanding
- 2.1.6 Price-earnings ratio is an indicator of a firm's future earnings prospects. It is computed by dividing the market price per share of common stock at a specific date by the annual earnings per share.
- 2.1.7 Dividend per share and dividend yield. Dividend per share can be reported with earnings per share to indicate the relationship between dividends and earnings. Dividend yield is a profitability measure that shows the rate of return to common stockholders in terms of cash dividends.

2.2 Customer Profitability Analysis

2.2.1 Definition

Customer is usually referred to a current or potential buyer or user of the products of an individual or organization, called the supplier, seller, or vendor. The term customer also includes by extension any entity that uses or experiences the services of another. A customer may also be a viewer of the product or service

that is being sold despite deciding not to buy them.
(www.wikipedia.org)

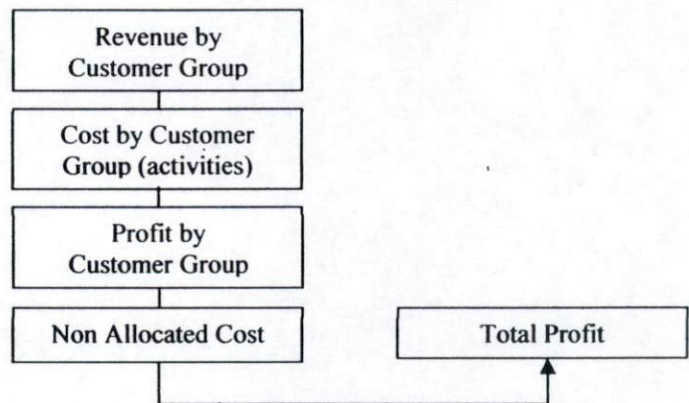
Customer profitability (CP) is the difference between the revenues earned from and the costs associated with the customer relationship in a specified period.

According to Philip Kotler, "a profitable customer is a person, household or a company that overtime yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling and servicing the customer".

Customer profitability analysis is an approach to cost management that identifies the cost and benefit of serving specific customer or customer type to improve an organization overall profitability (Bochler, 2002).

For a company, customers play an important role. Not only because they contribute the income but also because recently the company resources tend to be limited over a period. In order to maximize the use of these resources, company should apply the effective and efficient strategy in order to gain as many profit as possible. A good understanding of the profitability of a firm's current and potential customers can help firms to improve overall profits and to become more competitive.

Customer profitability analysis traces costs to customers to allow management to determine customer profitability and to provide more attentive service to high-profit customers, acquire new high-profit customers, and improve the profitability of current customers. It identifies customer service activities, cost drivers, and the profitability of individual customers or groups of customers



Picture 2.1

Customer profitability analysis model

Source: adapted from Noone and Griffin (1998, p.280)

2.2.2 Benefit of Customer Profitability Analysis

Customer profitability analysis identifies customer service activities and cost drivers and determines profitability of each customer or group of customers. Here, customer service includes all activities to complete the sale and satisfy the customer, including advertising, sales calls, delivery, billing, collections, service calls, inquiries, and other forms of customer service.

Customer profitability analysis allows managers to:

1. Identify most profitable customers.
2. Manage each customer's costs-to-serve to a lower level.
3. Establish a surcharge for or re-pricing expensive costs-to-serve activities.
4. Reduce services for high cost-to-serve customers.
5. Introduce new products and services.
6. Discontinue products, services, or customers.
7. Improve the process of customer service.
8. Shift the customer's purchase mix toward higher-margin products and service lines.
9. Offer discounts to gain more volume with low costs-to-serve customers.
10. Select customer mix—What types of customer should we market to? What types should we not market to?
11. Choose types of after-sale services to provide.

2.2.3 Analysis of Profitability

2.2.3.1 Customer Cost Analysis

Customer cost analysis identifies activities and cost drivers to service customers before and after sales, not including product costs.

Classification of customers cost:

- 1) Customer unit-level cost —resources consumed for each unit sold to a customer. Examples include sales commissions based on the number of units sold or sales dollars, shipping cost when the freight charge is based on the number of units shipped, and cost of restocking each of the returned units.
- 2) Customer batch-level cost —resources consumed for each sales transaction. Examples include order-processing costs, invoicing costs, and recording of sales returns or allowances every time a return or allowance is granted.
- 3) Customer-sustaining cost —resources consumed to service a customer regardless of the number of units or batches sold. Examples are salespersons' travel costs to visit customers, monthly statement processing costs, and collection costs for late payments.
- 4) Distribution-channel cost —resources consumed in each distribution channel the firm uses to service customers. Examples are operating costs of regional warehouses that serve major customers and centralized distribution centers that serve small retail outlets.

- 5) Sales-sustaining cost —resources consumed to sustain sales and service activities that cannot be traced to an individual unit, batch, customer, or distribution channel. Examples are general corporate expenditures for sales activities, and salary, fringe benefits, and bonus of the general sales manager.

2.2.3.2 Customer Profitability Analysis

Customer profitability analysis combines customer revenues and customer cost analyses to assess customer profitability and helps identify actions to improve customer profitability.

2.2.3.3 Customer Value Assessment

Customer profitability analysis provides valuable information to the assessment of customer Value. Firms must weigh other relevant factors before determining the action appropriate for each customer. The following are among these relevant factors:

- 1) Growth potential of the customer, the customer's industry, and its cross-selling potential.
- 2) Possible reactions of the customer to changes in sales terms or services.

- 3) Importance of having the firm as a customer for future sales references, especially when the customer could play a pivotal role in bringing in additional business.

2.3 Revenue

2.3.1 Definition of revenue

Revenues are increases in assets or settlements of liabilities from ongoing operations. Revenues are the result of selling goods or service (Libby, 2001).

2.3.2 Revenue Principle

1. The earning process is complete or nearly complete
2. An exchange transaction takes place
3. Collection is reasonably assured

2.4 Cost

2.4.1 Definition of Cost

Cost is the economic sacrifice made to achieve an organization's goal. For a product, cost represents the monetary measurement of resources used, such as material, labor and overhead. For a service, cost is the monetary sacrifice made to provide the service. (Rayburn, 1996)

2.4.2 Cost Classification

2.4.2.1 Direct Cost

Direct costs of a cost object are related to the particular cost object and can be traced to that cost object in an economically feasible (cost-effective) way. For example: the cost of the cans or bottles is a direct cost of Pepsi-Colas. The cost of the cans or bottles can be easily traced to or identified with the drink. The term cost tracing is used to describe the assignment of direct costs to the particular cost object (Foster, 2003).

2.4.2.2 Indirect Cost

Indirect costs of a cost object are related to the particular cost object but cannot be traced to that cost object in an economically feasible (cost-effective) way. For example: the salaries of supervisors who oversee production of the many soft drink products bottled at a Pepsi plant is an indirect cost of Pepsi-Colas. Supervision costs are related to that cost object (Pepsi-Colas) because supervision is necessary for managing the production and sale of Pepsi-Colas. Supervision costs are indirect costs because supervisors also oversee the production of other products, such as 7-Up. Unlike the cost of cans or bottles, it is difficult to trace supervision costs to the Pepsi- Cola line.

The term cost allocation is used to describe the assignment of indirect costs to a particular cost object.

