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Quantitative planning and control devices for the Rainbow Hotel, Great Falls, Montana

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QUANTITATIVE PLANNING AND CONTROL DEVICES

FOR THE RAINBOW HOTEL

GREAT FALLS, MONTANA

By

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I extend heartfelt appreciation to the many, many friends who have contributed to, assisted with, and supported this project. A very special thank you to my very special friend.

CHAPTER I

INTRODUCTION

Background Information

In June of 1980, the Rainbow Hotel agreed to cooperate with University of Montana, Master of Business Administration students in a mutually beneficial business analysis. The agreement was intended to provide students the opportunity to gain practical experience in the study and resolution of operational business problems. The Rainbow Hotel was to receive a comprehensive market analysis from which the management could base its operational strategies.

As research of the firm was conducted, the students noted that constructive contributions could be made by extending their research into additional aspects of the hotel's operations. When the market analysis was presented to the owners of the firm, the presentation included observations pertaining to personnel policies and operational planning and control procedures. It was suggested that these areas would lend themselves to additional research. The owners agreed, and inquired as to whether the MBA program students would be interested in continued involvement with the firm to conduct such research. Two research proposals were developed and approved by the hotel. One dealt with personnel policy, the second with quantitative management controls and planning techniques. This paper is a quantitative management controls and planning study.

Purpose of Project

The three techniques discussed, break-even analysis, ratio analysis, and development of pro forma statements, have been proven effective in a wide range of business activities, and are used by most large companies in the hotel/motel industry. The primary objective of this project was to explore the applicability of these quantitative operational and financial control devices to the Rainbow Hotel. Although the Rainbow is discussed extensively, it is thought that these techniques are applicable to other privately owned and operated hotels and motels.

Project Design and Methodology

To begin the project, the characteristics of the lodging industry, both in general, and in the Great Falls market area, were studied. Information was obtained on operational standards, performance, competitive environments, facility differences, management techniques, objectives, and organizational structure and dynamics. This information was solicited through correspondence with established companies within the industry, industry associations, and colleges and universities specializing in lodging curriculums. In addition, literature, publications, and statistics pertaining to hotel/motel management and performance were reviewed. Interviews were then conducted with local property owners, managers and Chamber of Commerce representatives. These activities provided an understanding of the environments in which hotels operate, and an appreciation of the operational techniques used by managers. This understanding and appreciation was then used to evaluate the characteristics of the Rainbow Hotel.

The study of the Rainbow began in July 1980. Information regarding operations was obtained through interviews with the owners, managers, and employees. In addition, services and accommodations were sampled by students and faculty interested in the project. Financial and performance data were provided by the hotel management.

The results of this research are reflected in the remaining chapters of this paper. The paper is divided into sections discussing: (a) review of the lodging industry, (b) overview of the Rainbow Hotel, (c) break-even analysis, ratio analysis, budgets and pro forma statements, and (d) summary and conclusions.

This report is not intended to be an exhaustive analysis of management control techniques, but only an introduction to three such techniques that may be useful to the Rainbow Hotel and similar properties. It is emphasized that the data and analyses contained in this paper have not been validated and are used primarily for demonstration purposes.

Limitations

The research and analysis of information contained in this report are subject to various constraints and limitations. For instance, a 1980 edition of Trends in the Hotel Industry, will not be available until the Fall of 1981. Consequently, much of the historical data used for performance comparisons were recorded in 1979 and published in 1980. Additionally, the data provided by the Rainbow Hotel was often insufficient to demonstrate each technique. Although the manager agreed, at one point, to provide financial statements, these did not become available. The information provided was extracted from bookkeeping records. Prior to the conclusion of this project, the manager functioning as a liaison between the hotel and the project left the firm. After that, additional data was unavailable. The information is useful, however, in demonstrating quantitative management tools.

CHAPTER II

REVIEW OF THE LODGING INDUSTRY

The innkeeping industry represents one of the oldest organized management activities in existence. Through history, the purpose of the public inn has changed and the services demanded by guests have exploded. Managers of inns have been adaptable to the technological and social changes that impact their operations. For this reason the innkeeping industry has continued to thrive although in a constantly changing form. The modern industry, too, can be expected to keep pace with advances in economic, social, and technological environments.

The lodging industry is closely related to human travel. Before travel itself existed as an industry in its own right, innkeepers provided for the needs of people on the move. As modes of travel and traffic patterns changed, so did the operations of the innkeeper. During the "Middle Ages," most travel was done on foot. A few travelers enjoyed the luxury of horse conveyance. In both cases, the highways of the period were rough, tiring and dangerous. During this segment of history, aware of their vulnerability, travelers sought overnight security at private residences along their routes. The demand for these services stimulated the profit (or at least the "cost recovery") incentive in home owners and hence the "stay for pay" industry was born.

The earliest inn offered little more than a secure shelter, a refuge from the highway. It did not take long, though, for innkeepers to realize that they could enhance their financial circumstances by providing food, drink, and a refreshing environment to weary travelers. This realization led to the dual objectives, and, consequently, the dual responsibilities of the lodging industry: (a) to provide comfort and convenience to guests and (b) to receive a reasonable return on expended funds.[1] These objectives have withstood the test of time. They continue to be the guiding principles of our modern hotel/motel industry.

Degrees of "comfort" and "convenience" are relative to the alternatives available. Some early inns offered large halls with tables for feeding guests. In these primitive times guests slept in their chairs or upon the available table space. Relative safety was the most important service provided. However, innovative businessmen found a competitive edge by removing the tables in the evening and providing mats, cushions, and eventually beds for sleeping. Although a traveler would find himself in a room full of beds, and possibly in a bed with a stranger, this, again, was preferable to spending the night on a bench, an arm chair, or a table. So, inns with large public sleeping rooms became the norm for the industry.

As trading and commercial travel expanded, so did opportunities for profit through the provision of hospitality and service. Perceptive innkeepers noted that many businessmen would pay more for less public and more comfortable accommodations. Inns began, then, to reflect some of the characteristics of the modern industry. Individual rooms were offered to guests to which they could retire after a public "feeding."

As travel became an integral aspect of business, competition to provide accommodations and service to travelers grew keener. The products of the innkeeper were and are hospitality, convenience, safety, and service. To be competitive, an innkeeper must achieve two general objectives:

(a) provide a quality product and (b) maintain a property at a location that is at a natural terminal or resting point for a sufficiently large volume of traffic. The highest quality accommodations cannot yield a profit if they are not offered at locations where travelers are inclined to stop. For this reason, the locations of lodging properties have been keyed to existing traffic patterns. As modes of travel and purposes for travel have changed, so has the definition of desirable lodging property locations.

The first significant technological development impacting the travel industry in the United States was the introduction of railroad service to principle communities. The off-loading of large numbers of train passengers in city centers contributed greatly to the proliferation of downtown hotels in the United States. Businessmen boarded trains in their home towns, rode directly to the heart of the cities in which they conducted their business, and were met by the convenience and hospitality offered by the American innkeeper.

During the railroad era, the late 1800's through the 1920's, the downtown hotel industry was in its "hey-day." Travelers disembarked from trains in great numbers and at regular, predictable intervals. Hotels provided not only comfortable sleeping quarters, but also became community centers for dining, drinking, meeting, and socializing. Innkeepers added a new objective to their operations during the railroad era; many attempted to meet their guest's every need on the premises. The central business district was the center of commerce, and the hotel was the focal point of the central business district.

As technological progress marched forward, traffic patterns altered, and innkeepers accommodated the changes. Proliferation of the automobile after World War II, generated increased individual travel and a need for transient road-side inns. These inns, often referred to as "motor-hotels," and eventually "motels," provided the traveler basic accommodations which were used by travelers while enroute from city to city, and hotel to hotel. During this period, hotels and motels enjoyed complementary existence. However, the shift of business and industrial activities to suburbs and outlying areas has caused many downtown hotels to forfeit substantial segments of their market to motels. Consequently, many motels expanded their offerings to include restaurants, lounges, meeting space, and convention facilities. These changes blurred the distinctions between the "motel" and the "hotel" and placed these properties in head-on competition for available business. To compete with the modern motel, the older downtown hotels must engage in expensive renovation projects.[2]

Recent petroleum shortages and high fuel prices have also influenced traffic patterns.[3] Although the cost of air travel has escalated, air travel by businessmen continues to increase. This has led to increasing numbers of airport lodging facilities. These properties are often megastructures enclosing rooms for rent, convention and meeting space, restaurants, cocktail lounges, shops and complete lines of personal services. Although gasoline prices are expected to curtail nonessential automobile intra-city travel, inter-city travel is expected to continue as fuel efficient automobiles are introduced.[4] This will allow motels to continue to prosper, especially those at major highway interchanges. Airport properties, though, are considered to hold the choice lodging locations for the remainder of the decade. Many downtown properties are compensating for their loss of advantage by providing free transportation service between their facilities and airports.[5]

The lodging industry is capital intensive. To operate a hotel, large investments must be made in land, buildings, and furnishings. The profit margin for hotels averages about five percent of revenue.[6] Inflation and increasing labor and property maintenance costs are making it increasingly difficult for older downtown lodging operations to remain profitable. To be successful in today's lodging environment a manager must have an aggressive, businesslike approach to profit making and must be knowledgeable of and adhere faithfully to proven standards of business practices.[7] Profit margins are continuing to require extensive attention for the following reasons:

1. Labor costs have increased and are continuing to increase at a faster rate than sales.

2. Facility maintenance costs are continuing to go up in relation to increased prices of materials and labor.

3. Rapid technological changes are forcing even new properties to renovate faster than at any time in lodging industry history and the huge capital requirements made necessary are forcing many businesses to leave the industry.

4. Most property construction and renovations are accomplished with borrowed money. High interest rates are inhibiting these activities for the independent operator, and driving up the cost for all industry participants.

These circumstances add up to increased costs and eroding profits. To survive, a manager must be proficient at increasing room rentals and lowering operating costs. The complexity and sophistication of skills necessary to accomplish these is reflected in the growing numbers of colleges and universities that have tailored curriculums to train personnel in hotel administration.[8] These institutions often publish periodic reports and sponsor training programs for owners and managers of hotels. By taking advantage of available education and training opportunities, managers can accumulate a bag of management tools that will make profit less elusive.

Although many hotels offer a wide range of services, the basic business of the lodging industry is to rent rooms. According to Trends in the Hotel Industry, over 58 percent of an average inn's revenue comes from room sales.[9] The profitability of all hotel departments is complemented by higher occupancies. For this reason, the focus of the hotel manager must be on marketing rooms.

Businessmen, professionals, and convention guests purchase more hotel rooms than any other category of traveler. Over 70 percent of rooms sold are sold to individuals visiting for business-related reasons.[10] The potential for cultivating repeat visits is particularly good with business guests. Tourists, sightseers, and pleasure seekers comprise the remaining 30 percent of American lodging consumers. While this market is lucrative, the hotel that caters to this group must offer amenities of a specific kind. Targeting this market usually requires capital investment beyond that normally required for business and professional guests. First, the tourist inn must be located in an area that has a popular appeal. In addition, tourists normally expect their hotel to provide amenities such as swimming pools, playgrounds, and often travel and guide information or services. Tourists and pleasure seekers make up a smaller segment of the lodging market; however, this group is profitable as its members have funds earmarked for entertainment and leisure. To capture these funds, innkeepers must be willing to make investments that will meet the relaxation and entertainment needs of vacationers.

Whatever market a hotel targets, the basis of business is renting rooms. With large, financially strong organizations in the field, competition is vigorous. In this highly competitive environment, managerial abilities make or break a hotel operation. It is no longer sufficient for an innkeeper to simply be a congenial host. He must possess a wide range of management skills. His ability to build and maintain high occupancy at adequate and competitive prices will determine the profitability of his operation. William Scholz, author of Profitable Hotel/Motel Management, said it well: "In the final analysis, the touchstone of success as an innkeeper, in a word, is 'profitability.' Despite the emphasis on hospitality and service--and rightly so--running a hotel is a business." He further states that profitability does not, nor will not just happen. It must be: (a) planned for, (b) carefully and conscientiously nurtured, and (c) meticulously controlled. The name of the game is money management.[11] To manage well in today's environment, the hotel manager must have an absolute understanding of how his organization is performing, where he wants it to be, and a set of tactics to get there. These require a broad range of analytical management skills.

