**Events Management: Principles & Practice, 4th Edition**

**Instructor’s Manual**

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**Chapter 6**

**Costing, Pricing and Capital in Events Industry**

**Chapter Overview**

This chapter will examine the accounting methods a company uses for its internal reporting and decision-making, in order to give event managers sufficient financial knowledge to manage the company. One of the most important aspects of management accounting is to provide the managers and board of directors of companies with information related to its costing. The reason why costing information is important is that it helps managers to understand and know what selling price would lead to a profit. The chapter will also explore the relationship between profit and investment expressed through a measure referred to as capital investment appraisal. Capital investment appraisal methods consider the rate of return, and they therefore overcome the main weakness of cost-oriented methods by focusing on profit and taking account of the investment necessary to generate that profit.

**Exercises and activities**

**Tips for Tutor**

1. **Ask each student to read following sections from the chapter 6, before coming to class.**

* Marginal and absorption costing
* Break-even analysis
* Explore Pricing Methods for events and festivals
* The role of Capital Investment decisions
* Investment Appraisal methods used in businesses

**Tips for Tutor**

It is best to begin the class by recapping the key points in the rational approaches to analysis of cost accounting that have already been covered in the chapter 6. In addition, highlight the challenges event industry over the next 5 years due to COVID-19 and event managers can respond to the immediate financial difficulties are facing businesses.

**Internet Resources**

1. These are internet and YouTube clips, we recommend you ask students to visit internet sites and YouTube clips and asking them to watch and read the material for classroom discussion.

* <https://www.youtube.com/watch?v=2B6CscRbK-c>

**Costs and Costing Techniques**

The different elements of costs are materials, labour and expenses. The elements of costs can broadly be put into two categories.

1. Fixed costs

2. Variable costs

Fixed cost are those which do not vary, but remain constant within a given period of time, inspite of fluctuations in production. The examples of fixed costs are rent, insurance charges, management salaries, etc. On the other hand, variable costs are those which vary in direct proportion to any change in the volume of output. The costs of direct material, direct wages etc, can be put into this category. The cost of a product can be ascertained by any of the following two costing techniques:

1. Absorption costing Technique

2. Marginal Costing Technique

Absorption costing technique is also termed as ''TRADITIONAL or FULL COST METHOD''. According to this method, the cost of a product is determined after considering both fixed and variable costs. The variable costs, such as those of direct materials, direct labour, etc. are directly charged to the products, while the fixed costs are approportioned on a suitable basis over different products, manufactured during a period. Thus, in the case of absorption costing, all costs are identified with the manufactured products.

Advantages of absorption costing:

It recognizes the importance of fixed costs in production. This method is accepted by Inland revenue, as stock is not undervalued. This method is always used to prepare financial accounts. When production remains constant, but sales fluctuate absorption costing will show less fluctuation in net profit. Unlike marginal costing, where fixed costs are agreed to change into variable cost, it is cost into the stock value, hence distorting stock valuation.

Disadvantages of absorption costing:

It assumes that prices are simply a function of costs. It does not take the account of demand. It includes past costs which may not be relevant to the pricing decision at hand. It does not provide information which aids decision-making in a rapidly changing market environment. As the manager's emphasis is on total cost, the cost-volume-profit relationship is ignored. The manager needs to use his intuition to make the decision.

* <http://www.youtube.com/watch?v=MyVfjVlQN00>

**Better corporate events, seminars and conferences business travel and hospitality trends by conference keynote speaker Patrick Dixon.**

Growth in corporate events will continue despite global warming concerns and issues about carbon footprint. Virtual companies still need to meet in corporate events, business units, senior teams for strategy, communicating vision building, managing change and forming corporate tribes. Client events and in-house conferences, workshops and seminars. Combined with client events and client meetings. Focussed, efficient business meetings. Need for variety and high standards unusual corporate venues eg cruise ships, discovery programmes linked to non-profit organisations. Impact on aviation, airlines, hotels, restaurants, travel agencies and event organisers. Comment by Futurist keynote conference speaker Patrick Dixon, <http://www.globalchange.com>

* <https://www.youtube.com/watch?v=lesWfViHqJQ&t=4s>

**It's a very lucrative business and almost recession-proof.**

But sport is being dealt a financial blow by the coronavirus. Major events have been cancelled or postponed for the first time in many years. From the Tokyo Olympic games to football matches; fields, arenas and stadiums will be empty for a long time. Athletes, organisations and thousands of people who work at sporting events are affected. Revenues from broadcasting deals, sponsorship contracts and match tickets are drying up.