2.5 Activity Based Costing

2.5.1 Definition of Activity Based Costing

An activity is a specific task or action of work done. An activity can be a single action or an aggregation of several actions. For example, moving inventory from workstation A to workstation B is an activity that may require only one action. Production set-up is an activity that may include several actions.

A resource is an economic element needed or consumed in performing activities. Salaries and supplies, for example, are resources needed or used in performing manufacturing activities.

A cost driver is a factor that causes or relates to a change in the cost of an activity. Because cost drivers cause or relate to cost changes, measured or quantified amounts of cost drivers are excellent bases for assigning resource costs to activities and for assigning the cost of activities to cost objects.

A cost driver is either a resource consumption cost driver or an activity consumption cost driver. A resource consumption cost driver is a measure of the amount of resources consumed by an activity. It is the cost driver for assigning a resource cost consumed by or related to an activity to a particular activity or cost pool.

Examples of resource consumption cost drivers are the number of items in a purchase or sales order, changes in product design, size of factory buildings, and machine hours.

An activity consumption cost driver measures the amount of an activity performed for a cost object. It is used to assign activity cost pool costs to cost objects. Examples of activity consumption cost drivers are the number of machine hours in the manufacturing of product X, or the number of batches used to manufacture Product Y.

Activity-based costing (ABC) is a costing approach that assigns resource costs to cost objects such as products, services, or customers based on activities performed for the cost objects. ABC assigns factory overhead costs to cost objects such as products or services by identifying the resources and activities as well as their costs and amounts needed to produce output.

2.5.2 Strengths of Activity Based Costing

1. Better profitability measures. ABC provides more accurate and informative product costs, leading to more accurate product and customer profitability measurements and to better-informed strategic decisions about pricing, product lines, and market segments.
2. Better decision making. ABC provides more accurate measurements of activity-driving costs, helping managers to

improve product and process value by making better product design decisions, better customer support decisions, and fostering value enhancement projects.

3. Process improvement. The ABC system provides the information to identify areas where process improvement is needed.

2.5.3 Steps of ABC

In developing activity based costing approach, there are three main steps that need to be accomplished:

Step 1 Identify resource costs and activities

Conduct an activity analysis to identify the resource costs and activities of the firm. By analyzing the activity, a firm can identify the work to carry out the operations.

There are several levels of activities:

1. Unit-level activity : performed for each unit of the cost object
2. Batch-level activity: performed for each batch or group of products or services
3. Product-level activity: supports the production of a specific product or service
4. Facility-level activity: supports the operation in general

Step 2 Assign resource cost to activities

Activity-based costing uses resource consumption cost drivers to assign resource costs to activities. Since activities drive

the cost of resources used in operations, a firm should choose resource consumption cost drivers based on cause-and-effect relationships.

Step 3 Assign activity costs to cost objects

The final step is to assign costs of activities or activity cost pools to cost objects based on the appropriate activity consumption cost drivers. Outputs are the cost objects for which firms or organizations perform activities. Typical outputs for a cost system are products and services; however, outputs also can include customers, projects, or business units.

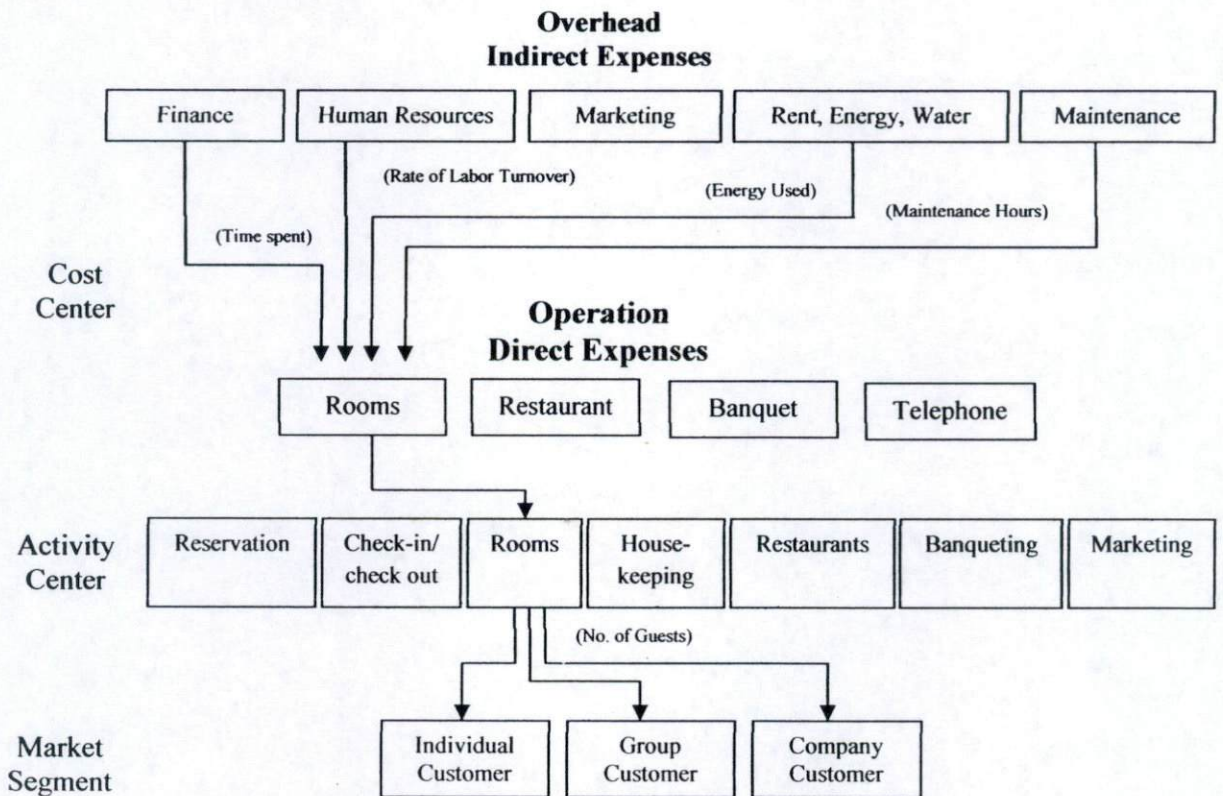
2.6 Customer Type

There are several types of customer according to the revenue and cost level (CPA congress, 2004):

1. Precious customer is type of customer which contributes high revenue but only needs low cost-to-serve. This type of customer should be retained and protected. A company should be focus on achieving customer satisfaction.
2. Achiever customer is a type of customer which contributes high amount of revenue and needs high cost-to-serve. To maximize the profit, a company should set the strategy to make the cost-to-serve lower than before.

3. Opportunistic customer. This customer is having low revenue as well as low cost. A company should work on making it profitable.
4. Challenge customer needs a high cost-to-serve but in the other hand contributes only low revenue. This type of customer needs to be evaluated and maintained by managing its cost-to-serve so that it can be profitable.

2.7 Customer Profitability Analysis Diagram



Picture 2.2

Customer Profitability Diagram

Source: adapted from Vira Krakhmal (2008)

The cost center represents where the cost of production arises, such as: room maintenance cost, decoration, etc. Meanwhile the activity center represents the functional costs of providing services to the guests, such as: reservation, banquets, check-in and check-out, housekeeping, marketing, etc. The activity center later is assigned to the appropriate market segment. The research focuses only on room with three types of customer: individual, group and company customer.