Scholz says that a "good manager brings to task highly developed analytical skills to evaluate opportunities and to anticipate problems, in order to establish objectives that set appropriate priorities, that are realistic in light of the human and material resources available."[12] He feels that application of sophisticated management techniques is lagging behind in the hotel industry, and that the application of these techniques is urgently needed. This is particularly necessary in independent operations because, the large corporate hotels are bringing quantitative management skills to bear in the industry. These skills have been borrowed from the areas of financial management and operations research, and include such techniques as Program Evaluation and Review Technique (PERT), Break-Even Analysis, Management by Objectives, Pro Forma

Financial Statements, Performance Ratio Analysis and more. What was once considered a "cottage type" business has become a sophisticated organizational science.

There are many facets of business that hotel/motel managers must draw from, according to William Art, one-time manager of the 650 room International Hotel in Los Angeles, California. He stated that he does not believe that because a person has not had previous "hotel experience" that this precludes him from having innovative and creative ideas to bring to the hotel industry.[13] In fact, today's innkeepers can learn from experiences proven successful in other business arenas. Keeping sales volume up and costs down is imperative. However, managers must not only develop skills to accomplish these goals, but must also be capable of accurately assessing how well their objectives are being met. Quantitative analysis tools may be employed to more effectively diagnose the condition of an enterprise and its individual departments.

There are several areas that must receive specialized, well considered attention if a property is to survive in the competitive hotel industry. Art suggests that management strategy should be developed for each of the following factors:

a. Sales
b. Scheduling of Resources
c. Property development and maintenance
d. Expense Control
e. Purchasing
f. Pricing.

Specific policies governing these factors should be well defined by managers. Because the average profit margin for the lodging industry is in the neighborhood of only five percent, inattention to any of these factors can cause profits to plummet or disappear. Quantitative management tools provide hoteliers an effective means to plan, monitor and control these aspects of their businesses. Performance data for the hotel/motel industry are reflected in Appendix #1 of this report.

Footnotes for Chapter II

[1]Whittingham, H., Starting and Managing a Small Motel, (Washington D.C.: Small Business Administration, 1963).

[2]Scholz, William, Profitable Hotel/Motel Management, (Englewood Cliffs, N.J., Prentice Hall, 1975).

[3]Holiday Inns, Inc., Annual Report. 1979.

[4]Ibid.

[5]Whittingham, H., Starting Small Motel.

[6]Ibid.

[7]Whittingham, H., Starting Small Motel.

[8]Brodner, Maschal, Carlson, Profitable Food and Beverage Operations, 4th ed. New Jersey, Hayden Book Co., 1962).

[9]Pannel, Kerr, Forster, Trends in the Hotel Industry, 1980 ed, Pannel, Kerr, Forster, New York, 1980.

[10]Curtis, T. H., A Study of 1977 Occupancy for Motels and Hotels in Great Falls, Montana, Professional Paper, MBA, University of Montana, July 1978.

[11]Scholz, Profitable Hotel/Motel Management.

[12]Ibid.

[13]Ibid.

CHAPTER III

OVERVIEW OF RAINBOW HOTEL, GREAT FALLS, MONTANA

The Rainbow Hotel was constructed in downtown Great Falls in 1911. When the facility opened, it was heralded by the Great Falls Tribune as the best built, best furnished, most luxurious hotel in the northwest. It was a "grand" hotel. Since that time, the property has enjoyed both extremely good times and bad. It has suffered the consequences of shifting traffic patterns, and movement of businesses away from the central business district. The hotel, which has experienced a succession of owners, managers, and partial closures, ceased operations as a full service hotel in June 1973 as the result of bankruptcy proceedings. Three local businessmen, William Holter, Victor Bersch, and Robert Rowe purchased the hotel in December 1979 in an attempt to save the historic facility. Shortly thereafter, Mr. Robert Ereaux joined the three in their venture. Full services were again offered to the public in January 1980. Concisely, the physical plant of the hotel can be described as a one-time high quality facility that has experienced decline, deterioration, and functional obsolescence. The property is undergoing gradual renovation.

The stated objective of the hotel's owners is to restore the Rainbow to the state of grandeur that it once held in the community and industry. The achievement of this objective is hinged upon several variables, including: the economic and technical practicality of restoring the physical plant; the revitalization of the downtown area; and the behavior of competing facilities. The hotel currently has many positive attributes; 165 rentable rooms, a dining room, cocktail lounge, meeting and convention space, and office rentals. The primary concern of the owners and manager must be to manage these operations well in order to develop the property into the hotel that they intend for it to be. In addition to the departments mentioned, the hotel is host to the Elbon Club, a local fraternal organization. The club is a source of rent, and food and beverage service revenues.

The rooms department is not currently achieving its full potential. The hotel originally had 194 rentable rooms. The number of average available rooms in 1980 was 164.5 rooms per night. The average occupancy of these rooms was 17.34 percent. Renovation is currently under way. As the rooms are updated, they will become more saleable and will make improved contributions to the hotel's profit position. The analysis contained in Chapter IV indicates that the rooms department is not yet generating sufficient revenue to cover its operating costs. According to information provided by the hotel, the rooms department contributed 22.5 percent of the firm's total revenue in 1980.

The food service department is comprised of a restaurant, banquet services, and food service provided to the Elbon Club. The restaurant is pleasantly decorated and has a reputation for serving good tasting, high quality meals. One of the owners, Mr. Bersch brings food service experience and expertise to the Rainbow. The Rainbow restaurant is one of the hotel's most positive attributes, and has outstanding potential to serve the downtown community and the hotel's guests. The food service department did not cover its costs in 1980. It contributed 28 percent of the firm's total revenue. Little information is available concerning the banquet or Elbon Club aspects of the food service department.

The cocktail lounge in the hotel is pleasant and, along with the banquet bar, and the Elbon bar, made the beverage service department the most profitable of the hotel's operations. While the industry average contribution from beverage services to total revenues in 1980 was 9.2 percent, the Rainbow's beverage service contributed 43.7 percent of the hotel's total revenue. The beverage service department appears to be managed well. However, this department is not performing, nor can it be expected to perform at a level necessary to sustain the losses of the other major departments.

In addition to the departments discussed, the hotel offers meeting rooms that are currently being refurbished. The meeting rooms appear to be well utilized, and contributed 1.0 percent of the total revenue in 1980. The remainder of the revenue in 1980 resulted from office space rentals which contributed 1.7 percent, and parking lot space rentals which contributed .6 percent of the total year's revenue. An additional 2.5 percent of the total income for the hotel came from miscellaneous sources such as the Elbon Club rental, vending machines and telephone commissions.

Mr. Rowe functions as the hotel's general manager. He is a "retired" electrical contracting businessman, and past president of the local Chamber of Commerce, however, he has no previous lodging industry experience. In November of 1980, the firm hired an individual with over ten years lodging experience. He left the firm in February 1981. At that time, Mr. Rowe personally assumed full management responsibility. A second individual was hired to assist Mr. Rowe. He left the organization after a month of employment. Consequently, the hotel operates in a centralized management mode, with Mr. Rowe as the focal point for planning, coordinating, and controlling departmental activities.

Investigation of management strategy, plans, and controls, prior to the departure of Mr. Dick Garrison, the assistant manager from November 1980 to February 1981 indicated that few formal structures were in effect to guide these activities. Indications suggest that planning was accomplished primarily for remodeling efforts in support of the owners' objective to restore the hotel to its previous stature, but little or no formal operational planning or controls were in effect. When the MBA team studying the hotel requested copies of financial statements, the statements were not available. Queries regarding the break-even points for the various departments indicated that these calculations had not been computed, nor had target performance standards in terms of expenses and revenues been identified for each department. When asked about inventories and purchasing procedures for food supplies, for instance, management indicated that at that time (December 1980), inventories were not accomplished on a routine basis, and that purchases were made on an "ad-hoc" basis with no formal procedures or controls. It is felt that operational planning and controls for departmental profitability received limited managerial attention in 1980.

The lodging industry in Great Falls is very competitive. The average occupancy rate for the city was 70 percent for the year 1980. The Rainbow's average occupancy was 17.34 percent. A major challenge that the Rainbow must overcome is that the hotel is removed from the main stream of traffic through the city. Tenth Avenue South traverses the city's south side and runs east-west. Travelers going east from Interstate Highway 15, or west to the interstate on U.S. Highway 87, cross the city by using Tenth Avenue South. Consequently, this is the primary artery through Great Falls, and the route is lined with high occupancy motels and high volume fast food restaurants. The west end of Tenth Avenue South contains the developed portion of the city that is in the closest proximity to the Great Falls International Airport. The Best Western Heritage, Sheraton, and Holiday Inns are clustered at this end of the avenue. These facilities have the advantage of an airport proximity and also are located near the interchange of two major highways. In addition, the Tenth Avenue South lodging facilities are located near the city's primary shopping centers and mall.

The motels on Tenth Avenue South provide the Rainbow its sharpest competition. The Rainbow Hotel is located in the downtown section, approximately one mile from the city's primary thoroughfare. In addition to the Rainbow, the downtown section contains a half dozen other hotels and motels, that compete vigorously for room sales with one another. While the downtown facilities attempt to capitalize on their proximity to downtown businesses, financial, and shopping facilities, it should be noted that most shopping is now accomplished at centers located away from the downtown section. Appendix 5 contains the results of a comparative room sales price survey that was conducted on September 3, 1980.

The Spring 1981 Montana Business Quarterly included a report by Paul E. Polzin, titled "Missoula, Billings, Great Falls, and Helena: The Outlook for 1981." Mr. Polzin indicated that the economic base of Great Falls is contracting and that the short range outlook for the local business and economic environment does not appear promising. He pointed out that more than 50 percent of the economic base in Cascade County may be attributed to Malmstrom Air Force Base. Since 1973 there has been a slow but steady decline in the number of personnel employed by the base, and this trend is expected to continue. In addition, the primary metals refining industry continues to recede. In 1973 the Anaconda Company closed its zinc plant, and in September 1980 the company announced that its copper refining activities would be discontinued. The Anaconda decisions alone cost the city over 1,500 well-paying jobs. Great Falls does, though, continue to function as a major regional trading center for north central Montana. The wholesale industry supplies stores and businesses in Havre, Shelby, and the surrounding areas. The earnings of workers in this industry more than doubled in the 1970s and it is hoped that continued expansion will broaden the city's economic base.[1]

Polzin stated that the city's slow economic growth over the past decade was due to a dependence on Malmstrom Air Force Base. For that reason, the Economic Growth Council has been working to strengthen the local economic base. Although the council is considering several projects, these are not thought to be sufficient to offset the military and refining losses. Recently, though, the Montana Power Company announced that it would build and operate its Resource 89 generating plant near Great Falls. Construction is scheduled to begin in 1985, and the plant will employ about 160 workers when complete. It is hoped that the Montana Power Company project and the efforts of the Economic Growth Council will attract new business and industrial activitiy to Great Falls. However, as Mr. Polzin turned attention, in his report, to the short-range outlook, he suggested that the national economic outlook for 1981 did not appear promising, and that this would have a significant negative impact on the Great Falls economy.[2] While the city's economy is expected to remain viable, there is no stimulus to cause the local lodging market to increase in the near future. This creates a substantial challenge to management of properties like the Rainbow which must increase occupancies to survive. For this reason, the Rainbow Hotel must concentrate on improving profitability by improving its market share and by refining operational techniques, and cost controls. The existing room rental market will be captured by those enterprises effectively promoting the highest quality services at prices that are competitive. For the Rainbow, these must be achieved by improved facilities, excellent customer services, creative promotional programs, and implementation of well defined techniques to plan, evaluate, and control departmental operations and profitability.

The Rainbow Hotel has the potential and opportunity to provide the highest quality dining and lodging services at the most competitive prices to the downtown Great Falls community. To do so, the operations and management of the hotel must be finely tuned.

Footnotes for Chapter III

[1]Polzin, Paul E., "Missoula, Billings, Great Falls, and Helena: The Outlook for 1981," Montana Business Quarterly, Spring 1981, pp. 20-35.

[2]Ibid.

CHAPTER IV

OPERATIONS AND FINANCIAL CONTROLS

The success of the Rainbow Hotel depends upon meticulous planning and control of internal operations. Management must have an absolute understanding of how the enterprise and its ancillary departments are performing. To do this, two conditions must exist. First, an information system must be available that provides accurate and timely data for planning and control of operations. Second, the manager must be able to interpret the available information so that it can be used to make effective managerial decisions.

