

Essential Financial Techniques for Hospitality Managers

A Practical Approach

Second edition

Cathy Burgess

(G) Goodfellow Publishers Ltd

(G) Published by Goodfellow Publishers Limited,
Woodeaton, Oxford, OX3 9TJ
<http://www.goodfellowpublishers.com>

British Library Cataloguing in Publication Data: a catalogue record for
this title is available from the British Library.

Library of Congress Catalog Card Number: on file.

ISBN: 978-1-908999-98-6

First published 2010

This edition 2014

Copyright © Cathy Burgess 2010, 2014

All rights reserved. The text of this publication, or any part thereof,
may not be reproduced or transmitted in any form or by any means,
electronic or mechanical, including photocopying, recording, storage in
an information retrieval system, or otherwise, without prior permission
of the publisher or under licence from the Copyright Licensing
Agency Limited. Further details of such licences (for reprographic
reproduction) may be obtained from the Copyright Licensing Agency
Limited, of Saffron House, 6–10 Kirby Street, London EC1N 8TS.



Design and typesetting by P.K. McBride, www.macbride.org.uk

Cover design by Cylinder

Contents

Foreword	v
Preface	vi
1 Introduction to hospitality control	1
So, what is a business?	2
About hospitality and tourism	2
Overall features of the industry	3
Features of the different sectors	4
The importance of control	9
Attitudes to theft	11
Stakeholders	12
Organisational structures	13
Financial control or accounts department	14
2 Understanding management reports	19
Financial reports	20
Profit & Loss Report	21
Performance analysis	27
The Balance Sheet	30
Adjustments to Accounts	33
3 Managing revenue	39
Features of different sectors	40
Identifying areas for action	43
Improving revenue controls	49
Control processes for different sectors	50
Revenue management	53
Improving sales generally	55
4 Managing costs	63
Types of costs	64
Ratios	67
Raw materials	69
Ways of improving GPs	71
Labour	73
Other costs	79
5 Pricing to achieve profit	85
Different types of pricing	86
Marketer's method of pricing	93
Fitting the methods together	94
Breaking even	100
6 Forecasting	105
Why bother?	106
What is forecasting?	107

Timing	109
Forecasting new products	115
Budgets	116
Strategic planning	118
Forecasting cash	118
7 Managing cash and stocks	123
Cash	124
Bank accounts	130
Paying bills (creditors)	133
Stock management	134
Purchasing	136
Storage	140
8 Planning and monitoring usage	149
Features of raw materials	150
Portion and usage control	152
Recipe costing	154
Standard costing	155
Standard costing for payroll	160
Sales variances	161
9 Using spreadsheets for management tasks	163
The basics of spreadsheet design	164
Spreadsheet exercise	167
Using spreadsheets for different tasks	171
Presenting results	177
More practice on spreadsheets	184
10 Being part of a company	185
Ownership of business	186
Aspects of company accounts	190
Shares	195
Share ownership	199
Franchising and management contracts	200
11 Conclusions and developing your skills	203
Key themes	204
Anticipating trends	205
Developing your financial skills further	206
Developing your skills	209
Looking after your staff	211
Glossary	212
Further resources	213
Answers to the Exercises	219
Index	237

Foreword

Hospitality is a 'people business' - but it's also a money business. No matter what sector you work in, if we don't effectively manage our revenues, costs and profits then we won't survive in an increasingly competitive and complex market place. Managing the money isn't just the responsibility of the finance department - all managers have to take financial responsibility for their area of the operation, whether it's staff, beds, food stocks or cash.

It's not difficult - in fact most of it is common sense combined with knowledge of 'the business' - and any manager can make a difference. By leading from the top and setting a good example, managers can have a significant impact on driving forward revenues and building the bottom line, for the benefit of both their career and, of course, their organization.

There is no doubt that this book can help you to become a better manager and I recommend this text for all managers in hospitality who need to manage the business finances responsibly and effectively.