The business model for many sports is under threat, and has to adapt to measures to counter covid-19. So, can sport survive the outbreak?

Presenter: Peter Dobbie

Guests

Kieran Maguire, Football Finance Lecturer at the University of Liverpool.

Patrick Mbiele Happi, Manager of retired Champion League footballer Samuel Eto.

Tancredi Palmeri, BeIN Sports Correspondent and former Presenter for UEFA.

* <https://www.youtube.com/watch?v=4ATT7ItvdD8&t=5>s

**How much does hosting a live event even COST?!"**

If you're curious about how to create & host a live workshop or event, an obvious question is "How much does hosting a live event even COST?!" After having hosted 3 conferences, several smaller workshops, and numerous intimate retreats, I've been able to identify how to run events in as LEAN of a way as possible - so my event can be profitable way easier and I don't have to stress out as much.

The truth is a lot of people spend a LOT of money on events and business conferences - It's not unheard of to spend $20K - $100K on an event. And it's fine! If you are charging a lot for event ticket prices, then you have the money to spend on the bells and whistles. For my Heart Behind Hustle LIVE Event in 2020 our ticket prices were kept low, we had 50 people we could hold at the event (ended up having 60 show up - we always oversell and have a plan for when we get more people), also if you are doing a hard pitch at the event, it also makes sense (we preferred to make this event more value-driven and less pitch heavy). This allows you to make money with a live event.

All of my business conferences have been profitable by at least 200% ROI because I am smart with where I put my money. I always aim to create the best experience while staying within my event budget so I can relax during the event and not feel so attached to getting sales at the event.

The biggest costs for an event are definitely the venue (a lot of other places I toured were $10K per DAY!) and audio/visual (A/V) costs for the event can be up there too if you don't shop around for the best/quality deal.

* <https://www.youtube.com/watch?v=sjr_F7KuXTU>

**Sponsoring major sporting events is a sound investment**

Investing in major sporting events has become increasingly popular amongst big companies and according to the VELUX Group, title sponsor of the VELUX EHF Champions League in men's handball and the 2013 CEV VELUX European Volleyball Championship, there are many reasons why serious sport sponsorship is a sound investment.

See and download more news videos, photos and press material at VELUX Media Centre at press.velux.com. Here, you can subscribe to VELUX news.

**Tips for Tutor**

* 1. Divide students into groups of four to five and instruct them to:

• Read Case Study 6.1: Leeds West Indian Virtual Carnival 2020

* Ask students to discuss and evaluate the capital costing of running Leeds West Indian Virtual Carnival 2020?
* Ask students to discuss advantages and disadvantages of absorption costing?

**Case Study 6.1: Leeds West Indian Virtual Carnival 2020**

The Leeds West Indian Carnival is an annual event celebrated in Leeds since the 1960s. The carnival is one of the oldest Caribbean carnivals in Europe. The carnival has created a multicultural spirit for people of all races and nationalities to attend the event during the August bank holiday each year since 1967. The event is held on the August Bank Holiday weekend from Sunday to Monday.

Originally the Leeds West Indian Carnival used to go into the city centre: that tradition changed during the 1980s. The carnival has outgrown the original concept and now it takes place around Chapeltown and Harehills.

Behind the colour and music of the carnival there is a deeper meaning rooted in the experiences of Caribbean people arriving in England around a time of great change in the late 1950s and early 1960s. So it was a search for identity, for community and belonging that led to the carnival being developed in the early 1960s in the area of Chapeltown and Harehills in Leeds. Due to Covid-19 Leeds West Indian Virtual Carnival was organised virtually, below is the outline programme for the 1st and 2nd day was streamed live on Facebook, Zoom and YouTube from the West Indian Centre on Monday 31 August 2020.

First day of the Leeds West Indian Virtual Carnival

The West Indian Centre had been set up especially for the virtual carnival and the winning King and Queen costumes from 2019 were on display.

The programme of events began at 12pm with soca music played by DJ Toro.

Members of AnonyMas, in official Virtual Carnival t-shirts, and the official event host Esta Yemaya opened the carnival around 12:12pm.

A video of RJC Dance Shack Out Juniors performing at the Prince and Princess show in 2017 was shown and was followed by a dance performance by AnonyMas troupe members.

At 12:35pm Faye Kenny from BoomChikaBoom led some interactive activities for children including dances and music making. Faye Kenny also read the children’s book ‘I Am Every Good Thing’ by Derrick Barnes.