Uniform System of Accounts

In 1925, the New York City Hotel Association introduced the "Uniform System of Accounts" to the hotel industry. Although the system has undergone several refinements and revisions since then, its purposes remain constant. The system, which has been adopted by the American Hotel and Motel Association, established uniformity in accounting procedures and assured comparability between properties throughout the industry; and, over time, allows for internal monitoring of an individual hotel's performance.[1] The system makes the accumulation of meaningful national, regional, and local statistics possible by which management efficiencies can be gauged, and operational weak areas can be identified for corrective action.

The Uniform System of Accounts is a communication medium for the lodging industry. It provides for standardization of terminology, and precise definition and methodology for recording operational and financial data. By adopting the system, comparisons, evaluations and performance ratio analysis can be used with confidence. The reliability of the industry-wide system is high because the contents are uniformly prescribed.

The Uniform System of Accounts should be adopted by the Rainbow Hotel. By doing so, information could be extracted from the system and plugged into time proven tools used for performance analysis and control. For example, the Uniform System of Accounts contains information that may be used for break-even analysis, computation of performance ratios, and planning and development of pro forma financial statements. The application of these tools to the Rainbow's operating departments would identify which were carrying their own weight, and which were being carried by better managed departments. Applied to the firm's overall performance, the information contained in the Uniform System of Accounts, and the application of these tools would tell whether the enterprise was a profitable one. If it were, these tools would show which areas required managerial focus. Finally, these tools would help the owners evaluate the feasibility of continued operations or additional investment.

Ray Schmidgall, member of the American Hotel and Motel Association's Financial Management Committee, discussed several advantages of the Uniform System of Accounts in the February 1981 issue of the Lodging trade journal. He stated that the system provided a "turn key" accounting system designed by several of the best accounting minds in the industry. The system was efficient, time tested, and it allowed a new operator/owner to adapt the format of accounts to his specific operations. Additionally, he also points out that the system provides for effective data collection for the publishing of industry statistics and performance standards. Accounting firms such as Laventhal and Horwath, and Pannell Kerr Forster Co., publish annual industry averages of lodging operations based upon the Uniform System of Accounts. The Rainbow's operations could be compared to these averages if its financial statements were also based upon the Uniform System of Accounts. Mr. Schmidgall also points out that lenders are better able to evaluate a hotel's performance if it follows the uniform accounting system. He indicated that many lenders are now using industry averages to evaluate the operations of a lodging firm that has applied for a loan. Schmidgall feels that a hotel not using the Uniform Systems of Accounts may be judged by a lender to be "behind the times."

The Uniform System of Accounts has the endorsement of most industry participants, lodging associations, and industry accounting firms. The system greatly enhances the information, accounting, and management systems of individual operations. It allows owners and operators to see where their performance "is at," where it "needs to be," and facilitates the planning of how to get there. It also allows for compilation of industry performance statistics and meaningful comparisons of properties within the industry. Use of the Uniform Accounting System for hotels will enhance the operations of the Rainbow Hotel. It is a simple, straightforward system that should not be ignored.

Examples of Uniform Accounting System documents are included in Appendix #2 along with an address from which additional Uniform Accounting System information may be obtained.

Break-Even Analysis

To be successful, a hotel manager must know at what point all of the business's costs are covered and when revenues begin making contributions to profit. Break-even analysis provides this knowledge. The ability to compute break-even points under varying circumstances also allows managers to more accurately evaluate the impact of operational decisions. The break-even point is that earning point where total revenue equals the annual fixed expenses, plus all variable expenses that have accrued as of a given date. In other words, the break-even point is reached when income meets all costs, leaving not a single penny for profit. This information reflects the probability of profit, and therefore helps managers and investors determine the feasibility of achieving established objectives. This knowledge is a powerful tool for evaluating the performance of both enterprises and individual departments. The Rainbow Hotel should compute break-even points and compare these to actual performance data to identify the magnitude of departmental profits or losses.

Most of the information necessary to compute break-even points is contained in a firm's statement of income. To accomplish the analysis for a hotel operation, the following information must be identified:

1. Fixed expenses
2. Variable expenses
3. Semi-variable expenses
4. Occupancy rate
5. Average room rate.

To aid in classifying expenses into these categories, and to aid in computing occupancy and average room rates, the following definitions are provided:[2]

1. Fixed Expense - Money that must be expended whether the firm has a single guest or one hundred guests. These expenses include mortgage payments, fixed salaries, depreciation, and similar on-going, constant costs.

2. Variable Expense - Costs that vary in direct proportion to the number of guests. Examples include laundry, guest room supplies and similar expenses.

3. Semi-variable Expenses - These expenses include costs that are recurring and are relatively constant, but may vary in accordance with changes in factors other than volume or occupancy. These include costs like utility bills. An easy way to handle semi-variable expenses is to compute their arithmetic averages and combine these with the figure representing fixed expenses.

4. Occupancy Rate - This percentage is computed by first determining the number of rooms or room days available. For instance, if the Rainbow had 165 rentable rooms, and there were 30 days in a given month, available rooms are represented by:
165 rooms x 30 days = 4,950 available rooms. The room rate is computed by relating the number of rooms rented to the number of rooms available. To continue, assume that 3,500 rooms were rented for the month. The occupancy rate is represented by:
3,500 rented rooms ÷ 4,950 rooms available = .7 = 70% occupancy rate.

5. Average Room Rate - This figure is represented by: Total room revenue ÷ number of rooms rented = average room rate. For instance, assume that the room revenue for a 30 day period totaled $70,000 and 3,500 rooms were rented. The average room rate is

represented by:

$70,000 revenue ÷ 3,500 rooms rented = $20 average room rate.

The general formula that can be used to compute break-even points requires a number of symbols in the computations. The following are used:

1. FX = combination of fixed and average semi-variable expenses
2. VX = variable expenses
3. $BE = dollars of revenue required to break-even

The break-even point in terms of dollar sales can now be expressed as indicated below:

$$\frac{FX}{100\% - VX\%} = \$BE$$

Assume, for example, that the room rental department operates under these conditions:

1. FX = $245,000
2. Average Room Rate = $20.00 per day
3. VX = $3.60 per day per rented room or 18% of the $20.00 average room rate.

The break-even dollar volume or sales point is represented by:

$$\frac{245,000}{100\% - 18\%} = 245,000/82\% = \$298,780$$

This means that the rooms department must earn $298,780 to cover its expenses. However, no profit is earned below or at this volume of sales. Each dollar earned beyond this point, though, contributes to the fixed costs and eventually to profit.

To determine the number of rooms that must be sold at the rate of $20.00 per day in order to break even, one divides the break-even revenue by the average room rate, or:

$$\$298,780 \div \$20.00 = 14,939$$

So, this department must rent 14,939 rooms per year at \$20.00 per room in order to break even.

Analysis, to this point, provides two useful pieces of information, the amount of revenue that the rooms department must generate to cover its costs, and the number of rooms that must be rented to break even. A third piece of information is available through the application of this simple tool. One can also determine the occupancy rate that must be maintained to break even. Assume that there were 165 available rooms for rent each day in a 365 day year. The number of rooms available for rent during the year can be represented by;

165 x 365 = 60,225 available rooms.

This, then, can be used to determine the required occupancy rate. To do so, simply divide the number of rooms required to be rented in order to break even by the number of available rooms, or:

14,939/60,225 = 25% required occupancy rate to break even.

The information so obtained is useful to owners and managers. It is known that, to yield a profit this hotel rooms department must:

a. generate revenues of more than \$298,780,

b. rent at least 14,939 rooms at a \$20.00 average room rate, and,

c. thus, maintain an average occupancy rate of greater than 25 percent.

If the owners cannot be confident that their property is capable of accomplishing these, plus provide an additional return on invested capital, alternative investments or uses of the facility should be considered. As important, these indicators tell the manager whether his rooms department is paying for itself. Further, the manager should use these data as a base for establishing departmental objectives.

It is often useful to graphically depict the break-even function as reflected in Figure 1.

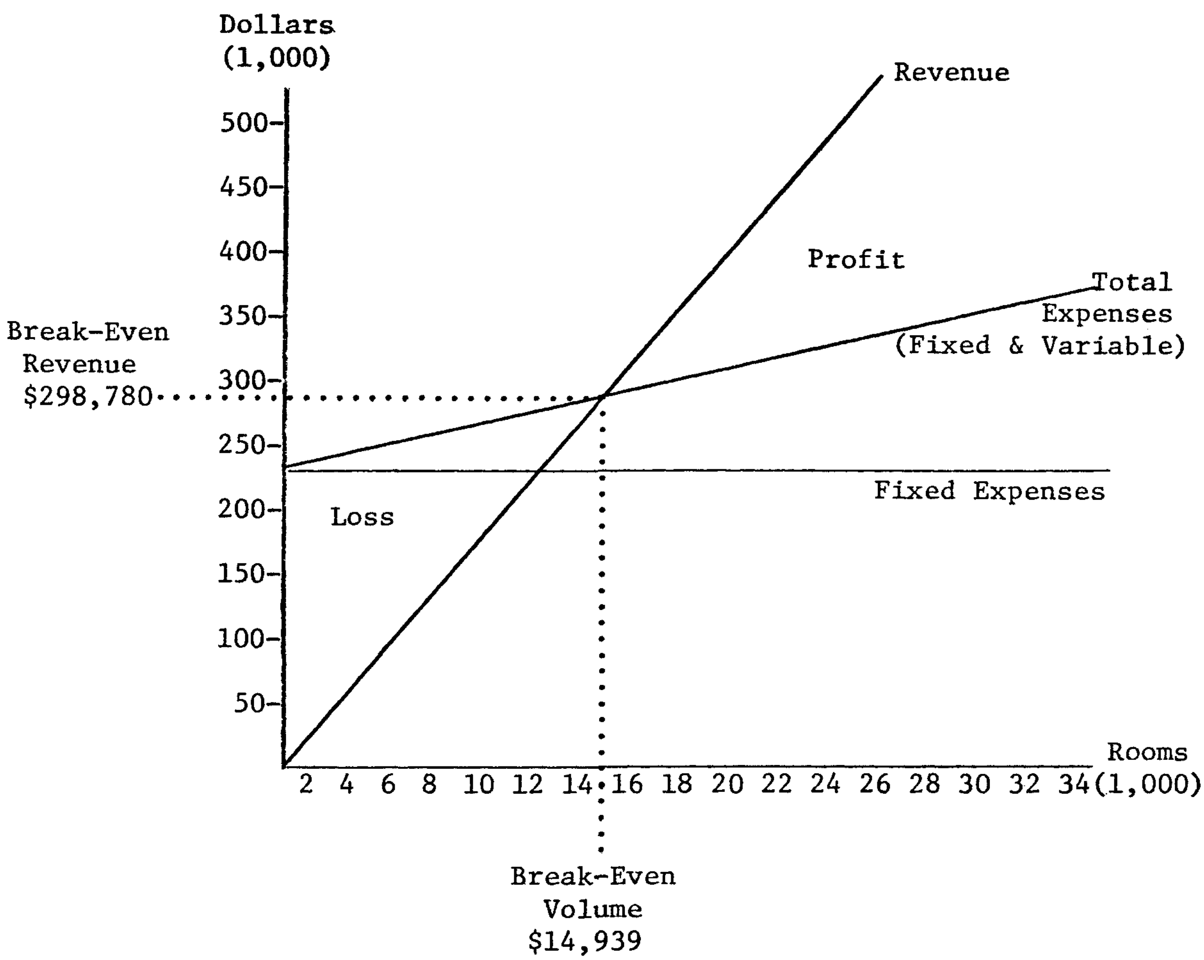

Fig. 1. Break-Even Graph

By maintaining a break-even graph, managers can plot revenue points, and depict profitability under varying states of volume and revenue.

Break-even analysis is useful in evaluating the performance of a hotel's primary activity, the rental of rooms. This evaluation can also be modified and applied to the other departments in a firm's operation. One simply needs to identify the allocated fixed costs for the department, the variable expenses, and the average price per unit of sale.

For example, break-even analysis can be applied to the cocktail lounge operation in the following manner. Assume that:

a. Annual fixed costs (salaries, overhead, etc.) = $60,000

b. Average price per drink = $1.75

c. Variable cost per drink (cost of liquor, soda, ice, etc.) = 20% of price or 35¢.

