Goals For Financial Management
- Have planning and control tools in place
- Prevent business failure
- Develop strategies for growth and longevity
- Increase owners/shareholder wealth
Five Causes of Failure for F & B Operators

1. Lack of experience in line of business
2. Lack of Managerial Experience
3. Over-concentration of Experience by Specialty
4. Incompetence of Management
5. Inadequate Cash Budgeting and Reserves

Types of Budgets

• Long term, short term, capital, cash
• What types of budgets are we most concerned with as F & B operators?

Budget Terminology

• Pro forma: "as a matter of form", used to describe accounting statements/conclusions that are based upon assumed or anticipated projections.
• Operating budget: plan estimating amount of sales income to be generated & associated expenses. What value are we creating for our customers, what is the cost?
Types of Budgets

- Top Down: developed at upper level of firm, lower levels "receive" budget
- Bottom-up: developed at unit level, "rolled up" the organization
- Zero-based: Analyze all activities and ask: are we creating value, what is the cost of each activity?

Role of Budgeting

- Help to establish centers of responsibility
- Produce clear identifiable goals
- Help to protect assets
- Conflict producers

Budget Development Process

- 1. Develop Sales Forecast(s)
- 2. Profit Requirements Established
- 3. Cost Projections For Value Activities Developed
Sales Forecasting Techniques
- Separate breakouts for various outlets (Why?)
- Average check method is most common
- Examine sales histories of existing units or competition
- Examine national averages by market segment

Forecasting by Average Check
- # of guests X # of seats X # of table turns X occupancy % X days open in period X average check amount
- This brings you to a starting point only!

Reasons for Increasing The Forecast
- Anticipated selling price increases
- Increased production/service capacity
- Lower cost of production
Why Use Sales Histories?
- Allows for trend analysis
- May highlight seasonal fluctuations
- Identify business cycles in given market and segment

Management Perspective: budgets are constant reminders of:
- Sales Income Projections
- Allowable Expenses
- Goals of The Firm
- What does management do if sales are low, or if expenses exceed planned levels?

Current Factors in Budget Development
- Gov't Public: legislation, taxation policies
- Social Factors
- Competition or Product Substitutes
- Weather patterns
- Local and/or global events
Economic Factors in Budget Development

- Effects of Inflation: Price/value issues
- Trade Down consumer mentality
- Trade Out consumer mentality
- Derived Demand: based on estimated room sales, or major environmental events

Determining Profit Requirements

- Traditional method: Profit = Sale Income - Expenses
- Profit as a Cost Method: Sale Income - Required Profit = Allowable Expenses