Paul Dukes, FCA,

Chairman of the Hospitality Professionals Association, hospa.org.

Preface

What's the point of this book?

Well, it's about money! Whether you're working for a large corporation operating in many countries or helping on a takeaway stall, if you don't manage effectively then you'll lose money. You, as an individual, are important because your actions as a manager or supervisor determine how your staff will behave. A pound saved (or made in revenue) on one transaction multiplies to a vast sum when you consider the number of transactions in a day, and repeated time after time. Thirty pounds a day is almost £11,000 a year, enough to pay your wages for several months.

The hospitality and tourism industry is enormous, employing around two million people in the UK (about 7% of the UK workforce, and growing) in its many different sectors, all of which have their own individual characteristics. The skills you acquire in one sector can be used in another, so although you may think, for instance, that hotels are 'different', many of the features are similar. This is particularly true of the finance area, as all key activities are transferable and have an impact on the money aspect in one way or another.

Also, many financial aspects of the hospitality business are common to all industries. For the successful management of any type of business (including those that are non-profit-making) you need to address three main areas:

- Improving revenue
- Reducing costs
- Caring for assets.

Purpose

The purpose of this book is to give you an understanding of how your actions can affect the management of the business and the financial consequences of these actions. We will look at the different features of the various sectors, and identify many of the areas in which you can help improve efficiency and hence the financial results. You will develop an

understanding of the basic principles of financial control and how it can affect the organisation as a whole.

You do need ‘accounts’ to help you do this. However, this isn’t an ‘accounting’ book. Although we will be looking at some of the accounting statements the approach throughout is to look at management first and then numbers second. You don’t need to be good at number-crunching to be an effective manager - as long as you can use a (simple) calculator then you will be able to work through some of the examples that are given in the different chapters. What is important is that you are able to understand the effect of your actions and those of others on the finances of the organisation.

So - the book is more of a manual that you’ll be able to use both now and in the future. By the end of it, therefore, you should be able to:

- Understand why the ‘bottom-line’ is important
- Use some of the main techniques to control your area of business
- Calculate the effect of your actions in a range of real-life scenarios.

Structure

This book is divided into 11 chapters. The first two look at the importance of control, the basic accounting statements and how the statements are put together. Chapters 3 and 4 focus on the management of revenue and costs. Chapter 5 looks at pricing issues and Chapter 6 deals with forecasting future levels of business, which is crucial to planning your activities.

Managing cash and stocks appear next – two of the most susceptible areas for losses – and this leads in to standard costing which is a technique essential to sectors with exact recipe specifications, such as airline catering. Chapter 9 shows how you can utilise simple spreadsheets to help you perform all these tasks more easily. Chapter 10 then looks outside the unit and gives you an insight into how it relates to the ‘bigger picture’ of the whole organisation, and why different types of company structure might be relevant to you. The final chapter summarises the book, gives a brief introduction to forecasting future trends and then suggests some resources that could help you further develop your skills.

Approach

The approach is very pragmatic and ‘hands-on’ and includes some useful tips. You will see lots of real-life examples from a variety of industry sectors and each section will have some exercises to practise so that you know how to use the different techniques. There are answers to these exercises at the end of the book.

We assume that you are working, even if only a few hours a week, so you’ll also have chance to go and find out how things operate in your workplace and what makes your business function effectively (or not!). If you aren’t in employment then please use a facility you know – your local pub or cafe will do fine. The key word throughout is control.

At the end of the book is a reading list to help you find out more about different areas. Some of these are financially-based, others focus on other disciplines or specific sectors. You will also see a list of on-line resources, and don’t forget too that industry journals can be really helpful (e.g. *Caterer and Hotelkeeper* and *Hospitality*) in providing you with up-to-date industry practice and ideas about what is happening elsewhere in your own and other sectors.

Acknowledgements

With thanks to Allen, Rachel, Vicky and Tim for all their patience and support, and thanks to everyone from the industry who gave their assistance.