2.8 Customer Profitability Illustration

Table 2.1
Customer Income Statement

	Customer			
	A	B	G	J
Revenues at list price: \$14.40 x 42,000; 33,000; 2,900; 2,500	\$604,800	\$475,200	\$41,760	\$36,000
Price discount: \$0.96 x 42,000; \$0.24 x 33,000; \$1.20 x 2,900; \$0 x 2,500	<u>40,320</u>	<u>7,920</u>	<u>3,480</u>	
Revenues (at actual price)	564,480	467,280	38,280	36,000
Cost of Goods Sold: \$12 x 42,000; 33,000; 2,900; 2,500	<u>504,000</u>	<u>396,000</u>	<u>34,800</u>	<u>30,000</u>
Gross Margin	<u>60,480</u>	<u>71,280</u>	<u>3,480</u>	<u>6,000</u>
Customer-level Operating Costs				
Product handling \$0.50 x 42,000; 33,000; 2,900; 2,500	21,000	16,500	1,450	1,250
Order Taking \$100 x 30; 25; 15; 10	3,000	2,500	1,500	1,000
Delivery Vehicles \$2 x (5 x 60); (12 x 30); (20 x 20); (6 x 15)	600	720	800	180
Rush Deliveries \$300 x 1; 0; 2; 0	300	0	600	
Visits to Customers \$80 x 6; 5; 4; 3	<u>480</u>	<u>400</u>	<u>320</u>	<u>240</u>
Total Customer-level Operating Costs	<u>25,380</u>	<u>20,120</u>	<u>4,670</u>	<u>2,670</u>
Customer-level Operating Income	<u>\$35,100</u>	<u>\$ 51,600</u>	<u>(\$1,190)</u>	<u>3,330</u>

Source: Pearson (2009)

2.9 Previous Research

Ilhan Dalci, Veyis Tanis, Levent Kosan, (2010) "Customer profitability analysis with time-driven activity-based costing: a case study in a hotel", *International Journal of Contemporary Hospitality Management*, Vol. 22 Iss: 5, pp.609 – 637. This research discussed about the implementation of customer profitability analysis which provides a new insight for the author to do the research.

Vira Krakhmal, (2008) Business School, The Open University Walton Hall, Milton Keynes, UK "Customer Profitability Analysis Model". The study is intended to facilitate the understanding of the complex nature of the implementation steps required to construct a customer profitability analysis model. The model constructed by Vira Krakhmal is used in this research.

Francis J. Mulhern (1999), "Customer Profitability Analysis: Measurement, Concentration, and Research Directions", *Journal of Interactive Marketing* volume 13/No.1/winter 1999. This paper provides a conceptual and methodological foundation for measuring customer profitability by generalizing approaches to measuring customer lifetime value in direct marketing for broader target marketing applications.

Tiffany Bordovsky, Neal R. VanZante, George R. Wagman, "Activity-Based Costing System Required For Successful Customer Relationship Management". This paper discusses the importance of

Activity-Based Costing to successful Customer Relationship Management which gives a brief description about the value-added and non value-added activity to customer.

Table 2.2
Summary of Previous Research

No	Author	Title	Result
1	Ilhan Dalci, Veyis Tanis, Levent Kosan (2010)	Customer Profitability Analysis with Time-Driven Activity-Based Costing: a Case Study in a Hotel	Some of the customer segments which were found unprofitable under the conventional ABC method were determined profitable using TDABC
2	Vira Krakhmal (2008)	Customer Profitability Analysis Model	The study uncovered what each customer's contribution has been to the firm's operating profit and how this information can be used for cost management through activity-based cost analysis, revenue management, and marketing management
3	Francis J. Mulhern (1999)	Customer Profitability Analysis: Measurement, Concentration, and Research Directions	Represents a substantial change in the way organizations think about their market
4	Tiffany Bordovsky, Neal R. VanZante, George R. Wagman (2005)	Activity-Based Costing System Required For Successful Customer Relationship Management	The success of CPA is dependent on the selection of an appropriate method of matching costs with customers and customer groups

CHAPTER III RESEARCH METHODOLOGY

3.1 Research Method

The research is accomplished by using a case study over the data of 2009 since the new data of 2010 has not been prepared by the management of hotel. This type of research is chosen because it enables the description of specific problem and the action to solve it. This approach includes cyclical process in which the researcher starts with the initial analysis, fact-finding, observation through planning, actuation and evaluation, and back to fact-finding and repeat the process again.

3.2 Scope of the Research

- 3.2.1 The research focuses only on room service
- 3.2.2 The cost used is limited to cost related to customer activity excluded room cost such as depreciation of building and facilities
- 3.2.3 This research focuses on the customer profitability over type of customers of Pangeran Beach Hotel, those are: individual, group and company customers.
- 3.2.4 The data used for this research is internal data of hotel for 2009

3.3 Research Variable and Measurement

- 3.3.1 Customer cost: is measured through ABC
- 3.3.2 Customer revenue: is measured by room revenue in 2009 based on customer segment

Customer profitability = customer revenue – customer cost

3.4 Type and Source of Data

3.4.1 Type of Data

To do this research, the author collects the primary data based on the interview to the authorized people such as accountant and management of hotel and direct observation over the activity of the hotel to provide the service for segmented customer. The secondary data is collected from financial report of the hotel, room services and business process.

3.4.2 Source of Data

The data used for this research is qualitative data included: income statement of hotel, guest list, group rooming list, and customers' bill in 2009.

3.4.3 Data Collection Method

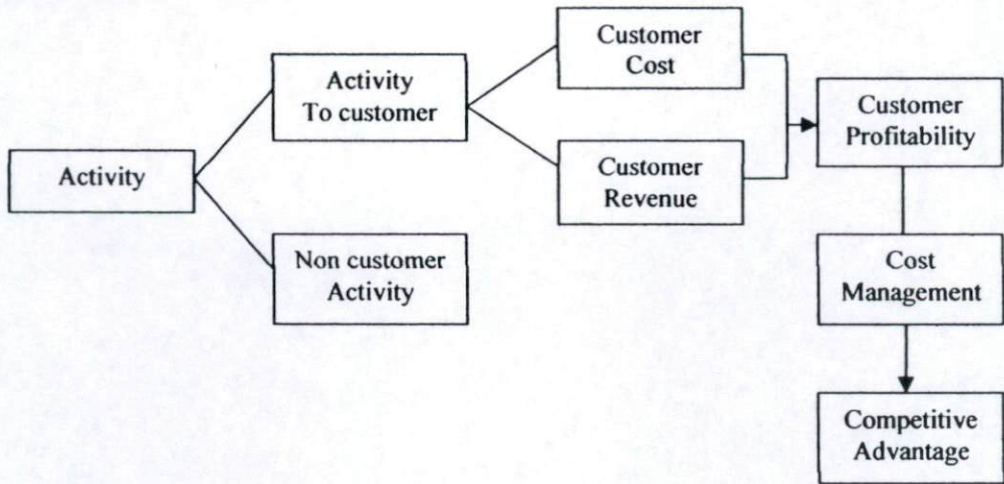
1. Interview: the interview is conducted by the author with the management of Hotel. The interview included type of customers who most frequent uses their service and which customer segment seems to be profitable for them.
2. Observation: the direct observation will be completed by observing the activity of the hotel to provide the services for segmented customer and the cost appears to serve the customers.

