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Event budgeting and financial health

Learning objectives

On completion of this chapter, you will be able to:

- Appreciate the importance of budgets and explain the budgeting process in an event management context.
- Explain the influence of cash flow considerations and identify key strategies for addressing cash flow problems.
- Identify and explain the key considerations associated with the development and application of income strategies.
- Explain how financial statements and financial ratios can be utilized in an events context.
- Recognise the benefits of financial analysis and explain its application to financial decision making.
- Understand the concept of financial health and the key determinants of the financial health of an events enterprise.

A critical determinant of successful event management is the capacity to predict and monitor event costs and revenues. Cost blow-outs or lower than expected revenues can significantly impact an event's financial performance, turn an anticipated profit into a loss, create major cash flow problems, and impair the financial health of an events business.



What event costs do you think are more likely to increase unexpectedly?

The nature and importance of an event budget

While budgets can vary in terms of type and level of sophistication, the key purposes of any event budget are to:

- Forecast, monitor and facilitate the management of event costs and revenues.
- Provide quantifiable and useful financial objectives for the evaluation of financial performance.
- Establish early warning systems to alert event managers of potential financial problems.
- Generate a greater awareness of areas of financial uncertainty and vulnerability.
- Facilitate the planning of future events through a more informed understanding of event finances.

Even for experienced event managers, it's not uncommon for event costs to be far greater than originally anticipated, particularly when key aspects of the event have been adjusted or upgraded. And while event budgets have their limitations in terms of accurately and reliably forecasting future costs, they generally represent a simple and relatively effective planning and control mechanism. In terms of revenue, sluggish ticket sales, the withdrawal of sponsors, or poor performance with other revenue-raising strategies, can create serious financial problems that can be ameliorated through the development and utilization of a well-thought-out budget.



A budget seeks to provide accurate forecasts of future streams of revenue and expenditure. Which of these two elements would you think is the most difficult to accurately determine in an events context?

Wrathall and Gee (2011) note there are two types of budgets that are generally used in an event management context. These are:

- **Line-item budgets** that provides an estimation of all cost and revenue items for the overall event.
- **Program budgets** that are developed for specific programs or program elements. For example, an academic conference may have a special program for PhD students. Specific programs are isolated allowing for analysis of the financial aspects of these individual programs.

Consider this: When deciding on additional elements to include in your program ask below budgeting questions:

1. What is your event budget strategy? Will you use event management software?
Consider the key phases of event management:
 - a. Planning the event
 - b. Conducting the event
 - c. Evaluating the success of the event
2. What lessons were learnt from past event spending?
Were there areas that you overspent previously? Have you monitored the areas that needed more attention or higher budgets?
3. What are recent trends in budgeting?
Recent blogs stress the need to utilise event planning software and/or use cloud-based systems. Have you researched benefits and calculated monthly costs for using cloud-based systems?
4. What are your event goals and objectives?
Are the objectives linked with customer relationships; teambuilding or driving sales? Be clear about your SMART (Specific, Measurable, Actionable, Realistic and Timely) based goals
5. How well are you supported by your stakeholders?
Do you have partners such as media or sponsors to support you throughout the phases of event planning? Have you explored setting up partnerships and shared arrangements for utilising event software?
6. How customised is your budget to your event?
Each event has different needs. For example, charity events may attract higher promotional costs than team building events. Therefore, create budget sheets that cater for the event type.
7. Are there additional experiential and technology costs?
Some events may attract higher technology costs. Consider international exhibitions which attract global delegate markets.
8. What are your promotion costs?
How much will you invest in social media marketing and promotional tools? Specific tools attract a cost to conduct promotion by utilising one place for all, for example **hootsuite** (<https://www.hootsuite.com/solutions/social-marketing>)
9. Do you have an emergency fund?
10. Have you calculated the breakeven point and considered the return on investment?
Utilising the breakeven formula, calculate how many tickets you need to sell in order to break even. Use this formula to calculate the breakeven point:

At which point does revenue exceed costs?

$$\text{Breakeven number} = \frac{\text{Fixed Costs}}{\text{Contribution margin (or Price - Variable costs)}}$$

Setting your registration fee for conferences

When planning a conference, you need to decide on setting the registration fees. What criteria do you use to set the registration fees?

1. Calculate your expenses
2. Build your event profile so it becomes an attractive proposition
3. Consider what your target audience can afford to pay
4. Be aware of how many delegates you need to break even

Example

At a business panel dinner the minimum variable expense per person is \$60. This includes the registration fee and the food/beverage package. Tickets sell for \$100. The event owner needs to calculate the number required to attend the event in order to break even. Any extra attendees after that translate into a profit. Use the formula to calculate the breakeven point.

ITEM		Number of guests		
		80	97	100
Registration Fees	100	8000	9700	10000
FIXED COSTS				
Venue Hire		1000	1000	1000
Speaker transport		960	960	960
Stage		500	500	500
Audio Visual		1000	1000	1000
Marketing costs		270	270	270
Speaker gifts		150	150	150
Administration costs		0	0	0
Total fixed costs		3880	3880	3880
VARIABLE COSTS				
Food/Beverage package	55	4400	5335	5500
Registration	5	400	485	500
Total Variable Costs	60	4800	5820	6000
Total Costs		8680	9700	9880
Registration less Total Costs		-680	0	120

Table 5.1: Fixed and variable cost calculation example