Break-even dollar volume:

$$\frac{\$60{,}000}{100\% - 20\%} = 60{,}000/80\% = \$75{,}000$$

So, to break even, the lounge must have a minimum sales volume of $75,000.

To determine the volume of drinks that must be sold in a year to break even the following computation is accomplished:

$$\frac{\text{fixed costs}}{\text{price of drink - variable cost per drink}} = \frac{60{,}000}{\$1.75 - .35} = 60{,}000/1.40 =$$

42,857 drinks.

To earn a profit, the lounge must earn more than $75,000 by selling at least 42,857 drinks, at an average price of $1.75 per drink. Similar analysis should be applied to each operating department of the hotel, including the restaurant, meeting and convention facilities, shop sales, and other profit centers. By applying break-even analysis to departmental operations, owners and managers cannot only determine which functions are paying their own way, but can also identify the extent of successes or failures and make decisions accordingly.

Before investment or operational decisions are implemented, break-even analysis can be used to evaluate the impact of alternatives on operations and profit potential. For example, if the owners of the Rainbow Hotel want to renovate this lounge at an amortized cost of $25,000 a year for five years, they can see that the following performance standards must be met in order for the lounge to pay for the renovation:

a. $60,000 fixed costs plus additional $25,000 = $85,000

b. Required dollar sales per year = $\frac{\$85,000}{100\% - 20\%}$ = $106,250

c. Required sales volume per year = $\frac{\$85,000}{\$1.75 - .35}$ = $85,000/1.40 = 60,714 drinks.

To summarize, the lounge must achieve a 42 percent increase in sales above the current break-even point to simply pay the renovation costs. The owners should also add to the fixed costs the amount they expect the investment to return to them each year. For instance, if they require a $12,000 annual return on their investment, the following performance standards must be achieved.

a. $60,000 fixed costs + $25,000 renovation cost + $12,000 return on investment = $97,000

b. Required dollar sales = $\frac{\$97,000}{100\% - 20\%}$ = $121,250

c. Required sales volume = $\frac{\$97,000}{1.40}$ = 69,286 drinks

If the owners are confident that a renovated lounge can sustain performance at this level, then they may be confident that their investment objectives will be met.

By adjusting the elements in the break-even equation, the owners of the Rainbow Hotel can test the effect of many managerial decisions. The analysis indicates the adjustments necessary to support new debts, and can also demonstrate the impact of price changes on volume and occupancy rates. Sound financial management in the hotel industry requires planning and strict control. When applied to room rentals, food and beverage services, and other operating departments, break-even analysis will assist the Rainbow management in establishing viable operating and financial objectives. It will permit the owners and managers to determine how departments are performing in relation to established goals, and allow them to make decisions based upon reliable, objective information. Break-even analysis will place the manager's finger on the pulse of his organization.

Break-Even Analysis - Rainbow Hotel, 1980

The statement of income constructed for the Rainbow Hotel (see Appendix #4) can be used to identify areas where managerial attention is required to improve profitability. The results of the analysis can be considered reliable only to the degree that the financial data provided are accurate.

To compute the fixed expenses for the analysis, the following information has been extracted from the Rainbow Statement of Income:

Fixed Charges		$ 69,490.00
Semi Variable Expenses		
Payroll & Related Expense	$323,713.00	
Uniforms	1,205.00	
Operations & Maintenance	72,559.00	
Office Supplies	3,189.00	
Rental Equipment	458.00	
Travel & Entertainment	830.00	
Advertising	9,297.00	
Promotion	7,732.00	
Bank Charges & Fees	2,905.00	
Dues & Subscriptions	572.00	
Casual Labor	75.00	
Freight	811.00	
Telephone	10,695.00	
Legal & Accounting	6,579.00	
Life Insurance	1,356.00	
Total Semi-variable Expenses	$441,976.00	$441,976.00
Total Fixed Expenses		$511,466.00

Because available information regarding how the Rainbow Hotel allocates fixed costs to its various departments is insufficient, cost allocation for the break-even analysis is based upon a department's percentage contribution to total revenue. The break-even points are computed based upon total revenue, and departmental contributions as reflected in the Statement of Income. The break-even points are also computed based upon the industry average percentages for the geographic region, as reflected in the 1980 edition of Trends in the Hotel Industry.[3] These have been used because it is felt that the industry averages reflect a more typical revenue and cost allocation than do the contributions achieved by the Rainbow's departments as reflected in the Statement of Income. For instance, room rentals represented an average of 58 percent of total revenues for similar properties;[4] therefore, 58 percent of fixed costs have been allocated to the room rental department in the second analysis. Where semi-variable costs, such as restaurant supplies, apply to a specific department, they have been allocated only to that department.

It should be understood that the industry averages reflect well established operations, while the Rainbow Hotel was in a "start-up" phase in 1980.

Break-Even Analysis

Rainbow Room Rental Department

1. Based upon the Statement of Income and 1980 Average Room Rate of $16.57[5] per room:

    a. Total fixed expenses = $511,466.00

    b. Room department contribution to gross revenue = 22.5%

    c. Fixed expense allocation to room department = $115,079.85

    d. Room department revenue = $136,019.00

e. Variable expenses:

Linen	$ 3,020.00
Room Supplies	32,234.00
Laundry	20,600.00
Total	$55,854.00

f. Percent variable expenses to revenue = 41%

g. $BE = FX/100% - VX% = $115,079.85/59% = $195,050.60

comparison:

1) B-E Revenue $195,050.60

2) Department revenue from statement of income = $136,019.00

h. Number of rooms required to be rented to B-E = $BE/average room rate[6] = $195,050/16.57 = 11,771

comparison:

1) Number of room rentals required to B-E, 1980 = 11,771

2) Number of rooms rented, 1980[7] = 10,269

i. Required average occupancy to B-E, 1980 = rooms required to B-E ÷ available rooms[8] = 11,771/59,222 = 20%

comparison:

1) Required average occupancy to B-E, 1980 = 20%

2) 1980 average occupancy[9] = 17.34%

3) Industry average for region[10] = 70%

2. Based upon Industry Average Contribution to Revenue, Statement of Income Revenue, 1980, Average Room Rate of $16.57 per room

a. Industry average percent of variable expense to room revenue = 32.8%

b. Industry average contribution of room rentals to gross revenue = 58%

c. 58% of fixed expenses allocated to department = $296,650.00

d. \$BE = FX/100% - VX% = 296,650/67.2% = \$441.443.45

comparison:

1) B-E Revenue = \$441,443.45

2) Department revenue from statement of income \$136,019.00

e. Number of rooms required to be rented to B-E = \$BE/average room rate = 441,443.45/16.57 = 26,641

comparison:

1) Number of room rentals required to B-E, 1980 = 26,641

2) Number of rooms rented, 1980 = 10,269

f. Required average occupancy to B-E, 1980 = Rooms required to B-E ÷ available rooms = 26,641/59,222 = 45%

comparison:

1) Required average occupancy to B-E, 1980 = 45%

2) 1980 average occupancy = 17.34%

3) Industry average for region = 70%

Evaluation of the break-even analysis for the Rainbow room rental department indicates that managerial emphasis should be provided to this area of operations. Throughout the industry, room rental revenue comprises almost 60 percent of a property's total revenue. This is not the case with the Rainbow Hotel. In fact, break-even analysis suggests that the room rental department is not yet making positive contributions to the firm's profit condition

Break-Even Analysis
Rainbow Food Service Department

1. Based upon Statement of Income;

a. Totaled fixed expenses = \$511,466.00

b. Food service contribution to gross revenue = 28%

c. Fixed expense allocation to food service department = $143,210.48

+ restaurant supplies	1,260.00
Total	$144,470.48

d. Food service department revenue

Restaurant	$119,156.00
Banquet	27,605.00
Elbon Club	24,003.00
Total	$170,764.00

e. Variable expenses, cost of food = $154,261.00

f. Percent variable expenses to revenue = $154,261 ÷ $170,764 = 90%

g. $BE = FX/100% - VX% = $144,470.48/10% = $1,444,704.80

comparison:

1) B-E Revenue $1,444,704.80

2) Department Revenue from Statement of Income = 170,764.00

The results of the above analysis appear to be unreasonable. There is a high probability that the revenue and variable cost data provided in the Statement of Income reflect inaccuracies. It is doubtful that the Rainbow's actual variable expense for food service was 90 percent as indicated. The industry average for food service departments is 33.7 percent.[11] The following is a computation based upon this percentage for variable costs for the Rainbow food service department.

2. Based upon Industry Average Contribution to revenue, and Statement of Income Revenue:

   a. Industry average percent of variable expense to food service revenues = 33.7%

   b. Industry average contribution of food service to gross revenue = 25%.[12]

c. 25% of fixed expenses allocates to department = $127,866.50

+ restaurant supplies	1,260.00
	$129,126.50

d. $BE = FX/100% - VX% = $129,126.50/66.3% = $194,760.94

comparison:

1) B-E revenue = $194,760.94

2) Department revenue from Statement of Income = $170,764.00

This analysis probably is a more accurate reflection of the Rainbow food service department's performance. However, depending upon what method the hotel uses to allocate fixed expenses, the break-even point will be in a different position relative to the department's performance. In any case, the above analysis suggests that the food service department requires close managerial attention to insure that the operation covers its costs, and contributes to the hotel's profitability. To allow the management to concentrate its focus on the hotel's primary activity, that of renting rooms, the owners should investigate the option of leasing their food service operation to an independent firm. If this can be done profitably, management resources would be released from many of the food service operational concerns.

Break-Even Analysis
Beverage Service Department

The Rainbow's beverage service department appears to have performed well in 1980, according to the data contained in the Statement of Income. This department contributed 43.7 percent of the firm's total revenue. The average industry contribution to total revenue from beverage services is 9.2 percent.[13] Even though the beverage service appears to be contributing the "lion's share" to total revenue, it is felt that this condition is abnormal, and that fixed expenses should not be allocated to the beverage service department on this basis. Instead, only the industry average of 9.2 percent will be used to allocate fixed expenses.

Further, the variable expenses of this department, as reflected in the Statement of Income, were in line with the industry average for these expenses. The variable expenses reflected in the Statement of Income are 20 percent of the department's total revenue. The industry average is 20.4 percent. For this reason, break-even analysis for the beverage service department will be computed using 20 percent to represent the variable expense factor.

a. Industry average percent of variable expenses to beverage service revenues = 20%

b. Industry average contribution of beverage services to gross revenues = 9.2%

c. 9.2% of fixed expenses allocated to department = $47,054.87

+ music expense	5,976.00
Total	$53,030.87

d. $BE = FX/100% - VX% = $53,030.87/80% = $66,288.59

comparison:

1) B-E revenue = $ 66,288.59

2) Department Revenue (lounge, banquet bar, and Elbon Club bar) from Statement of Income $264,241.00

Break-even analysis of the Rainbow Hotel's three major operating departments, room rental, food service, and beverage service, indicates that only the beverage service department covered its operational costs and made a positive contribution to the hotel's profit position in 1980. The analysis indicates, though, that the firm, as an entity, did not operate at a profit. The use of break-even analysis helps to identify where the losses occurred, and the magnitude of the losses. The management should ensure that break-even analysis is computed for the operating departments on a monthly basis, and use the results to establish performance standards. These standards, when combined with a consistent accounting system to measure and summarize monthly departmental performance, will provide the hotel owners timely information from which effective managerial decisions can be made to control operations profitably.

Ratio Analysis

The operations of the Rainbow Hotel can be more effectively planned and controlled through the use of ratio analysis. Business ratios are the combination of two or more figures into a single, more meaningful and useful piece of information. Because any two figures can be combined into a ratio, one must understand the relationship between the figures used, and be certain that the resulting ratio reflects the performance characteristic under consideration. There are many categories of business ratios, each relevant to specific business interests.[14] While investors and lenders are most concerned with liquidity, leverage, and coverage ratios which indicate a firm's ability to borrow and pay its debts under varying circumstances, operational "line" managers are most interested in ratios that help them to plan and monitor their organization's activities and performance. It is these ratios that will help the Rainbow management establish specific performance targets, and help to improve decision processes as actual performance data are recorded.

Operating ratios should be the hotel's "yardstick" used to measure departmental performance on a routine, frequent basis.