3.5 Data Analysis

To complete the research process, author may be willing to do several steps in analyzing the data:

- 3.5.1 Identifying the activity and cost of activity related to customers.
The data of activity will be divided into two forms: activity to customer and non-customer activity. The cost considered on this research is cost-to-serve for customers.
- 3.5.2 Preparing the customer based income statement.
- 3.5.3 Analyzing the customer profitability. The data of profitability for each customer will represent which customer segment contributes a higher profit. The high amount of revenue doesn't guarantee that the customer has gained high profit.
- 3.5.4 Manage the customer profitability to gain competitive advantage.
The customer profitability is gotten by doing customer cost analysis and customer revenue analysis. By doing so, we can identify a cost-to-serve for each customer.

3.6 Research Design



Picture 3.1

Research framework

“Customer Profitability Analysis Using ABC to Improve Company’s Competitiveness; A Case Study of Pangeran Beach Hotel”

CHAPTER IV DISCUSSION

4.1 Company Background

4.1.1 History of Pangeran Beach Hotel

Recently, the tourism industry has increased surprisingly. Started with the government's plan of developing the tourism objects in Padang, hotel as a main asset of tourism has adjusted itself to be ready to support this plan. As the development of tourism will contribute a higher income for Padang, the district government tried to encourage the investor to take a part in improving the tourism industry. Along with that plan, in April 17, 1979, Mr. Syafaruddin Dt.Pangeran as one of success entrepreneur in Padang built Pangeran City Hotel located at Jl. Dobi No. 3-5 Padang.

In order to expand his business, Pangeran Beach Hotel appeared as the second hotel built by PT. Istando Pangeran. This company is a national private business which was established firstly under notary's certificate No. 42 in October 26, 1979 with the name "Pangeran's". In January 24, 1986, it changed into PT. Istando Pangeran.

Pangeran Beach Hotel was built in December 21, 1989 located at Jl. Ir. Juanda No. 79 Padang. Beside expanding business, this hotel was built to overcome a limited room problem faced by

the first hotel. Before, Pangeran City Hotel had refused some group customers to avoid a full house condition.

Pangeran Beach Hotel operated firstly with 65 available unit rooms. In July 7 1991, it became 105 rooms. As the need of hotel increased over time, in 2006, Pangeran Beach Hotel added its room to 176 units, made it as the first four stars hotel admitted by PHRI on May 2007.

4.1.2 Development of Pangeran Beach Hotel

Pangeran Beach hotel is the first four stars hotel operated in December 30, 1989. Today, it still keeps improving its quality by doing some innovations and reparations. Nowadays, Pangeran Beach Hotel has become the icon of West Sumatra in general and Padang in particular.

Pangeran Beach Hotel has several advantages comparing with the other hotels in Padang. Not only supported by the strategic location that is only 30 minutes away from Minangkabau International Airport, but also it provides the beautiful scenery with beach atmosphere as a background.

Pangeran Beach Hotel supported itself with some facilities as follows:

1. 176 rooms with a full facility such as direct dialing telephone system, color TV with satellite channel,

central air condition, and bath and shower with hot and cold running water.

2. Supported facilities: mini bar, restaurant 24 hours room service, convention hall with 200 to 1000 seats, tea and coffee making facilities, laundry and dry cleaning service, swimming pool, fitness center, hair & beauty salon, business center, taxi, free wi-fi High Speed Internet Access, and doctor available upon request.

The room price set by the hotel in 2011 can be seen in table

4.1 below:

Table 4.1
Room Price in 2011

Room Type	Single/Double
Superior Mountain View	Rp. 672.155,-
Deluxe	Rp. 825.250,-
Junior Suite	Rp. 1.557.276,-
Executive Suite	Rp. 2.963.290,-
Pangeran Suite	Rp. 5.945.950,-
Extra Bed	Rp. 250.000,-

Source: Internal data of hotel

Prices are inclusive of breakfast buffet for two persons and subject to 21% tax and service charge.

Beside its function as a place to stay, Pangeran Beach Hotel also can be used to hold a national and international event for maximum 1500 people, such as: product launching, training, seminar, wedding party, etc.

Pangeran Beach Hotel as one of famous hotels in Padang also cooperates with some governmental institution proven by many governmental activities conducted in this hotel such as meeting, training or seminar.

4.1.3 Organization Structure

The organization structure used by Pangeran Beach Hotel is line method, where each department has job and responsibility. The control of all tasks handled by general manager and supported by six departments led by head of division:

1. General Manager

General Manager is a chief of company who handles the internal and external problem of a company. The external tasks included build a good relation with governmental and private institution while the mainly tasks of General Manager are as follows:

- a) Arrange the plan or working program based on policy
 - b) Decide the purpose and operating policy as a whole
 - c) Observe, coordinate, and give a value for operational activity of a company
 - d) Put a control over all company's activities and responsible to all management of anything happen in hotel
- ##### 2. Executive Assistant Manager

Executive Assistant Manager is a general assistant who handles all operational activities of each department. The main tasks are:

- a) Manage all operational activity of hotel and responsible to the General Manager.
- b) Hold meetings with the managers to gain an information of problem faced and the way to solve it

3. Marketing Manager

The main tasks are:

- a) Arrange plans for promotion to attract the customers to stay and use facilities of hotel and responsible for all problems related to promotion of hotel
- b) Spread the brochures and market the facilities of hotel to customers
- c) Encourage new customers and keep the current customers
- d) Be responsible for all existing target result

4. Food and Beverage Manager

The main tasks are:

- a) Be responsible for all food and drink in hotel
- b) Define and create innovation of menu and define the price
- c) Arrange the promotion strategy of food and drink

In the operation food and beverage manager got a full support from kitchen and serving division

5. Front Office Manager

Front Office Manager is responsible for the readiness of its division in doing reservation, check-in and check-out.

6. Personnel Manager

The main tasks are:

- a) Be responsible for human resource problem and existing employee
- b) Make a clear explanation and create a discipline working habit and give a punishment of any mistakes
- c) Improve the wealth of employee and create the rules of employee administration

7. Executive Housekeeper

Executive Housekeeper is responsible in maintaining the comfortableness of room available for customers and maintaining the service till the guests leave the hotel and keep all room facilities.

8. Chief Engineering

- a) Be responsible for all machines, electricity and all facilities related to hotel supporting appliances
- b) Handle the damage occurred and responsible to fix or replace it

9. Chief Accounting

Chief Accounting is responsible for planning and making accounting report. Started with coordinate, maintain, observe, control, and re-check the accounting report and give appropriate opinion in the report to the General Manager.

4.2 Data Description

4.2.1 Type of Customer

1. Individual customer.

Individual customer is a guest who comes without prior notice to the hotel and usually comes for holiday purpose.

2. Group customer

Group customer is a group of guest who come together and arranged by travel agent which has an agreement with the hotel. This type of customer might get several advantages such as 10% discount and exemption to use the higher level room in case the type of room booked is full. Example: a group of customer may book superior room for 10 rooms. But since the room is not enough to cover them, the hotel management will allow them to use deluxe room without any price changes.

3. Company Customer

Company customer is a guest sent by specific company which has a prior agreement with the hotel. This type of customer usually comes for business purposes. These guests

will give the reference letter from the company as soon as they arrive at the hotel and do a check-in activity. The hotel usually bills the company directly with 10% discount.