DJ Toro returned just before 1pm and played soca music in-between pre-recorded videos.

The videos included clips of many shop and restaurant owners from Chapeltown talking about the Leeds West Indian Carnival. Among those taking part were Cantor’s, Dutch Pot, Kalabash, Chapeltown Stores, Maureen’s, and Sensation Barbers.

The 2nd day of the Leeds West Indian Virtual Carnival.

The day began with a virtual J’ouvert Morning at 7am.

DJ Godfather played Soca music over footage from a previous year’s J’ouvert Morning parade.

DJ Godfather continued the tradition of playing Big Drum and Fife music during J’ouvert Morning in remembrance of those that had passed away since the previous year’s carnival.

The virtual J’ouvert ended a little later than planned, around 9:15am which delayed the rest of the day’s schedule by around 15 minutes.

Leeds West Indian Carnival in average attracts around 80,000 people each year. They enjoy the mixture of local and international talent. This magical event was mixed with the wonderful smells of Caribbean cooking. In the afternoon over 100,000 people watches the street carnival procession.

One of the most essential developments within the Leeds West Indian Carnival is the economic impact of the carnival on the host community of Leeds. The carnival has a great economic impact on the local community: the revellers come from all parts of the country and as far as the Caribbean. Local businesses can gain substantial financial rewards during the carnival weekends. It is a great income generator for local businesses, and the local community benefits from the carnival festival well before the carnival weekend itself.

The festival has to try to work out the cost of each of their products. This is vital for them in setting their prices.

You are employed as an Event Organiser in the Events Department of Leeds West Indian Carnival. There is a small team of full-time staff in the Events Department which has been given the responsibility of organising the festival. You are heading up this team and will report to the Head of the Events Department.

As is usual in organising, planning and managing any major event, many organisations and individuals will be involved at some or all stages of the event – local officers of the council, local politicians, commercial organisations, outsourced services, emergency services, volunteers, local communities, commercial sponsors, etc.

When contemplating long-term costing and pricing strategies, event managers face two key questions:

1 How can managers develop standard approaches to all costing and pricing activities across the festival, while maintaining flexibility to satisfy local requirements?

2 What level of investment should be approved for human resources development?

**Tips for Tutor**

* 1. Divide students into groups of four to five and instruct them to:

• Read Case Study 6.2: Cost of Hiring a Stage

* Ask students to critically evaluate cashflow challenges that are facing events industry repercussion of COVID-19.
* Ask students to discuss the benefits of events budgeting for small event organisers?

**Case study 6.2:** **Cost of Hiring a Stage**

The figures are taken from SoundStage One, who provides stages to events and festivals organisers. The prices for larger stages are more expensive, because prices are being calculated accrding to each event or festival. The cost of larger stages is more due to transport and crew to install and remove stages than others normal events. SoundStage One states that prices are being charged according to time of the year and location of the event.

**Large stage: £7000 – £20,000 per event -Weekend cost excluding VAT**

**Medium stage: £2500 – £6000 per event-Weekend cost excluding VAT**

**Modular stage: From £15 per section-Weekend cost excluding VAT**

**Mobile stage: £700 – £3000 per day excluding VAT**

**Technical Packages for Sound and Lighting with a Stage**

SoundStage One provides technical packages according to specific requirements for th each event and festival based on number of performers and size of audience watching the performance. SoundStage One states that prices are being charged according to time of the year and location of the event.

Generic Type Packages for Events and Festivals

Technical Package for Large Scale Event: £5000 - £80000 excluding VAT

Technical Package for Medium: £1500 - £5000 excluding VAT

Technical Package for Small: £500 - £1500 excluding VAT

Source: Adapted from Soundstage one, http://www.soundstageone.co.uk/stage-hire-prices/[accessed 07/03/2021].

1. **Discussions questions**

**Question 1**

Discuss and analyse financial losses the event industry has suffered during Covid-19 and how businesses are going to overcome financial problems in the future?

**Question 2**

Discuss in class how events small and medium sized enterprises (SMEs) are going to manage cash flow during a period of crisis and evaluate how events and festivals organisers can reduce their variable and fixed costs for short and long-term?

**Question 5**

Explain and discuss the distinction between fixed and variable costs for event managers?

**Question 3**

Discuss and explain the importance of capital investment appraisal decisions. Critically evaluate the following three investment appraisal methods.

a Payback period.

b Internal rate of return.

c Net present value.