Most operating performance ratios are based upon departmental revenues reflected in the statement of income. The following are of special interest to hotels such as the Rainbow:

a. cost of goods sold and margin analysis,

b. profit analysis,

c. operating expense analysis.

Cost of Goods Sold

The cost of goods sold ratio will indicate to the manager the magnitude of the cost of goods purchased by a department in relation to the revenue remaining that can be applied to the department's operating expenses and profit. To compute these ratios, one needs only to divide the direct cost of goods sold by departmental revenue. The Rainbow can apply the general formula:

$$\frac{\text{Direct Cost of Goods Sold}}{\text{Departmental Revenue}}$$

to define its 1980 performance in the cost control area. Using the data from the Rainbow's statement of income,[15] the following cost results are identified:

Rainbow Hotel Cost of Goods

Relative to Departmental Revenue, 1980

a. Room Rental Department: $\frac{57,059}{136,019} = 42\%$

b. Food Service Department: $\frac{154,261}{170,764} = 90\%$

c. Beverage Service Department: $\frac{52,580}{204,241} = 20\%$

The hotel should use these results to establish operating targets for subsequent periods, and where the ratios indicate unacceptable performance, the manager must identify the causes and implement positive corrective actions. Acceptability of results should be established based upon industry averages in similar operations, and the manager's judgement of his operating environment. As the new Rainbow Hotel accumulates historical performance data, performance trends can be analyzed to help establish standards, and to monitor changing operational conditions.

Margin Analysis

Marginal ratios are similar to cost ratios as they relate the same data but in a different manner. Marginal analysis will show the Rainbow manager the percentage of "raw profit" remaining from departmental revenue after the department's direct costs are paid for. To demonstrate, the Rainbow's 1980 data are plugged into the formula:

$$\frac{\text{Departmental Revenues - Direct Costs}}{\text{Departmental Revenues}}$$

a. Room Rental Department; $\frac{136{,}019 - 57{,}059}{136{,}019} = 58\%$

b. Food Service Department: $\frac{170{,}764 - 154{,}261}{170{,}764} = 10\%$

c. Beverage Department; $\frac{264{,}241 - 52{,}580}{264{,}241} = 80\%$

This margin of "raw profit can be misleading. Fixed expenses must still be paid from this before a true net profit is available to the hotel owners. Also it should be noted that this margin is affected by changes in any of the ratio elements. For instance, if the Rainbow changes its prices, the hotel's suppliers change theirs, or sales volumes fluctuate, both revenues and costs will be affected. These therefore, should be monitored and controlled by the hotel management to the maximum extent possible. Monitoring the two ratios discussed thus far, will help to identify these types of changes.

Profit Analysis

The hotel can monitor its profit position, and the profitability of its individual operating centers by using a profit ratio. The ratio:

$$\frac{\text{Net Income Before Interest and Taxes}}{\text{Revenue}}$$

evaluates the relationship between income and sales revenue. Because tax and interest expenses vary throughout the industry, taxes and interest are often reflected in the numerator in order to facilitate comparisons. By computing this ratio for each department and the firm as a unit, the Rainbow can determine its effectiveness in not only recovering its operating expenses from revenues, but also its ability to earn a reasonable profit to be reinvested in the property, or to be returned to the owners. Data from the Rainbow Hotel Statement of Income for 1980 indicates that the hotel did not earn a positive profit during its first full year of operation. This is clarified further by plugging the operational data into the profitability ratio as indicated below;

$$\frac{\text{Income Before Interest and Taxes}}{\text{Total Revenue}} = \frac{\$(178,105)}{603,292} = -.295$$

This analysis reveals that the net loss for 1980 was 129.5 percent greater than the revenues generated by the hotel. When the ratio reflects a positive result, it indicates the portion of revenue remaining as profit after all expenses and costs are covered prior to interest and tax payments.

Although investors often anticipate negative profits during the start-up phase of operations, it is important to monitor the changes in profit positions to insure that the firm is moving in the right direction. Using this ratio, the Rainbow Hotel owners should define income contribution objectives. These should be based upon the past performance of the hotel and anticipated operating conditions. By comparing performance results to these objectives, the owners can better evaluate the feasibility and timing of additional capital investments.

Expense Ratios

Expense ratios are one of the most useful tools available to the management of the Rainbow Hotel. They are excellent devices for internal operations control. By relating specific expense categories to revenues as a matter of routine, the manager will identify fluctuations in operating costs as they occur and can respond accordingly. An expense ratio is computed by dividing a specific expense item by revenue as indicated below:

$$\frac{\text{Expense Item}}{\text{Revenue}}$$

Expense information is readily available to operating managers, and should therefore be monitored and analyzed on a regular basis. The 1980 Statement of Income reflects the following expense ratios for the Rainbow:

Payroll: $\frac{\text{Expense}}{\text{Total Revenue}} = \frac{295{,}032}{603{,}292} = 49\%$ of total revenue

Repairs and Maintenance: $\frac{\text{Expense}}{\text{Total Revenue}} = \frac{22{,}201}{603{,}292} = 3.7\%$ of total revenue

Advertising and Promotion: $\frac{\text{Expense}}{\text{Total Revenue}} = \frac{17{,}029}{603{,}292} = 2.8\%$ of total revenue

Room Rentals: $\frac{\text{Expense}}{\text{Department Revenue}} = \frac{57{,}059}{136{,}019} = 42\%$ of department revenue

Restaurant Supplies: $\frac{\text{Expense}}{\text{Restaurant Revenue}} = \frac{1,260}{119,156} = 1\%$ of restaurant revenue

As indicated above, expense ratios can be computed for any expense item, and the expense can be compared to total revenue, departmental revenue, or any sub-unit revenue within a department. Critical ratios should be identified by the Rainbow management, and these should be used as benchmark evaluation standards. When deviations from the standards occur, the reasons for the variances should be isolated by the management, and be corrected as required. These ratios recorded over time will also provide the Rainbow an excellent means for trend analyses of departmental cost control procedures.

In addition to the ratios discussed above the Rainbow Hotel should record and evaluate changes in its occupancy percentage. Like other ratios, occupancy target percentages should be set each month, and strategies should be developed to reach or maintain the achievement of these objectives. Additional ratios used for performance evaluation by other hotels are explained in the 1981 edition of the Uniform System of Accounts and Expense Dictionary, available from the Hotel Association of New York City as indicated in Appendix #2. The Rainbow Hotel Management should obtain a copy of this document.

Ratio analysis is a process that will allow the Rainbow to diagnose the condition of its operations on a routine bases. The ratios in themselves will not represent the condition of a department or the hotel, but they will identify changes, and patterns of change. It is these that must be analyzed and managed. The Rainbow should conduct analysis of ratio trends to be aware of the directions that their operations are going. The owners should also compare performances as reflected by ratios to published industry averages. Comparisons will help the management establish realistic operational objectives, and will identify the hotel's relative position within the industry. Performance ratio analysis will help the managers of the Rainbow Hotel to know their risks, opportunities, strengths, and weaknesses, and thereby provide an objective foundation for operational planning and control.

Budgets and Pro Forma Statements

Most owners and managers would love an opportunity to glance into the future, to peek at the condition of their company, to see the effects of their decisions before they are implemented. While this is not possible, pro forma budget and operating statements will provide the Rainbow Hotel the most comprehensive look at likely future conditions affecting the company. When used by management as a planning tool, they will reflect business outcomes under various assumptions of operating conditions, and can be used to test the effects of available decision alternatives. Budgets are not only useful as planning tools, but should be used to monitor and control operational and financial performance, and to communicate expected performance results to operating departments. Often perceived as restrictive and burdensome, budgets can be developed and used in a manner that will allow them to be the hotel's best planning, communicating, monitoring, and controlling device. Budgets must not be drafted and then allowed to simply sit in file. They should be devised, and revised continually. Budgeting procedures will provide the owners and manager of the Rainbow Hotel the strongest clues about their firm's future.

The budgeting process is unique in that it is based upon anticipated conditions and expected data. This attribute forces managers to focus on operational and financial problems early enough to take effective action. Goals and objectives set according to anticipated conditions will be more useful to the Rainbow than those based only upon historical data. Goals based upon historical data have two important limitations. Past performance may conceal operational and/or managerial inefficiencies, and past performance conditions cannot be expected to be identically replicated. Forward looking operational objectives provide a business a sense of direction, allow managers to foresee problems, and provide a structure from which results can be interpreted in a meaningful way. It is emphasized, though, that pro forma budgets are useful only to the extent that the assumptions upon which they are based are valid. For instance, care must be taken to identify factors that influence hotel occupancies. If the assumptions regarding occupancies are not accurate this flaw will be reflected throughout the budget process. The Rainbow budget should be a formal expression of management's plans. It should quantify objectives for sales, cash position, capital structure, and other objectives that the management feels a need to specify. The budget should be an effective summary of each department's goals, and the objectives of the hotel as a whole. A Master Budget usually consists of a Statement of Expected Income, a Balance Sheet, and a Statement of Cash Receipts and Disbursements. These are developed from departmental review and planning.

Properly developed and used, budgets will provide the owners of the Rainbow Hotel answers to the following questions:

1. How well can we expect to do in the future? The future must be the most relevent dimension to management.
2. How well do we plan, anticipate, and estimate? Experience and repetition will improve these skills.
3. Which of the available alternatives should be implemented? With budget projections for each, the most attractive becomes most clear.

4. What went wrong? Monitoring actual results and analyzing deviations from planned performance will pinpoint problems. Management can then make adjustments to preclude recurrence.

By finding answers to these questions, the hotel will increase its probability of success. Effective utilization of budgets will unlock the door to a vast amount of useful information, and lead to more effective planning, monitoring, and controlling of operational and financial activities.

To implement a useful budget program, an understanding of the general budgeting process must first be reached. There are five basic steps in the development of operating budgets and pro forma financial statements. The steps are introduced at this point and shall be discussed in greater detail later.

1. Operating expenses, and revenues are dependent upon the volume of sales a company achieves. Therefore, the initial budgeting step involves a projection of expected sales for the period concerned. Purchases, inventory levels, and operating expenses can be geared to this figure.
2. After sales are estimated calculate the amount of purchasing that must occur to support the anticipated volume. The following process is used to calculate needed purchasing funds:

   Purchases = value of desired ending inventory + projected cost of goods sold - value of beginning inventory.
3. Next, determine the additional operating expenses, such as wages, and insurance, that will be incurred to support the projected volume of business. Base these estimations on known relationships between volume and expenses, and judgements concerning anticipated future businesss conditions. Analysis of past performance ratios can be useful in projecting expense levels.

4. Steps one through three will provide useful future operating data. This information can now be used to calculate the impact of projected operating and financial activities on the hotel's cash position. By projecting cash receipts and disbursements, overtime, surpluses and deficits can be identified in advance of occurrences in order to provide lead time to effect financial arrangements.

5. With the above information, projected sales and sales revenues; cost of goods sold and operating expenses; and financing requirements, the final step can be taken. By combining the projected operational data with information contained in the most recent financial statements, and planned financial activities, pro forma statements of income and balance sheets can be constructed. Together, these documents represent the most likely estimate of the hotels future condition.

While the budgeting process introduced above affords many advantages, the most important is that it forces management to look ahead, anticipate problems, alternatives, and results, and to make necessary adjustments well in advance of potential difficulties.

The sales budget and the operating budget are so interrelated that these should be reflected in the same document. The sales budget data indicate the level of business and its resulting revenues that are anticipated. The operating budget reflects the expenses that must be met to generate these revenues. The sales portion must reflect results in a form that expresses the anticipated scope of business. This involves an estimation of unit sales, (rooms, drinks, meals, etc.,) and a projection of the average price per unit. The operating portion must express an estimate of anticipated costs and expenses including, but not limited to, cost of goods sold, personnel, allocated overhead, and company support items. These estimates should be based upon past performance, judgements regarding future operating conditions, and ratio relationships. Formats for sales and operating budgets are varied. Figure 2 is an example of a format that the Rainbow Hotel can use for its departments.