4.2.2 Cost and Revenue

The main revenue of Pangeran Beach Hotel is gotten from the sells of room. The calculation of revenue is gotten from the research of several data such as: hotel guests' bill, group rooming list and guest in house list.

The cost of hotel arises from its operational activity. The direct costs arise from restaurant, telephone, room and banquet. Meanwhile the indirect costs occur from the rent, energy and water used for each room, the maintenance of room and others.

4.3 Data Analysis and Discussion

4.3.1 Activity to Customer

1. Welcoming guest activity is an activity which handles all administration process of guests who come with or without reservation. These activities included reservation, check-in check-out, and payment.
2. Guest service activity is the activity aimed to maximize the customer satisfaction. These activities included serving the customer and handling all problems arise such as: open the

door for guest, pottering, provide entertainment to guest, handle guests' complain, and clean up the swimming pool.

3. Room maintenance activity included cleaning up the room while the room booked or after the check-out process. The activities are: provide room facilities, check and fix the room facilities, provide the guest supplies, clean the room and wash the linen.
4. Room service activity is the activity to provide customer needs while staying in hotel. The activities are: clear up the corridor and serve breakfast.
5. Billing activity is an activity to bill the customers who make indirect payment. Usually, this activity is applied to company and group customers.

4.3.2 Non Customer Activity

1. Hotel maintenance activity included maintenance of hotel equipment, maintenance of hotel building and facilities, and maintenance of swimming pool.
2. Marketing activity is the activity to attract the customers to stay in the hotel and use facilities of hotel. These activities included: make a brochure of hotel, make a promotion to travel agent, make an agreement with companies, and do some competitor's survey.

3. Training activity is an activity used to improve the employee ability to serve the customer so that it can increase the customer satisfaction.
4. Accounting activity included the activity to make a budgeting and prepare financial report.
5. Security activity is the activity to ensure the security and comfortableness of guests and employees of hotel.
6. Laundry activity is the activity to wash customers' dirty clothes included dry cleaning and pressing and is charged as additional payment.
7. Preparation of meeting room activity included all activities to prepare the meeting room for ready to use, such as: clean up the meeting room, provide and arrange the seats and tables, prepare the sound system, stage, computer and projector, and check the decoration.

4.3.3 Customer Revenue Analysis

As mentioned above the revenue of Hotel is contributed mainly by the room. The total revenue earned by each customer type is as follow:

Table 4.2
Revenue of Room in 2009

Customer type	Total Guest	Revenue	Percentage
Individual	10,375	Rp. 2, 703, 810, 700	18.55%
Group Customer	13,490	Rp. 4, 768, 525, 305	32,70%
Company Customer	18,772	Rp. 7, 108, 648, 522	48.75%
Total	42,637	Rp.14, 581, 984, 527	100%

Source: Internal data of hotel

Based on the data above, the highest revenue is earned from the company customer as Rp. 7, 108, 648, 522,- or 48.75 % of the total revenue. As much as 10% discount is given to group and company customers.

The revenues may differ across customer because there are differences among the volume of room purchased and the magnitude of price discounting. Price discounting is the reduction of selling prices to encourage increases in customer purchases.

4.3.4 Customer Cost Analysis

Profitability is the result of customer revenue minus customer cost. To calculate the profitability of each customer, there are several stages that should be completed.

The analysis of cost is started with the analysis of the flow of cost from each department; housekeeping department, food & beverage, personnel department, marketing department, engineering department and accounting department. Since the research focuses only in room service and revenue, so that the analysis of the cost is limited only to cost of room.

Based on the analysis, the calculation of department cost is not correctly stated. For example: the cost of electricity and telephone centered in engineering department while the use of those costs may appear almost in all department.

The data of cost for each department in 2009 is stated in Table 4.3 below.

**TABLE 4.3
COST PER DEPARTMENT**

Cost	Housekeeping Department			Food & Beverage	Personnel Department	Marketing Department	Engineering Department	Accounting Department	Total
	Room	Telephone	Laundry						
Salary	Rp940,200,000	Rp79,800,000	Rp214,000,000	Rp678,040,400	Rp649,046,612	Rp375,876,688	Rp575,225,300	Rp680,685,000	Rp4,192,874,000
Uniform	Rp15,600,000	Rp642,000	Rp625,000	Rp2,332,500	Rp1,015,980	Rp245,500	Rp244,500	Rp755,050	Rp21,460,530
Training	Rp1,312,500			Rp1,250,000	Rp4,500,000			Rp3,250,000	Rp10,312,500
Linen	Rp2,925,000			Rp1,003,000					Rp3,928,000
Laundry and Dry Cleaning			Rp54,307,728						Rp54,307,728
Cleaning Supplies	Rp25,501,200			Rp2,456,000					Rp27,957,200
Paper Supplies	Rp1,952,750			Rp1,256,850	Rp1,852,000	Rp2,568,000		Rp2,173,500	Rp9,803,100
Printing & stationary	Rp7,160,000	Rp1,440,000	Rp888,000	Rp11,255,450	Rp30,781,800	Rp2,255,000	Rp215,000	Rp2,258,000	Rp56,253,250
Decoration	Rp42,447,500			Rp12,689,000					Rp55,136,500
Guest Supplies	Rp11,900,000		Rp1,745,000	Rp7,218,000					Rp20,863,000
Travelling expense					Rp5,733,000	Rp4,256,000			Rp9,989,000
Ice				Rp32,850,000					Rp32,850,000
Music & Entertainment						Rp33,517,500			Rp33,517,500
Food material				Rp1,095,620,000					Rp1,095,620,000
Medical Expense	Rp9,650,160	Rp278,370	Rp1,391,850	Rp2,783,700	Rp1,855,800	Rp1,391,850	Rp2,783,700	Rp1,670,220	Rp21,805,650
Television	Rp54,380,000								Rp54,380,000
Social & sport activity					Rp5,566,000				Rp5,566,000
Newspaper	Rp4,562,500								Rp4,562,500
TV channel	Rp316,800,000								Rp316,800,000
promotion						Rp534,864,242			Rp534,864,242
Photography						Rp1,355,650			Rp1,355,650
Other Supplies							Rp2,855,000		Rp2,855,000
Kitchen Equipment				Rp314,000					Rp314,000
Swimming Pool	Rp13,655,450								Rp13,655,450
Wi-fi	Rp30,000,000								Rp30,000,000
Air Conditioner	Rp299,200,000								Rp299,200,000
Repairment of Sport & Leisure equip.							Rp3,283,000		Rp3,283,000
Lift							Rp25,850,500		Rp25,850,500
Water	Rp670,283,000		Rp451,850,020	Rp193,560,340			Rp218,149,800		Rp1,533,843,160
Electricity							Rp1,218,324,000		Rp1,218,324,000
Telephone					Rp102,985,850				Rp102,985,850
Ground & landscaping							Rp2,555,450		Rp2,555,450
Equipment depreciation								Rp644,850,000	Rp644,850,000
Building Depreciation								Rp1,254,585,000	Rp1,254,585,000
Total	Rp2,447,530,060	Rp82,160,370	Rp724,807,598	Rp2,042,629,240	Rp803,337,042	Rp956,330,430	Rp2,049,486,250	Rp2,590,226,770	Rp11,312,927,760

The data then processed in accordance to the steps of Activity Based Costing since the research is conducted through this kind of approach. There are three steps that should be followed in accomplishing this approach:

Step 1 Identify Costs and Activity Driver

Table 4.4
Cost Pool and Activity Driver

Cost Pool	Activity Driver
<i>Cost pool 1</i>	
Reservation	No. of room sold
Wash the linen	No. of room sold
Provide room facilities	No. of room sold
Check and fix the room facilities	No. of room sold
Provide the guest supplies	No. of room sold
Clean the room	No. of room sold
<i>Cost pool 2</i>	
Check-in, check out, payment	No. of guest
Open the door for guest	No. of guest
Pottering	No. of guest
Provide entertainment to guest	No. of guest
Handle guests' complain	No. of guest
Clean up the swimming pool	No. of guest
Serve breakfast	No. of guest
Clear up the corridor	No. of guest
<i>Cost pool 3</i>	
Billing activity	No. of bill

Source: internal data of hotel

Step 2 Assign resource cost to activities

Direct cost:

1. Linen cost is traced to wash the linen activity as Rp. 2,925,000.
2. Cleaning supplies cost is a cost to provide cleaning equipment such as: vacuum cleaner, windows cleaner, etc. This cost is traced to clean room activity as Rp. 25,501,200.

3. Paper supplies cost is a cost occurred as the need of paper for the room service and traced to welcoming guest activity as Rp. 1,952,750.
4. Printing and Stationary is a cost appeared to complete the operational activities such as printers, ink, books, etc. This cost is traced based on the needs of printing and stationary as Rp. 7,160,000.
5. Decoration cost. The cost as Rp. 42,447,500 is traced to check and fix room facilities activity.
6. Guest supplies are cost of supported supplies given to each guest such as towel, soaps, curtains, awning, etc. This cost is traced to provide the guest supplies activity as Rp. 11,900,000
7. Newspaper. This cost is for providing newspapers and magazines for the guests and traced to activity of giving information to guest based on the number of newspapers and magazines purchased as Rp. 4,562,500.
8. TV Channel. This cost is traced to room because it appears as an entertainment facility in each room as Rp. 316,800,000 classified in provide entertainment to guest activity.
9. Swimming pool cost is traced to clean the swimming pool activity as Rp. 13,655,450.

10. Training cost is traced to each activity as Rp. 87,500 (Rp. 1,312,500: 15 activities) because the training is used to improve the employees' skill to serve the customer.
11. Medical expense is a cost appeared in case the employees are ill. This cost is traced to each activity based on the numbers of employee. As Rp. 92,790 is traced to each employee (Rp. 9,650,160:104 employee).
12. Television cost is a cost of providing the television for each room. Thus, as Rp. 54,380,000 is traced to provide the room facilities.
13. Wi-fi cost as Rp. 30,000,000 is traced to provide entertainment to guest activity since it allows the customers to browse the information.
14. Air conditioner cost is a cost to provide the air conditioner for each room. This cost is traced to provide room facilities activity as Rp. 299,200,000.
15. Water cost is a cost appeared to supply the water in each room. This cost is traced to provide the facilities activity as Rp. 670,283,000 since the water is used to support the room facilities.
16. Salary cost. The cost of salary is allocated based on the employees' salary. The calculation of salary for each activity can be seen in the table below:

Table 4.5
Cost Allocation for Salary

Activities	No. of employee	Cost
Welcoming guest activity		
Reservation	6	64,800,000
Check-in, check-out and payment	12	144,000,000
Guest service activity		
Open the door for guest	6	46,800,000
Pottering	6	46,800,000
Provide entertainment to guest	3	27,000,000
Handle guests' complain	2	19,200,000
Clean up the swimming pool	3	21,600,000
Room maintenance activity		
Provide room facilities	14	117,600,000
Check and fix the room facilities	4	33,600,000
Provide the guest supplies	5	42,000,000
Clean the room	7	54,600,000
Wash the linen	12	108,000,000
Room service activity		
Serve breakfast	12	129,600,000
Clear up the corridor	6	23,400,000
Billing activity	6	61,200,000
Total	104	940,200,000

Source: Internal data of hotel

17. Uniform cost. This cost as Rp. 15,600,000 is traced to each activity based on the total amount of employee because all employee use uniform while working. The allocation of uniform cost is shown in table 4.6 below:

Table 4.6
Cost Allocation for Uniform

Activities	No. of employee	Cost
Welcoming guest activity		
Reservation	6	900,000
Check-in, check-out and payment	12	1,800,000
Guest service activity		
Open the door for guest	6	900,000
Pottering	6	900,000
Provide entertainment to guest	3	450,000
Handle guests' complain	2	300,000
Clean up the swimming pool	3	450,000
Room maintenance activity		
Provide room facilities	14	2,100,000
Check and fix the room facilities	4	600,000
Provide the guest supplies	5	750,000
Clean the room	7	1,050,000
Wash the linen	12	1,800,000
Room service activity		
Serve breakfast	12	1,800,000
Clear up the corridor	6	900,000
Billing activity		
	6	900,000
Total	104	15,600,000

Source: Internal data of hotel

After tracing each cost to the activity, the cost then accumulated to get the total cost per activity. The amount of total cost for each activity can be seen in table 4.7 below:

Table 4.7
Total cost per activity

Activities	Cost
Welcoming guest activity	
Reservation	Rp66,344,240
Check-in, check-out and payment	Rp156,113,730
Total	Rp222,457,970
Guest service activity	
Open the door for guest	Rp48,344,240
Pottering	Rp48,344,240
Provide entertainment to guest	Rp379,178,370
Handle guests' complain	Rp19,773,080
Clean up the swimming pool	Rp36,071,320
Total	Rp531,711,250
Room maintenance activity	
Provide room facilities	Rp1,144,949,560
Check and fix the room facilities	Rp77,106,160
Provide the guest supplies	Rp55,201,450
Clean the room	Rp81,888,230
Wash the linen	Rp113,925,980
Total	Rp1,473,071,380
Room service activity	
Serve breakfast	Rp132,600,980
Clear up the corridor	Rp24,944,240
Total	Rp157,545,220
Billing activity	Rp62,744,240
Total	Rp2,447,530,060

Source: Internal data of hotel (see appendix)

Step 3 Assign activity costs to cost objects

To assign the activity cost to the cost object, we should group the activity based on its activity driver and list the cost of each activity. There are 3 activity drivers identified in this research; no. of room sold, no. of guest, and no. of bills. The calculation of cost based on each cost pool can be seen in Table 4.8 below:

Table 4.8
Cost Pool, Activity Driver and Cost

Cost Pool & Activity Driver	Cost
Cost pool 1 x No. of room sold	
Reservation	Rp66,344,240
Wash the linen	Rp113,925,980
Provide room facilities	Rp1,144,949,560
Check and fix the room facilities	Rp77,106,160
Provide the guest supplies	Rp55,201,450
Clean the room	Rp81,888,230
Total	Rp1,539,415,620
Cost pool 2 x No. of guest	
Check-in, check out, payment	Rp156,113,730
Open the door for guest	Rp48,344,240
Pottering	Rp48,344,240
Provide entertainment to guest	Rp379,178,370
Handle guests' complain	Rp19,773,080
Clean up the swimming pool	Rp36,071,320
Serve breakfast	Rp132,600,980
Clear up the corridor	Rp24,944,240
Total	Rp845,370,200
Cost pool 3 x No. of bills	
Billing activity	Rp62,744,240
Total	Rp62,744,240
Total Cost	Rp2,447,530,060

