

Profit Planning

for hospitality and tourism

3rd revised and extended edition

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(G) **Goodfellow Publishers Ltd**



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: 978-1-908999-62-7

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

Cover design by Cylinder, www.cylindermedia.com

*With love to my daughter Samantha 'Sam' Kate
and
in memory of my beloved Elaine*

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Preface to the third edition

The purpose of this book is to provide hospitality and tourism professionals and students of hospitality and tourism management with a practical guide to the application of key managerial accounting techniques in planning, controlling and improving profitability at the business property level – the cutting edge of routine business decision making. Readership includes practicing managers, entrepreneurs, accountants and financial controllers engaged in the hospitality and tourism sectors; particularly those offering rooms and spatial-related (intangible) services found in hotels and tourist/visitor attractions and the more product-related (tangible) food and beverage services, found in restaurant, bistro, café and gastro-pub type establishments.

Many financially-related publications available to managers and accountants tend to focus on the theoretical areas of accounting and financial management, whereas this book emphasises how to apply managerial accounting techniques in practical, day-to-day, profit management decisions. The content here contains concise explanations and illustrations in the context of live business situations using industry-specific examples. In addition, hotel, restaurant and visitor attraction examples used in this book can be related and easily adapted to smaller independent businesses, such as private hotels, bed and breakfast establishments and pubs, clubs and country inns.

Revisions for this 3rd edition include extensive chapter restructuring and additional new research and developments applicable to practitioners operating at, or responsible for, hospitality and tourism-related services at the property level. Major additions include new chapters on the *profit planning framework*, developed and implemented for a number of independent and international hospitality and tourism organisations; *comparing & benchmarking operating results* for monitoring performance; and *customer profitability analysis* for identifying customer profiles in terms of profit contributors and loss-makers.

I would like to acknowledge the support given to me by a number of people. First, colleagues who generously contributed three of the chapters: Cathy Burgess: Oxford Brookes University, Chapter 11 *Budgets and forecasting*; Dr Vira Krakhmal: The Open University, Chapter 12 *Developing customer profitability analysis*; Dr Tracy Jones: University of Gloucestershire, Chapter 13 *Getting the information we need*. Second, Thanks to Mark Dickens of TRI Hospitality Consulting for his comments and suggestions on Chapter 4: *Comparing and benchmarking performance*. Third, I would like to acknowledge the work of Prof Richard Kotas, formerly of the University of Surrey, who introduced many innovations into hospitality accounting including the concepts of ‘business

orientation' and 'profit sensitivity analysis'. Also, thanks go to Prof John O'Connor, Professor Emeritus at Oxford Brookes University, who initially persuaded me to write this book and to Norah for hours of painstaking proofreading. Finally, my thanks go to Tim Goodfellow and Sally North of Goodfellow Publishers for their support and encouragement in preparing this new revised edition.

My single wish is for readers to find this book an accessible and practical aid to profit planning.

Peter Harris, 11th July, 2011

Preface to the third 'extended' edition

The essence of this additional section to the third extended edition of this book is to facilitate the introduction of a quantitative approach to analysing, estimating and predicting operating costs at the sharp end of hotel and restaurant business activities - the property level. The purpose of the Appendix is to stimulate experienced, up-and-coming and recently qualified professionals to explore and complement the typically traditional cost analysis methods with the inclusion of somewhat more objective analytical approaches.

As readers will be aware, a major thrust of the content is to encourage and enable managers and financial controllers to engage with practical marginal accounting information on a routine, day-to-day basis. The arguments are powerful to do so, as managers are continually assessing opportunities and alternatives encompassing pricing decisions, competitive bidding, new business development and transaction negotiation; all of which are influenced by the way costs – relevant marginal costs - react to these kinds of decisions.

By repeatedly side-stepping or ignoring the importance of relevant costs for routine, day-to-day, transactions – where lost margins lie – managers can unintentionally drift back to the past, evoking the *busy fool's* syndrome, by sleep-walking into driving volume rather than consciously generating profitable revenue.

Accountants and financial controllers can do more to help managers understand new and evolving cost relationships in their properties and this is the primary purpose of the Appendix – the intension is to complement the content of *Chapter 5: Practical cost behaviour for decisions* with a step-by-step approach to using quantitative analysis for cost estimation and prediction, all possible with the assistance of widely available computer software packages, such as Microsoft Excel.

Peter Harris, 1st February, 2013