Sales and Operating Budget
Rooms Department
19__

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Basic Sales Data					
Units Rented (number)	---	---	---	---	---
Average Price (per unit)	---	---	---	---	---
Direct Costs (per unit)	---	---	---	---	---
Rental Revenue	---	---	---	---	---
Operating Budget (in thousands)					
Sales Revenue	---	---	---	---	---
Net Rentals	---	---	---	---	---
Cost of Room Rented	---	---	---	---	---
Gross Margin	---	---	---	---	---
Operating Expenses					
1.	---	---	---	---	---
2.	---	---	---	---	---
3.	---	---	---	---	---
"	---	---	---	---	---
"	---	---	---	---	---
Total Operating Expense	---	---	---	---	---
Net Contribution	---	---	---	---	---
Company Support					
Staff	---	---	---	---	---
Advertising	---	---	---	---	---
General Overhead	---	---	---	---	---
Other	---	---	---	---	---
Total Company Support	---	---	---	---	---
Profit Contribution (Before Taxes)	---	---	---	---	---

Fig. 2. Sample Sales and Operating Budget Format

The sales and operating budget format is flexible and should be modified to suit the particular requirements of each department. For instance, columns can be added to record actual results to be compared with budgeted plans, along with variation columns. These modifications indicate at a glance the accuracy of planning, and actual performance results. Many companies reflect the current quarter expectations by month, and the remainder of the year by quarters. The sales and operating budget is useful to plan and communicate expected results, and to evaluate performance. This tool should be developed for the rooms, food service, beverage, and other operating departments. These, then, can be consolidated into a master operating plan for the hotel.

Business cash budgets are developed using principles similar to those applied in personal budgets. Cash budgets represent an attempt to match bills with income. For business purposes, this involves a detailed projection of cash requirements based upon the timing of cash inflows and outflows in response to planned operations and investment activities. To do this, the manager must focus on estimates of cash receipts and disbursement incidences. The purpose of this activity is to lay out a time schedule of cash flow estimates to determine future funds requirements. The time period used should be one that is most appropriate to the activity involved. Many businesses that have large and volatile cash movements budget these on a daily basis. Although monthly projections will serve the Rainbow Hotel well under most operating conditions, events such as conventions and the State Fair should generate weekly or even daily cash plans. A suggested cash budget format is reflected in Figure 3.

Cash Budget, Food Service Department

(1st Quarter 19__)

	JAN	FEB	MAR	TOTAL
Basic Data				
Unit Sales (food covers)	---	---	---	---
± Change in inventory value	---	---	---	---
Credit Sales	---	---	---	---
Credit Purchases	---	---	---	---
Cash Receipts				
Cash sales	---	---	---	---
Collections-Receivables	---	---	---	---
Total Cash Receipts	---	---	---	---
Cash Disbursements				
Payment for purchases	---	---	---	---
Payroll	---	---	---	---
General overhead	---	---	---	---
Total Cash Receipts	---	---	---	---
Net Cash Receipts (disbursements)	---	---	---	---
Beginning Cash Balance	---	---	---	---
Cumulative Net Cash Flow	---	---	---	---

Fig. 3. Sample Cash Budget Format - Departmental

This format, too, can be modified to reflect actual performance and variances for improved monitoring and control. The Rainbow should develop a cash budget for each operating department, and from these a master cash budget should be constructed for the hotel. Figure 4 is an example format for a hotel master cash budget.

RAINBOW HOTEL

MASTER CASH BUDGET
1st Qtr 19__

	JAN	FEB	MAR	TOTAL
Cash Receipts				
Cash Rentals & Sales	---	---	---	---
Collection - Receivables	---	---	---	---
Rents (other than room rentals)	---	---	---	---
Other Receipts	---	---	---	---
Total Cash Receipts	---	---	---	---
Cash Disbursements				
Payment for Purchases	---	---	---	---
Payroll	---	---	---	---
Room Expenses	---	---	---	---
Food Service Expenses	---	---	---	---
Beverage Service Expenses	---	---	---	---
Selling Expenses	---	---	---	---
General Expenses	---	---	---	---
Interest Payments	---	---	---	---
Principle Payments	---	---	---	---
Taxes	---	---	---	---
Other Disbursements	---	---	---	---
Total Cash Disbursements	---	---	---	---
Net Cash Receipts (Disbursements)	---	---	---	---
Cumulative Net Cash Flow	---	---	---	---
Analysis of Cash Requirements				
Beginning Cash Balance	---	---	---	---
Net Cash Receipts (Disbursements)	---	---	---	---
Ending Cash Balance	---	---	---	---
Minimum Cash Balance Limit	---	---	---	---
Net Cash Requirements	---	---	---	---

Fig. 4. Sample Cash Budget Format - Company

The master cash budget is an important and useful document and should be adjusted on a routine basis as actual performance is recorded. The cash budgets will provide the hotel manager an excellent means to test the likely effect of significant operational changes by working through the budgets while exercising different assumptions about operational results. The master budget should be the Rainbow's primary financial planning tool on the basis of which arrangements are made for future cash needs.

The final step in the budgeting process is the construction of pro forma financial statements. These are simply extensions of a firm's statement of income, and balance sheet into the future. Together, these represent an operating and financial plan for the hotel as a whole. The most recent financial statements, and the budgets that have been constructed to this point provide the data necessary to construct these documents. The process involves an account by account projection into the future. Although use of the sales, operating, and cash budgets allow this to be accomplished with a high degree of precision, ratios and judgement may be used to develop an initial pro forma estimate. Because "retained earnings" from the statement of income is used on the balance sheet, the statement of income is first derived using the following guidelines:

1. The net sales figure is extracted from the sales budget.
2. The sales and operating plans also provide cost of goods sold and expense data.
3. Selling, general, and administrative expenses may be assumed to be relatively constant, but should be adjusted if judgement so indicates.
4. Interest expense is based upon outstanding and anticipated obligations.
5. Taxes are based upon the applicable tax rate.

The results of these considerations reflect a planned net income, and retained earnings. An example of a pro forma statement of income format is reflected in Figure 5.

RAINBOW HOTEL

PRO FORMA STATEMENT OF INCOME

Quarter Ending ____________

	Planned	Actual	Variance
Net Sales			
Rooms	---	---	---
Food Service	---	---	---
Beverage Service	---	---	---
Other	---	---	---
Total	---	---	---
Operating Expenses			
Food	---	---	---
Beverages	---	---	---
Room Expenses	---	---	---
Personnel	---	---	---
Overhead	---	---	---
Other	---	---	---
Total	---	---	---
Gross Margin	---	---	---
Selling Expense	---	---	---
General & Administrative	---	---	---
Total	---	---	---
Operating Profit	---	---	---
Interest	---	---	---
Profit before Taxes	---	---	---
Income Taxes	---	---	---
Net Income	---	---	---
Retained Earnings	---	---	---
Cash Flow	---	---	---

Fig. 5. Sample Pro Forma Statement of Income Format

The final budget document, the balance sheet can now be constructed. The pro forma balance sheet will provide a "snap shot" view of the hotel's financial condition on a selected future date. Again, accounts are changed in anticipation of known or expected conditions. Different from historical balance sheets though, the objective of the pro forma balance sheet is not to achieve a true balance in an accounting sense. Rather, the objective is to gauge the funds requirement and overall financial condition of the firm. This objective is achieved by building upon a variety of assumptions that must remain consistent throughout the budgeting process. For instance, the assumptions made to construct the balance sheet must be the same as those reflected in the operating statement relevent to accounts receivable and inventory values, In the pro forma balance sheet, the sum of these assumptions will be reflected in a resulting funds requirement or surplus that will be used as a "plug figure." This figure, the difference between the projected asset and liability accounts, indicates the hotel's funds condition on a specific date, and is "plugged in" to bring the statement into balance. An example of a pro forma balance sheet is reflected in Figure 6.

Together, the pro forma statement of income and balance sheet summarize the cumulative effect of planning assumptions. These can be used to judge the viability of projected operations, determine key ratio trends, identify financial requirements at specific times, and compute the effects of alternative plans.

RAINBOW HOTEL

PRO FORMA BALANCE SHEET
As of (Date)

(Thousands of Dollars)

	Actual (Previous Balance Sheet Date)	Change	Pro Forma (Date)
Current Assets			
Cash	---	---	---
Accounts Receivable	---	---	---
Food Inventory	---	---	---
Prepaid Expense	---	---	---
Total	---	---	---
Property and Equipment			
Furniture & Fixtures	---	---	---
Accumulated Depreciation, Furniture & Fixtures	(---)	(---)	(---)
Building	---	---	---
Accumulated Depreciation Building	(---)	(---)	(---)
Land	---	---	---
Total	---	---	---
Total Assets	---	---	---
Current Liabilities			
Accounts Payable	---	---	---
Wages Payable	---	---	---
Total	---	---	---
Non Current Liabilities			
Mortgage Payable	---	---	---
Bank Note	---	---	---
Total	---	---	---
Owner's Equity			
Capital Stock	---	---	---
Retained Earnings	---	---	---
Total	---	---	---
Retained Earnings	---	---	---
Total	---	---	---
Total Liabilities & Owners Equity	---	---	---
Funds Required "Plug Figure" difference between total assets and total liabilities and equity		---	---

Fig. 6 Sample Pro Forma Balance Sheet Format

The budgeting process should be much more than an accounting exercise. The Rainbow Hotel should employ budgets as management tools to plan, monitor, and control both operational and financial performance. Properly understood and used, budgets, and pro forma statements afford several advantages, including the following:

1. They compel managers to think ahead and make key decisions about specific elements of their operation, such as offerings, prices, and costs. They induce planning.

2. Budgets are the source of specific goal expectations that are the best criteria for evaluating subsequent performance.

3. If managers participate in the goal setting activities, the subsequent communication of expectations will be motivating. Managers perform better if they are aware of what is expected of them, particularly if they are permitted to participate in establishing standards of performance evaluation.

4. Because the budgeting process requires an evaluation of all operational and financial activities, the objectives of operating departments are more easily harmonized with the overall goals and strategies of the hotel.

5. Budgets and pro forma statements are looked upon favorably by loan officers who assess the credit worthiness of businesses. The development and use of these not only give financial officers an insight into a firm's future health, but also reflect an ability to plan and use resources conscientiously.

The availability of these advantages to the Rainbow Hotel should cause the manager to agree that participating in a comprehensive budgeting program can result in time and energies well spent. The operational and financial documents produced through this process can be the basis for controlling the course of the Rainbow's future. For instance, this planning tool will highlight the need for sales strategies to achieve required volumes, or the need to reduce costs, or change disbursement timing patterns. The development of a budget plan will also highlight the requirement to draft plans to test alternative strategies and assumptions. The budgeting process is dynamic, and should become an integral part of the Rainbow Hotel's management process. Budgeting and planning are indistinguishable; and planning is the key to effective monitoring, control, and ultimate success in the lodging industry.

Footnotes for Chapter IV

[1]Vallen, Jerome, Check In - Check Out. Wm. G. Brown, Comapny, Dubuque, Iowa, 1974.

[2]Whittingham, Small Motel.

[3]Trends in Hotel Industry.

[4]Ibid.

[5]See Appendix #6.

[6]Ibid.

[7]Ibid.

[8]Ibid.

[9]Ibid.

[10]Trends in Hotel Industry.

[11]Ibid.

[12]Ibid.

[13]Ibid.

[14]Erich A. Helfert, Techniques of Financial Analysis, 4th ed. Richard D. Irwin, Inc., Homewood, Ill., 1979.

[15]See Appendix #4.

CHAPTER V

SUMMARY AND CONCLUSIONS

Summary

The lodging industry is a dynamic one. Through centuries it has served the needs of society by adapting to changing environments and consumer demands. When commerce developed between communities, innkeepers provided safety and sustenance to transient merchants. As interaction between communities increased, innkeepers offered visiting businessmen hospitality at their destinations, and provided them a base location from which to work. Advances in transportation technology escalated intercity commerce, and the increased demand for accommodations was met by the responsive lodging industry. The introduction of the railroad system stimulated the construction of hotels in the downtown business districts of every principal city. These hotels offered not only sleeping and dining accommodations, but also developed into social and convention centers. As traffic patterns and transportation modes have shifted, so have the offerings of the hotel industry. Hotels and motels are prospering near suburban businesses, and those in proximity to airports are experiencing success. These changes have made survival of central city hotels challenging. The lodging industry is no longer dominated by small, privately-owned operations. Large corporations set the pace in the industry by employing sophisticated marketing and management techniques. The independent manager must adapt these tools if he is going to keep pace with his "big league" competitors.

