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Revisiting hospitality and tourism operations: fresh insights

Understand your business and you understand accounting

Before engaging directly with profit planning let's briefly pause, step back and review our perspective of hospitality and tourism operations.

The stated intension here is to provide hospitality and tourism professionals and others with a practitioner guide. The purpose of the guide is to show how to use relevant accounting techniques for profit planning decisions at the business property level – the cutting-edge of routine, day-to-day, decision making.

However, businesses are not all the same and should not be treated so. Different kinds of industries and enterprises contain their own features and attributes. As part of the service sector, hospitality and tourism undertakings provide a range of products and services which ultimately reflect their own particular industry characteristics and context. Therefore, with this in mind, using accounting techniques effectively to inform profit planning decisions in hospitality and tourism undertakings demands:

- ◆ A working knowledge of the operating process relating to the products and services on offer.
- ◆ An understanding of applicable accounting techniques for profit planning decisions.

As we shall see in subsequent chapters, there are practical management accounting techniques available to improve financial information for making profit planning decisions. If we are to take full advantage of the accounting techniques here, it is essential to get to grips and embrace the nature of hospitality and tourism operations by consciously engaging with:

- ◆ The types of products and services offered by the sector.
- ◆ The kinds of activities encapsulated in the products and services.

Once the key features are recognised and acknowledged, appropriate profit planning techniques can be selected and adapted to suit the particular business

scenario under consideration. However, operating at the commercial cutting-edge can sometimes obscure the bigger picture of a business entity as a whole - so let's briefly revisit and reassess our perception of hospitality and tourism operations.

Note: This chapter is not intended as a basic introduction to operations, but the chance to review our understanding of hospitality and tourism products and services in relation to making better routine financial decisions.

Hospitality operations

The most common activities found in the hospitality sector broadly relate to the provision of room, food and beverage services. Across the hospitality business spectrum incorporating B&Bs, hostels, hotels, motels, student residences, clubs, pubs, restaurants, cafes, bars and more, each entity comprises one or more of the room, food and beverage activities, with some comprising all three.

One type of hospitality entity which normally combines all three rooms, food and beverage activities in a single location (under-one-roof) is represented by full-service hotels. Therefore, in order to reassess our perception of the hospitality product, a full-service hotel context can be used as a means to revisit and reflect upon the wider hospitality business.

Hotels and households

Because of similarities in the basic concept of providing food and shelter, operating a hotel has been compared to running a domestic household. With each providing sleeping accommodation, food and refreshment, hotel operations are sometimes seen as an extension of home management; at first glance, an understandable and arguably logical observation.

However, on closer examination it becomes clear this is a flawed assessment which not only exposes a lack of understanding of the nature of hotel and household management, but also a naivety about the demands of the business world. Like other businesses, hotels are commercial enterprises operating in a competitive environment and, as with other business undertakings, subject to the subtleties and complexities of economic and market forces.

Hotels compete with one another, and other types of businesses, in order to attract consumer spending and gain market share. To maintain market position - or even survive - hoteliers must constantly innovate, develop and improve their products and services. They must also keep abreast of technical and managerial developments in order to improve efficiency and remain competitive.

Therefore, whilst at first sight hotels have parallels with the domestic household, in reality they are firmly locked into the competitive commercial

world where success or failure rests largely on technical, business and managerial skills.

Note: Perhaps when compared with some other industries, part of the relatively sluggish pace of development in professional hotels operations and business management hotels can be attributed to this misconceived analogy between households and hotels.

A particularly significant feature of hotels is, by incorporating room, food and beverage services under-one-roof, a hotel encapsulates three distinct kinds of business activity in a single arena, namely *service*, *production* and *retail* activities, depicted in Figure 1.1. Often not fully recognised, these discrete activities have significant implications on managing the profit and the profitability of businesses and, as such, are worth reflecting upon.

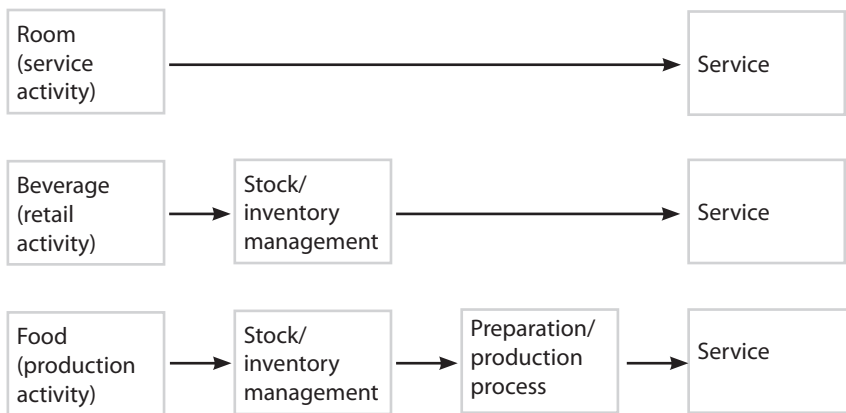


Figure 1.1: Hotel property operations showing key activities and associated elements

Room-letting activity

The provision of rooms constitutes a ‘near pure’ intangible service industry product, shown in Figure 1.1. In essence, letting a hotel bedroom represents the sale (rental) of space over time.

When a guest checks into the hotel, spends the night and checks out the next morning:

- ◆ There is no tangible product purchase involved and the guest leaves with only a memory of the experience.
- ◆ The guest can touch the room itself in terms of the wall, furniture and guest supplies (toiletries etc.), but cannot touch the ‘room-let’ service product itself.

Therefore, a room-let is comparable to an airline reservation where a passenger rents a seat for the duration of a flight; car rental or a visit to the doctor; in each case the essence of the product itself is intangible.