ANALYSIS OF THE DYNAMICS OF PROFITABILITY AND PROFIT MARGIN IN THE HOTEL INDUSTRY: PROBLEMS AND SOLUTIONS

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Abstract

This study analyses the dynamics of profitability and profit margin in hotel enterprises under conditions of economic transformation, and identifies the underlying problems and possible solutions. Practice shows that growing revenue in hotel enterprises does not automatically translate into higher profitability. Using the example of two hotel enterprises in the Andijan region of Uzbekistan for the period 2019–2025, the study reveals two distinct problems: "margin erosion," where a stable revenue is accompanied by a sharp decline in profit margin, and a "low-profitability growth" pattern, where rapid revenue growth is accompanied by extremely low profitability. The analysis demonstrates that both problems originate in weak control over costs and operational waste rather than in insufficient revenue. The study proposes cost control, operational waste reduction, and personnel qualification development as key solutions.

Keywords: profitability, profit margin, hotel industry, cost control, margin erosion, operational efficiency, economic transformation.

Introduction. Under conditions of economic transformation, the hotel industry has become one of the most dynamically developing branches of the service sector. However, the quantitative growth of hotel enterprises and their revenue does not always correspond to an improvement in profitability. In many hotel enterprises, profit margins decline even as revenue grows-a phenomenon that raises profitability management to the level of a pressing scientific and practical problem.

The relevance of the topic lies in the fact that profitability and profit margin are the ultimate indicators of a hotel enterprise's efficiency. Unlike revenue, which reflects only the scale of activity, profitability reflects how effectively that activity is converted into financial result. A one-sided focus on revenue growth, without attention to the profitability dynamics, may conceal a deterioration in the enterprise's real efficiency. The aim of this study is to analyze the dynamics of profitability and profit margin in hotel enterprises, to identify the underlying problems, and to propose solutions.

Methods. The study employed economic-statistical analysis, comparative analysis, and financial-coefficient analysis. Profitability was measured through the profit margin indicator, calculated as the ratio of net profit to net revenue. The dynamics of this indicator were traced over the period 2019-2025. The study objects were two hotel enterprises in the Andijan region-"Plaza Palace" LLC and "AGROTOUR Technovation" LLC-whose data were drawn from their financial statements. To identify the source of profitability problems, the profit margin was analysed together with the cost-intensity indicator (the ratio of cost to revenue).

Results. The analysis of profit margin dynamics revealed two fundamentally different problems in the two enterprises.

In "Plaza Palace" LLC, revenue remained relatively high and stable throughout the period, yet the profit margin, after reaching a high level in the early 2020s, declined sharply to a very low level (around 2 %) by the end of the period. This pattern represents "margin erosion"-a gradual loss of profitability despite stable revenue. Further analysis showed that the source of this erosion lay not in the cost of core services, which remained comparatively low, but in the growth of period expenses (administrative and selling costs) that were insufficiently controlled.

In "AGROTOUR Technovation" LLC, by contrast, revenue grew rapidly and substantially over the period, yet the profit margin remained extremely low (below 1 %) and continued to decline as revenue expanded. This "low-profitability growth" pattern is explained by a persistently high cost intensity, in which almost the entire revenue is consumed by cost, leaving virtually no profit. This corresponds to the "wasteful system" phenomenon in Lean theory.

The comparison of the two enterprises shows that, in both cases, the profitability problem originates not in insufficient revenue but in weak control over costs and operational waste.

Discussion. The results confirm that profitability, rather than revenue, is the decisive measure of hotel efficiency, and that its decline stems primarily from cost-related factors. This finding is consistent with the broader literature on hotel profitability determinants. Studies of Mediterranean hotels have shown that more productive firms tend to be more profitable because they manage their costs better, and that higher debt levels raise borrowing costs and consequently reduce profitability (Kapiki and others, as discussed in Mediterranean profitability research). Industry analyses likewise emphasize that disciplined cost control, rather than rate growth alone, is the primary lever for protecting profit margins, particularly when demand softens and costs rise. The theoretical contribution of this study lies in distinguishing two qualitatively different profitability problems-"margin erosion" and "low-profitability growth"-that a purely revenue-based analysis would fail to detect. This differentiation is important because each problem requires a different managerial response: the first calls for the control of period expenses, while the second requires a fundamental reduction of operational waste.

On the basis of this analysis, the study proposes three groups of solutions. First, strengthening cost control-particularly of period expenses-through budgeting and expenditure monitoring, which is especially relevant for the "margin erosion" pattern. Second, reducing operational waste through Lean management tools, which is essential for the "low-profitability growth" pattern where cost intensity is critically high. Third, developing personnel qualifications, since a skilled and stable workforce reduces service errors and operational waste and thereby supports profitability; in this respect, the systematic professional development of employees plays an important role (Teshaboyev & Umnova, 2021). The combination of these measures enables hotel enterprises to convert revenue into profit more effectively.

Conclusion. The study demonstrated that the profitability and profit margin dynamics of hotel enterprises reveal problems that revenue analysis alone cannot detect. Two distinct patterns-"margin erosion" and "low-profitability growth" - were identified, both rooted in weak cost and waste control rather than in insufficient revenue. The main conclusion is that improving hotel profitability requires shifting the managerial focus from revenue growth to cost and waste management, supported by personnel qualification development. Future research should test these findings on a larger sample of hotels and quantify the effect of the proposed solutions on profitability.

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