The Rainbow Hotel is a good example of a privately owned downtown hotel striving to compete with modern properties that enjoy airport and major thoroughfare locations. To capture a sufficient share of the market, the Rainbow must invest heavily in renovation and modernization projects. As important, the hotel must utilize effective techniques to plan, monitor and control its costs and operations. Only then can the slim profit margin available be sufficiently protected and nurtured. The Rainbow, like many independent lodging operations, employs few quantitative planning and control devices.

By using break-even analysis, the Rainbow can determine the exact unit and sales volume that must be generated in order to cover expenses. It is only after this critical point is reached that operations begin to make contributions to profit. This point should be identified for each department in order to establish standards, evaluate performance, and analyze the feasibility and effect of operational alternatives. Break-even analysis will clearly show the manager which of his departments are paying their way, and which are riding on the coat tails of well managed departments.

Ratio analysis is an excellent tool to determine a company's position relative to similar operations, and to monitor internal performance changes and trends. Ratios combine two figures into a single more meaningful one that may be used to establish operating standards, and trend analysis. Ratios, in themselves, will not reflect the condition of the Rainbow Hotel, but will be useful in pinpointing where changes are occurring, and where managerial attention should be focused. The manager can be much more aware of where his hotel is headed by computing operational ratios on a regular basis. Ratios are excellent diagnostic tools.

Budgets and pro forma financial statements have long been considered "the monkey on the operational manager's back." These however, can and should be the most effective planning and control mechanisms available to property operators. They not only provide a look into the future, but also provide a route map to organizational objectives. Budgets and pro forma statements force managers to look to the future, anticipate problems, and provide a means to test the impact of operational and financial alternatives. Master budgets and pro forma financial statements can reflect the most likely future condition of the hotel. The budget process should be an integral part of planning and goal setting activities. The process provides not only the most comprehensive look at how well a hotel intends to do, but also a means to evaluate specific areas of performance.

Conclusions

The greatest challenge for independent innkeepers today is the effective assimilation of technology, particularly technologies that have been developed in the management sciences. It is no longer sufficient for a hotelier to simply be a hospitable proprietor of an attractive property. While a smile and a handshake are essential to establish rapport and cultivate sales, it is the consistent, skilled application of operational technologies that will milk improved profits from each revenue dollar. These techniques have been successfully used in most industries, including the hotel industry. They must also be applied to independent operations such as the Rainbow Hotel.

The Rainbow has the potential to be the key element in the revitalization of the Great Falls central business district. The property is sound, and can offer the superior downtown lodging, dining, and beverage services that are desired by visitors, and the local community. The Rainbow must employ management techniques that contribute to accurate planning, monitoring and controlling of every aspect of the hotel's operations. Not only must volume be stimulated while maintaining competitive yet profitable pricing policies, but costs must be monitored and maintained at levels that ensure adequate profit contributions. These conditions will not occur without application of management tools designed to monitor and control operational factors. Break-even analysis, ratio analysis, and development of a budgeting and pro forma financial process should be implemented by the Rainbow Hotel management. These devices provide a methodology to effectively control operational variables.

This report is not intended to be a comprehensive discussion of hotel management techniques. It is intended to demonstrate the application of three quantitative planning and control devices to the Rainbow Hotel. Additional management tools are contained in general management texts. These, too, should be explored by hotel managers. It is felt that the management sciences offer a broad framework of tehcniques that have application to the full range of business and organizational activities. The requirement to experimentally apply these to specific activities such as independent hotel operations, causes there to be an inexhaustible need for continued research.

APPENDIX #1

Industry Performance Data
(From _Trends in the Hotel Industry_, 1980 ed.)

800 HOTELS AND MOTELS

Comparative Results of Operations—1979 vs. 1978
Percentage Distribution of Revenues and Expenses

	1979	1978
Revenues:		
Rooms	58.3%	57.3%
Food—Including Other Income	25.1	26.0
Beverages	9.2	9.6
Telephone	2.4	2.5
Other Operated Departments	2.5	2.2
Rentals and Other Income	2.5	2.4
Total Revenues	100.0%	100.0%
Departmental Costs and Expenses:		
Rooms	15.0%	15.1%
Food and Beverages	27.7	28.4
Telephone	3.1	3.4
Other Operated Departments	1.8	1.7
Total Costs and Expenses	47.6%	48.6%
Total Operated Departmental Income	52.4%	51.4%
Undistributed Operating Expenses:		
Administrative and General	8.0%	7.8%
Management Fees*	2.2	2.2
Marketing	3.7	3.7
Franchise Fees*	.3	.3
Guest Entertainment*	.1	.1
Property Operation and Maintenance	5.7	5.5
Energy Costs	4.2	4.3
Total Undistributed Expenses	24.2%	23.9%
Income Before Fixed Charges	28.2%	27.5%
Property Taxes and Insurance:		
Property Taxes and Other Municipal Charges	2.7%	3.2%
Insurance on Building and Contents	.4	.5
Total Property Taxes and Insurance	3.1%	3.7%
Income Before Other Fixed Charges**	25.1%	23.8%
Percentage of Occupancy	72.6%	72.8%
Average Daily Rate per Occupied Room	$39.79	$34.51
Average Daily Room Rate per Guest	$26.62	$23.10
Percentage of Double Occupancy	49.5%	49.4%
Average Size (Rooms)	274	272

	1979	1978
Rooms Department:		
Rooms Net Revenue	100.0%	100.0%
Departmental Expenses:		
Salaries and Wages Including Vacation	14.0%	14.6%
Employees' Meals	.4	.4
Payroll Taxes and Employee Benefits	3.1	3.1
Subtotal	17.5%	18.1%
Laundry and Dry Cleaning	1.9	2.0
China, Glassware, Silver and Linen	1.0	.9
Commissions	1.6	1.6
Reservation Expenses	.7	.8
Contract Cleaning	.3	.3
All Other Expenses	2.7	2.6
Total Rooms Expenses	25.7%	26.3%
Rooms Departmental Income	74.3%	73.7%
Food and Beverage Department:		
Food Net Revenue	100.0%	100.0%
Cost of Food Consumed	38.0%	37.4%
Less: Cost of Employees' Meals	3.4	3.2
Net Cost of Food Sales	34.6%	34.2%
Food Gross Profit	65.4%	65.8%
Beverage Net Revenue	100.0%	100.0%
Cost of Beverage Sales	21.7	21.8
Beverage Gross Profit	78.3%	78.2%
Total Food and Beverage Revenue	100.0%	100.0%
Net Cost of Food and Beverage Sales	31.0	30.8
Gross Profit on Combined Sales	69.0%	69.2%
Public Room Rentals	1.7	1.5
Other Income	1.4	1.5
Gross Profit and Other Income	72.1%	72.2%
Departmental Expenses:		
Salaries and Wages Including Vacation	32.0%	31.6%
Employees' Meals	1.5	1.5
Payroll Taxes and Employee Benefits	7.3	7.1
Subtotal	40.8%	40.2%
Music and Entertainment	3.0	3.2
Laundry and Dry Cleaning	1.0	1.0
Kitchen Fuel	.3	.4
China, Glassware, Silver and Linen	1.8	1.7
Contract Cleaning	.4	.4
Licenses	.2	.2
All Other Expenses	4.7	4.4
Total Food and Beverage Expenses	52.2%	51.5%
Food and Beverage Departmental Income	19.9%	20.7%

*Averages based on total groups although not all establishments reported data.
**Income before deducting Depreciation, Rent, Interest, Amortization and Income Taxes.
NOTE: Payroll Taxes and Employee Benefits distributed to each department. See Figure No. 4 on Page 8 for Payroll Cost Data.

Monthly Occupancy Rates in Selected Cities and States—1979 vs. 1978

	Average for Year	Dec.	Nov.	Oct.	Sept.	Aug.	July	June	May	April	Mar.	Feb.	Jan.
1979:													
Atlanta, Ga.	69%	47%	71%	72%	67%	69%	71%	75%	70%	74%	77%	72%	68%
Boston, Mass.	77	54	79	94	88	88	77	84	86	83	73	63	60
Chicago, Ill.	67	43	66	83	73	71	67	78	76	67	63	60	56
Denver, Colo.	70	54	64	71	74	84	75	75	67	64	76	69	69
Los Angeles, Calif.	79	64	74	84	80	88	83	86	82	81	85	83	71
Miami, Fla.	77	73	76	71	63	72	75	66	70	84	89	96	85
New York, N.Y.	81	67	84	92	88	86	74	87	87	84	80	78	70
Philadelphia, Pa.	62	47	60	74	62	64	57	70	73	68	61	57	55
San Diego, Calif.	80	63	75	80	82	94	82	80	73	80	91	86	72
San Francisco, Calif.	86	64	84	95	92	96	92	91	90	85	91	82	70
Washington, D.C.	72	43	69	82	79	72	66	79	87	86	79	66	58
States and Regions:													
Colorado	68	52	57	67	73	85	77	74	62	60	74	70	65
Montana	69	47	61	75	73	86	80	81	72	72	69	63	51
New Mexico	69	49	58	78	72	81	74	79	73	67	71	67	60
New York State	79	64	80	90	86	85	73	85	84	81	77	74	67
Virginia	61	41	55	75	68	68	61	70	70	69	60	50	44
3 Rocky Mountain States (1)	68	48	57	63	75	83	76	77	60	66	73	65	53
Nationwide Averages (2)	71%	52%	67%	79%	73%	78%	72%	76%	76%	75%	75%	69%	64%

	Average for Year	Dec.	Nov.	Oct.	Sept.	Aug.	July	June	May	April	Mar.	Feb.	Jan.
1978:													
Atlanta, Ga.	68%	49%	68%	73%	66%	73%	67%	71%	75%	70%	69%	70%	66%
Boston, Mass.	77	55	77	90	91	87	78	85	84	81	74	64	60
Chicago, Ill.	67	47	68	78	75	71	64	77	71	73	60	60	64
Denver, Colo.	73	50	64	73	78	89	82	82	69	67	75	69	70
Los Angeles, Calif.	77	61	71	81	81	89	84	84	76	76	80	78	70
Miami, Fla.	72	72	75	71	61	70	65	58	67	75	83	90	76
New York, N.Y.	79	68	85	90	85	81	73	83	86	79	75	73	68
Philadelphia, Pa.	61	49	60	71	61	63	60	70	67	67	59	53	54
San Diego, Calif.	80	58	69	81	84	94	92	81	78	79	85	87	71
San Francisco, Calif.	82	61	84	94	94	95	93	86	82	78	82	72	63
Washington, D.C.	72	43	62	81	80	69	66	80	84	87	79	68	57
States and Regions:													
Colorado	70	50	55	66	76	89	84	81	63	65	75	67	64
Montana	72	49	63	69	77	87	88	80	67	69	67	63	52
New Mexico	70	53	60	74	75	78	79	80	71	70	72	62	62
New York State	77	64	81	87	84	81	73	82	84	77	72	70	65
Virginia	62	40	56	73	67	73	67	71	71	73	57	50	42
3 Rocky Mountain States (1)	69	47	53	62	76	86	86	80	63	68	75	62	53
Nationwide Averages (2)	67%	50%	68%	75%	72%	75%	71%	72%	72%	70%	68%	63%	59%

(1) 3 Rocky Mountain States include Nebraska, Utah and Wyoming
(2) Estimated occupancies for nation's total hotel-motel industry.