Source: Internal data of hotel

Table 4.9 below is the number of activity drivers in each type of customer:

Table 4.9
Activity Driver

Activity Driver	Individual	Group	Company	Total
No. of room sold	7,725	11,516	17,522	36,793
No. of guest	10,375	13,490	18,772	42,637
No. of bills		85	638	723

Source: Internal data of hotel

To analyze the cost of each customer segment, the cost pool rate should be calculated first. The cost pool rate is gotten by

dividing the total cost of each pool with the number of its activity driver. The calculation is as follow:

Table 4.10
Cost Pool Rate

Cost pool	Total cost pool (1)	Activity Driver (2)	Consumption Driver (3)	Cost pool Rate (4) = (1) : (3)
Cost pool 1	Rp1,539,415,620	No. of room sold	36,793	41,840
Cost pool 2	Rp845,370,200	No. of guest	42,637	19,827
Cost pool 3	Rp62,744,240	No. of bill	723	86,783

Source: Internal data of hotel

The amount of cost pool rate then is multiplied by the number of activity driver for each customer segment; individual, group and company.

Table 4.11
Cost per Customer

Description	Individual	Group	Company
Cost pool 1 x No. of room sold Rp. 41,840 x 7,725 Rp. 41,840 x 11,516 Rp. 41,840 x 17,522	Rp.323,214,000	Rp.481,829,440	Rp.733,120,480
Cost pool 2 x No. of guest Rp. 19,827 x 10,375 Rp. 19,827 x 13,490 Rp. 19,827 x 18,772	Rp.205,705,125	Rp.267,466,230	Rp.372,192,444
Cost pool 8 x No. of bills Rp. 86,783 x - Rp. 86,783 x 85 Rp. 86,783 x 638		Rp.7,376,555	Rp.55,367,554
Total	Rp.528,919,125	Rp.756,672,225	Rp.1,160,680,478

Source: Internal data of hotel

The income statement for each type of customers is then constructed as table 4.12 below:

Table 4.12
Customer Income Statement

Description	Customer		
	Individual	Group	Company
Revenues (at list price)	Rp.2,703,810,700	Rp. 5,298,361,450	Rp. 7,898,498,358
Price discount	-	Rp.529,836,145	Rp.789,849,836
Revenues (at actual price)	Rp. 2,703,810,700	Rp. 4,768,525,305	Rp. 7,108,648,522
Allocated cost			
<i>Individual</i>	Rp. 528,919,125		
<i>Group</i>		Rp. 756,672,225	
<i>Company</i>			Rp. 1,160,680,478
Customer income	Rp. 2,174,891,575	Rp. 4,011,853,080	Rp. 5,947,968,044
Relative profitability	80.44%	75.72%	75.30%

Source: Internal data of hotel

Based on the calculation above, the highest relative profitability is earned by individual customer segment with 80.44%.

4.3.5 Customer Profitability Analysis

Customer-Profitability Analysis is the reporting and analysis of revenues earned from customers and costs incurred to earn those revenues.

To classify each customer segment into the appropriate type of customer, we need to set the standard of cost and revenue used.

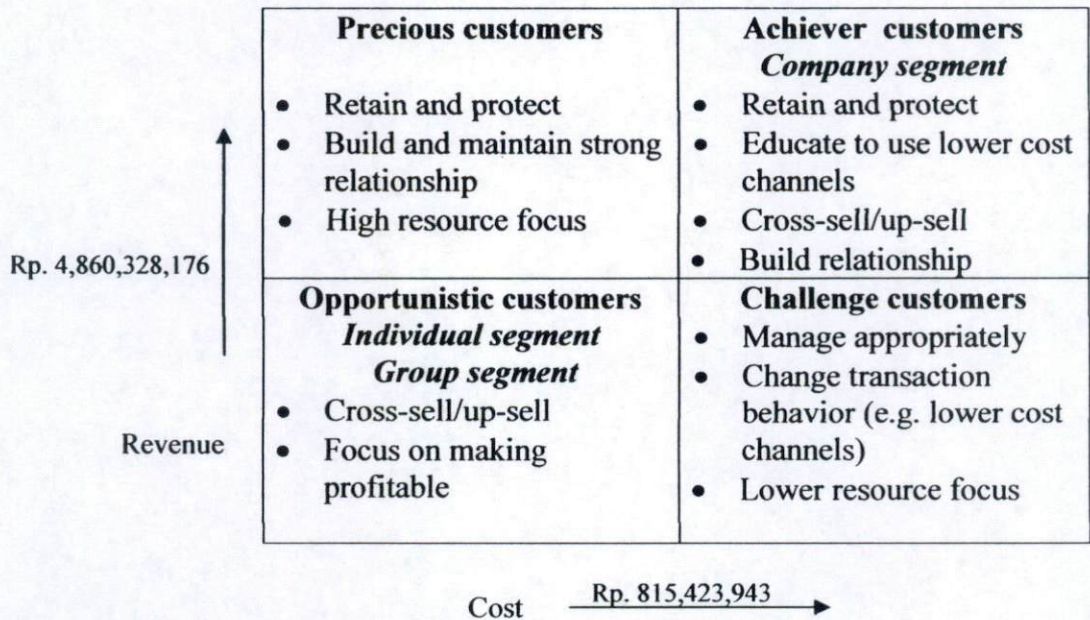
The calculations are as follow:

$$\begin{aligned}
 \text{Avg. Revenue} &= \frac{R1 + R2 + R3}{3} \\
 &= \frac{\text{Rp. 2,703,810,700} + \text{Rp. 4,768,525,305} + \text{Rp. 7,108,648,522}}{3} \\
 &= \text{Rp. 4,860,328,176}
 \end{aligned}$$

$$\begin{aligned}
 \text{Avg. Cost} &= \frac{C1 + C2 + C3}{3} \\
 &= \frac{\text{Rp. 528,919,125} + \text{Rp. 756,672,225} + \text{Rp. 1,160,680,478}}{3} \\
 &= \text{Rp. 815,423,943}
 \end{aligned}$$

Explanation:

R1	= Revenue of individual customer	C1	= Cost of individual
R2	= Revenue of group customer	C2	= Cost of Group
R3	= Revenue of company customer	C3	= Cost of company



Picture 4.1
Customer type

Source: format is adapted from CPA congress, 2004

4.3.6 Cost Management

Under activity based costing approach, the cost-to-serve for each customer segment has already identified. Based on its revenue and cost level some customer types are found; individual segment and group segment as an opportunistic customer who needs a low cost-to-serve and company segment classified as achiever customer who has the highest income but also requires the highest cost-to-serve.

By using the customer profitability analysis using activity based costing, hotel management can see both of profit earned from each customer segment and the cost used to gain that profit. Based on the analysis above, there are several activities noticed as non-value added which means an activity which brings zero or negative return and can be eliminated without impairing a process. The non-value added activities are as follow: open the door for guest and billing activity. The appropriate strategy should be taken to make the cost lower so the company can get a higher income and earn the competitive advantage in return.

