

# Essential Financial Techniques for Hospitality Managers

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# 1

# Introduction to hospitality control

- Hospitality and tourism
- Features of the industry
- Theft
- Stakeholders
- Organisation
- Accounts



## Introduction

In this first chapter we will introduce the concept of 'control' and hospitality in general. We'll also look at the function of the financial control office where some of the control processes take place. As you'll see as we work through further chapters, much of control happens in the operating departments – so control is a business-wide function, not just an accounting one.

By the end of this chapter you should be able to:

- Understand the basic approach of this book
- Define what a business is and the main reason for control
- Describe the main features of the different sectors of the industry
- Describe the various activities of the financial control office.

## So, what is a business?

We use the word 'business' here to mean any type of hospitality or tourism operation, whether profit-making or not. Three definitions of a business are:

- An industrial or commercial concern which exists to have dealings in the manufacture or purchase of goods for sale or the sale of a service
- An organisation which invests in buildings and equipment and pays people to work in order to make more profit for the owners
- As above but one which makes money in order to fulfil some type of charitable purpose.

These have been put together from a variety of sources but do give a broad outline of what a business is about. To decide which of these three is most appropriate for your area we need to look in more detail at the characteristics of the different sectors. But before that, let's look at the industry as a whole.

## About hospitality and tourism

We have taken the broadest definition of hospitality, including not just hotels and catering but also tourism and leisure.

The hospitality and tourism industry is estimated to be worth about £110 billion annually to the UK economy (British Hospitality Association *Hospitality Handbook 2009*, see the BHA website). It employs about 7% of

the workforce which is about 2 million people. In terms of government we are looked after by the Department for Culture, Media and Sport (DCMS) although there's input from the Department for Business Innovation and Skills (BSI) and others as well.

The Institute of Hospitality (IoH), the British Hospitality Association (BHA) and People1st are all good sources of industry statistics. The 2009 BHA *Hospitality Handbook* says that there are about 263,000 outlets, divided principally into hotels (46,000, though a lot more are thought to be unregistered, for instance small bed-and-breakfast establishments), catering in education (34,500), pubs (50,000, down by 10% in 10 years) and restaurants, of which there are about 26,000 plus 30,000 cafes and takeaways.

Some years are very good for the business although when we have a national economic crisis (or world recession, terrorist attack, very bad summer weather, for instance) this can have a widespread impact. In these circumstances people may travel less both within and to the UK, and so don't spend as much money, which means businesses can't afford as many staff. This results in unemployment or shortened hours, which in turn makes staff less willing to spend their own money on meals, travel, entertainment and so on. The whole economy suffers if hospitality activity is down.

## Overall features of the industry

### Commercial versus non-commercial

The industry tends to be divided into two broad categories – commercial (hotels, restaurants, fast food, pubs, transport catering, clubs, cruise ships, outside catering, tour operators) and subsidised (hospitals, prisons, education, armed services). Commercial businesses need to persuade people to buy their products and, since this relies on disposable income, customers make choices as to where they will spend their money.

On the other hand, where there is a captive market (prison, factory, airline or school meals, for instance) then you need to keep your customers happy for different reasons, whilst operating within imposed financial constraints.

### Hours of operation

For many it's a 24-hour business which means that there are features and problems that don't affect many other types of industry, which may well operate on a five-day, 39-hour week and be closed on public holidays.

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