There are several alternatives that can be taken by the management to reduce the non-value added activities, for example: the activity of opening door for guest requires 6 employees who need salary, uniform, training and medical cost with the total cost Rp. 48,344,240. To reduce the number of employee, one of the

alternatives is to develop an automatic door. It requires a high cost in the beginning, but it will earn a long-term profit for the hotel and improve the performance of the hotel.

The other non-value added activity is billing activity. The cost of this activity can be reduced by taking the alternative to develop an online payment. It will save the time and increase the efficiency and effectiveness of the payment system. This system can be developed together with the use of manual payment method. If the alternative is taken, it will save the cost as Rp. 62,744,240 per year, since there will be a reduction in the number of the employee.

List of value added and non-value added activities, and the cost management alternatives can be seen in table 4.13 below:

Table 4.13
Cost Management Summary

No	Activities	VA	NVA	Action taken to reduce NVA	Resources Reduction	Cost Reduction
1	Reservation	√				
2	Check-in, check-out, and payment	√				
3	Open the door for guest		√	Develop an automatic door	Employees hired	Salary: Rp.46,800,000 Uniform: Rp.900,000 Training: Rp.87,500 Medical: Rp.556,740
4	Pottering	√				
5	Provide entertainment to guest	√				
6	Handle guest's complain	√				
7	Clean up the swimming pool	√				
8	Provide room facilities	√				
9	Check and fix room facilities	√				
10	Provide the guest supplies	√				
11	Clean the room	√				
12	Wash the linen	√				
13	Serve breakfast	√				
14	Clear up the corridor	√				
15	Billing activity		√	Develop online payment	Employees hired	Salary: Rp.61,200,000 Uniform: Rp.900,000 Training: Rp.87,500 Medical: Rp.556,740

Source: internal data of hotel

CHAPTER V CONCLUSION

5.1 Conclusion

Based on the research conducted, there are several activities to customer identified in Pangeran Beach Hotel. Those are; welcoming guest activity which handles all administration process of guests, guest service activity which is aimed to maximize the customer satisfaction, room maintenance activity included cleaning up the room while the room booked or after the check-out process, and billing activity which is used for billing customer with indirect payment.

All customer segment; individual, group and company customer, contributed significant income to the hotel with the relative profitability up to 70%. Each customer segment then classified into several types of customer; company segment as achiever which contributes high amount of revenue and needs high cost-to-serve, individual and group segment as opportunistic customer having low revenue as well as low cost.

The customer profitability analysis using activity based costing in Pangeran Beach Hotel has successfully examined the customer cost-to-serve for each customer segment. The result allows the hotel management to identify the non-value added activity and which customer segment requires the high customer cost-to-serve, so that the management can set the strategy to manage the cost and improve its competitive advantage.

5.2 Research Limitation

In doing this research, there are several limitations that prevented the perfection of the result:

- 5.2.1. The cost used in this research is provided by the management of hotel without further inspection for the reliability of the data
- 5.2.2. The calculation of salaries and uniform cost to activities is based on the estimation since the actual rate of employee is not obtained
- 5.2.3. Since the hotel has not adopted the activity based costing approach yet, it will reduce the accuracy of customer profitability analysis

5.3 Recommendation

- 5.3.1 The hotel management should make a new strategy to lower the customer cost-to-serve in order to maximize the profit.
- 5.3.2 The next research should be conducted in other companies which have various market segments so the result of customer profitability analysis can be clearly seen.

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hotel pangeran beach

PADANG - INDONESIA

SURAT KETERANGAN

No : 037/PM-PBH/III/2011


Yang bertanda tangan dibawah ini, Management Hotel Pangeran Beach dengan ini menerangkan bahwa :

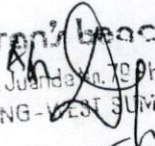
Nama : Silfia Anugrah
BP : 07153112
Jurusan : Akuntansi Internasional
Judul TA : Customer Profitability Analysis Using Activity Based Costing Approach to Gain Competitive Advantage in Hotel Industry; A Case Study of Pangeran Beach Hotel*

Telah melakukan penelitian Tugas Akhir tanggal 17 Februari – 18 Maret 2011

Demikianlah Surat Keterangan Penelitian ini dibuat untuk dapat dipergunakan sebagaimana mestinya.

Padang, 21 Maret 2011
Management,
HOTEL PANGERAN BEACH

 **pangeran beach hotel**
Jalan Ir. H. Juanda No. 79 Phone. 51333
PADANG - WEST SUMATERA


Hari Suwito
Personnel Manager

Appendix

Total cost per activity

Activities	Salary	Uniform	Training	Linen	Cleaning Supplies	Paper Supplies	Printing & Stationary	Decoration
Welcoming guest activity								
Reservation	Rp64.800.000	Rp900.000	Rp87.500					
Check-in, check-out and payment	Rp144.000.000	Rp1.800.000	Rp87.500			Rp1.952.750	Rp7.160.000	
Guest service activity								
Open the door for guest	Rp46.800.000	Rp900.000	Rp87.500					
Pottering	Rp46.800.000	Rp900.000	Rp87.500					
Provide entertainment to guest	Rp27.000.000	Rp450.000	Rp87.500					
Handle guests' complain	Rp19.200.000	Rp300.000	Rp87.500					
clean the swimming pool	Rp21.600.000	Rp450.000	Rp87.500					
Room maintenance activity								
Provide room facilities	Rp117.600.000	Rp2.100.000	Rp87.500					
Check and fix the room facilities	Rp33.600.000	Rp600.000	Rp87.500					Rp42.447.500
Provide the guest supplies	Rp42.000.000	Rp750.000	Rp87.500					
Clean the room	Rp54.600.000	Rp1.050.000	Rp87.500		Rp25.501.200			
Wash the linen	Rp108.000.000	Rp1.800.000	Rp87.500	Rp2.925.000				
Room service activity								
Serve breakfast	Rp129.600.000	Rp1.800.000	Rp87.500					
Clear up the corridor	Rp23.400.000	Rp900.000	Rp87.500					
Billing activity	Rp61.200.000	Rp900.000	Rp87.500					
Total	Rp940.200.000	Rp15.600.000	Rp1.312.500	Rp2.925.000	Rp25.501.200	Rp1.952.750	Rp7.160.000	Rp42.447.500

Appendix

Total cost per activity

Guest Supplies	Medical Expense	Television	Newspaper	Tv channel	Swimming Pool	Wi-fi	Air Conditioner	Water	Total
	Rp556.740								Rp66.344.240
	Rp1.113.480								Rp156.113.730
	Rp556.740								Rp48.344.240
	Rp556.740								Rp48.344.240
	Rp278.370		Rp4.562.500	Rp316.800.000		Rp30.000.000			Rp379.178.370
	Rp185.580								Rp19.773.080
	Rp278.370				Rp13.655.450				Rp36.071.320
	Rp1.299.060	Rp54.380.000					Rp299.200.000	Rp670.283.000	Rp1.144.949.560
	Rp371.160								Rp77.106.160
Rp11.900.000	Rp463.950								Rp55.201.450
	Rp649.530								Rp81.888.230
	Rp1.113.480								Rp113.925.980
	Rp1.113.480								Rp132.600.980
	Rp556.740								Rp24.944.240
	Rp556.740								Rp62.744.240
Rp11.900.000	Rp9.650.160	Rp54.380.000	Rp4.562.500	Rp316.800.000	Rp13.655.450	Rp30.000.000	Rp299.200.000	Rp670.283.000	Rp2.447.530.060