325 TRANSIENT HOTELS—1979

Ratios to Total Revenues by Geographic Divisions

	This Column for Your Figures	All Transient Hotels	Average for Top 25%*	New England and Middle Atlantic	North Central	South Atlantic	South Central	Mountain and Pacific
Revenues:								
Rooms		58.6%	58.8%	64.1%	55.2%	56.3%	57.3%	56.9%
Food—Including Other Income		25.5	25.1	21.1	27.0	27.8	26.9	27.1
Beverages		9.5	9.4	8.5	10.8	10.8	9.4	9.2
Telephone		2.7	2.7	2.9	2.5	2.6	2.7	2.6
Other Operated Departments		1.7	1.8	1.3	2.1	1.2	1.8	2.0
Rentals and Other Income		2.0	2.2	2.1	2.4	1.3	1.9	2.2
Total Revenues		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Departmental Costs and Expenses:								
Rooms		14.8%	13.9%	16.4%	14.3%	14.3%	14.3%	14.2%
Food and Beverages		28.4	26.6	24.1	30.6	30.6	29.8	29.2
Telephone		3.5	3.3	3.9	3.3	3.4	3.4	3.3
Other Operated Departments		1.2	1.2	.9	1.7	.7	1.5	1.3
Total Costs and Expenses		47.9%	45.0%	45.3%	49.9%	49.0%	49.0%	48.0%
Total Operated Departmental Income		52.1%	55.0%	54.7%	50.1%	51.0%	51.0%	52.0%
Undistributed Operating Expenses:								
Administrative and General		8.0%	7.1%	7.5%	8.7%	8.0%	8.9%	7.5%
Management Fees**		2.0	2.1	2.1	1.9	2.4	1.7	2.1
Marketing		3.7	3.2	3.6	3.8	3.7	4.3	3.5
Franchise Fees**		.2	.1	.2	.4	.2	.3	.2
Guest Entertainment**		.0	.0	.0	.1	.0	.0	.0
Property Operation and Maintenance		5.9	4.9	5.6	7.1	5.4	6.4	5.5
Energy Costs		4.2	3.4	4.8	4.5	4.5	4.6	3.3
Total Undistributed Expenses		24.0%	20.8%	23.8%	26.5%	24.2%	26.2%	22.1%
Income Before Fixed Charges		28.1%	34.2%	30.9%	23.6%	26.8%	24.8%	29.9%
Property Taxes and Insurance:								
Property Taxes and Other Municipal Charges		3.0%	2.7%	4.8%	3.4%	1.9%	2.1%	1.9%
Insurance on Building and Contents		.4	.3	.3	.4	.4	.3	.5
Total Property Taxes and Insurance		3.4%	3.0%	5.1%	3.8%	2.3%	2.4%	2.4%
Income Before Other Fixed Charges***		24.7%	31.2%	25.8%	19.8%	24.5%	22.4%	27.5%
Percentage of Occupancy		72.3%	81.4%	78.9%	63.1%	70.6%	70.2%	75.4%
Average Daily Rate per Occupied Room		$42.05	$52.84	$47.21	$37.49	$40.42	$39.45	$42.09
Average Daily Room Rate per Guest		$30.53	$37.46	$36.56	$27.92	$29.42	$27.59	$28.91
Percentage of Double Occupancy		37.8%	41.1%	29.2%	34.3%	37.4%	43.0%	45.6%
Average Size (Rooms)		370	468	479	405	316	329	329

*Averages for top 25% based on Income per Available Room Before Other Fixed Charges.
**Averages based on total groups although not all establishments reported data.
***Income before deducting Depreciation, Rent, Interest, Amortization and Income Taxes.

325 TRANSIENT HOTELS—1979

Ratios to Total Revenues by Rate Groups and City Size

	This Column For Your Figures	Rate Groups: Under $30.00	$30.00 To $35.00	$35.01 To $40.00	Over $40.00	Hotels in Large and Small Cities: 25 Large Cities	Small Cities
Revenues:							
Rooms		63.6%	57.7%	57.5%	58.4%	60.0%	55.2%
Food—Including Other Income		21.9	26.1	26.6	25.6	24.4	28.1
Beverages		9.2	10.2	9.6	9.3	8.8	11.2
Telephone		2.9	2.8	2.7	2.6	2.7	2.6
Other Operated Departments		.8	1.4	1.3	2.0	2.0	1.1
Rentals and Other Income		1.6	1.8	2.3	2.1	2.1	1.8
Total Revenues		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Departmental Costs and Expenses:							
Rooms		17.3%	14.3%	14.8%	14.6%	15.4%	13.6%
Food and Beverages		25.9	29.4	29.3	28.1	27.0	31.2
Telephone		4.0	3.5	3.6	3.4	3.6	3.3
Other Operated Departments		.7	1.2	.9	1.4	1.4	.8
Total Costs and Expenses		47.9%	48.4%	48.6%	47.5%	47.4%	48.9%
Total Operated Departmental Income		52.1%	51.6%	51.4%	52.5%	52.6%	51.1%
Undistributed Operating Expenses:							
Administrative and General		8.6%	8.5%	8.5%	7.5%	8.0%	8.0%
Management Fees*		1.8	1.6	2.1	2.2	2.0	2.0
Marketing		3.3	3.6	4.4	3.6	3.7	3.7
Franchise Fees*		.4	.5	.2	.1	.1	.5
Guest Entertainment*		.0	.0	.1	.0	.0	.1
Property Operation and Maintenance		6.1	6.4	6.1	5.7	6.2	5.2
Energy Costs		5.6	4.7	4.6	3.8	4.1	4.5
Total Undistributed Expenses		25.8%	25.3%	26.0%	22.9%	24.1%	24.0%
Income Before Fixed Charges		26.3%	26.3%	25.4%	29.6%	28.5%	27.1%
Property Taxes and Insurance:							
Property Taxes and Other Municipal Charges		2.7%	2.7%	2.7%	3.2%	3.1%	2.7%
Insurance on Building and Contents		.6	.6	.5	.3	.3	.6
Total Property Taxes and Insurance		3.3%	3.3%	3.2%	3.5%	3.4%	3.3%
Income Before Other Fixed Charges**		23.0%	23.0%	22.2%	26.1%	25.1%	23.8%
Percentage of Occupancy		69.5%	70.7%	69.4%	75.5%	74.0%	69.5%
Average Daily Rate per Occupied Room		$24.65	$32.73	$37.65	$53.76	$46.10	$34.62
Average Daily Room Rate per Guest		$18.19	$23.40	$28.32	$38.53	$33.66	$24.86
Percentage of Double Occupancy		35.5%	39.9%	32.9%	39.5%	36.9%	39.2%
Average Size (Rooms)		223	304	416	520	488	261

*Averages based on total groups although not all establishments reported data.
**Income before deducting Depreciation, Rent, Interest, Amortization and Income Taxes.
NOTE: Payroll Taxes and Employee Benefits distributed to each department. See Figure No. 4 on Page 8 for Payroll Cost Data.

325 TRANSIENT HOTELS—1!

Ratios to Total Revenues by Size and Property A|

	Size Classifications				Hotels Built During Past 15 Years	
	Under 250 Rooms	250 To 500 Rooms	501 To 1,000 Rooms	Over 1,000 Rooms	500 Rooms and Under	Over 500 Rooms
Revenues:						
Rooms	60.5%	57.2%	57.9%	60.6%	58.4%	59.8%
Food—Including Other Income	23.6	26.7	26.0	24.0	25.6	25.5
Beverages	10.3	10.1	9.1	8.5	10.7	9.1
Telephone	2.7	2.7	2.7	2.5	2.7	2.7
Other Operated Departments	1.6	1.5	2.1	1.6	1.1	1.1
Rentals and Other Income	1.3	1.8	2.2	2.8	1.5	1.8
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Departmental Costs and Expenses:						
Rooms	15.1%	14.1%	14.7%	16.2%	13.9%	14.4%
Food and Beverages	28.2	29.7	28.6	25.1	28.7	26.9
Telephone	3.6	3.5	3.6	3.4	3.4	3.3
Other Operated Departments	1.3	1.0	1.5	1.0	.8	1.1
Total Costs and Expenses	48.2%	48.3%	48.4%	45.7%	46.8%	45.7%
Total Operated Departmental Income	51.8%	51.7%	51.6%	54.3%	53.2%	54.3%
Undistributed Operating Expenses:						
Administrative and General	8.5%	8.2%	8.0%	7.0%	8.0%	7.6%
Management Fees*	1.7	2.4	2.0	1.7	2.3	2.0
Marketing	3.4	3.8	3.8	3.6	3.9	4.0
Franchise Fees*	.4	.4	.1	.0	.5	.2
Guest Entertainment*	.1	.0	.1	.0	.1	.1
Property Operation and Maintenance	5.3	5.5	6.5	6.1	4.8	5.0
Energy Costs	4.4	4.1	4.2	4.3	4.3	4.1
Total Undistributed Expenses	23.8%	24.4%	24.7%	22.7%	23.9%	23.0%
Income Before Fixed Charges	28.0%	27.3%	26.9%	31.6%	29.3%	31.3%
Property Taxes and Insurance:						
Property Taxes and Other Municipal Charges	2.4%	2.7%	2.6%	4.8%	2.7%	2.9%
Insurance on Building and Contents	.6	.4	.3	.2	.5	.3
Total Property Taxes and Insurance	3.0%	3.1%	2.9%	5.0%	3.2%	3.2%
Income Before Other Fixed Charges**	25.0%	24.2%	24.0%	26.6%	26.1%	28.1%
Percentage of Occupancy	72.4%	72.8%	71.8%	72.1%	73.2%	72.9%
Average Daily Rate per Occupied Room	$33.04	$40.26	$44.13	$53.53	$36.90	$43.01
Average Daily Room Rate per Guest	$23.31	$29.60	$32.26	$38.48	$26.31	$30.30
Percentage of Double Occupancy	41.8%	36.0%	36.8%	39.1%	40.2%	42.0%
Average Size (Rooms)	162	357	673	1660	260	700

*Averages based on total groups although not all establishments reported data.
**Income before deducting Depreciation, Rent, Interest, Amortization and Income Taxes.
NOTE: Payroll Taxes and Employee Benefits distributed to each department. See Figure No. 4 on Page 8 for Payroll Cost Data.

325 TRANSIENT HOTELS—1979

Summary—Ratios to Departmental Revenues

Line No.		This Column for Your Figures	All Transient Hotels	Average for Top 25%*	Geographic Divisions: New England and Middle Atlantic	North Central	South Atlantic	South Central	Mountain and Pacific
	Rooms Department:								
1	Rooms Net Revenue		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Departmental Expenses:								
2	Salaries and Wages Including Vacation		14.2%	12.8%	14.3%	14.6%	14.2%	14.3%	13.8%
3	Employees' Meals		.4	.4	.5	.4	.5	.4	.4
4	Payroll Taxes and Employee Benefits		3.2	3.2	3.6	2.9	3.0	2.5	3.3
5	Subtotal		17.8%	16.4%	18.4%	17.9%	17.7%	17.2%	17.5%
6	Laundry and Dry Cleaning		1.9	1.8	1.8	2.1	2.0	2.0	2.0
7	China, Glassware, Silver and Linen		.9	.8	1.0	1.0	.9	1.2	.8
8	Commissions		.9	1.2	.9	.6	.8	.7	1.1
9	Reservation Expenses		.8	.9	.9	.9	.8	.7	.8
10	Contract Cleaning		.3	.3	.4	.5	.2	.2	.3
11	All Other Expenses		2.7	2.3	2.2	2.9	3.0	2.9	2.4
12	Total Rooms Expenses		25.3%	23.7%	25.6%	25.9%	25.4%	24.9%	24.9%
13	Rooms Departmental Income		74.7%	76.3%	74.4%	74.1%	74.6%	75.1%	75.1%
	Food and Beverage Department:								
14	Food Net Revenue		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
15	Cost of Food Consumed		37.3%	35.6%	35.1%	38.8%	37.8%	38.3%	37.4%
16	Less: Cost of Employees' Meals		3.7	3.5	4.1	3.4	3.4	3.7	3.7
17	Net Cost of Food Sales		33.6%	32.1%	31.0%	35.4%	34.4%	34.6%	33.7%
18	Food Gross Profit		66.4%	67.9%	69.0%	64.6%	65.6%	65.4%	66.3%
19	Beverage Net Revenue		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20	Cost of Beverage Sales		21.2	20.1	20.6	22.4	21.7	21.7	20.4
21	Beverage Gross Profit		78.8%	79.9%	79.4%	77.6%	78.3%	78.3%	79.6%
22	Total Food and Beverage Revenue		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
23	Net Cost of Food and Beverage Sales		30.1	28.7	27.9	31.6	30.7	31.2	30.2
24	Gross Profit on Combined Sales		69.9%	71.3%	72.1%	68.4%	69.3%	68.8%	69.8%
25	Public Room Rentals		2.3	2.4	2.8	1.7	2.5	1.5	2.6
26	Other Income		1.7	2.4	2.3	1.2	1.7	2.3	1.5
27	Gross Profit and Other Income		73.9%	76.1%	77.2%	71.3%	73.5%	72.6%	73.9%
	Departmental Expenses:								
28	Salaries and Wages Including Vacation		33.3%	31.9%	35.9%	32.5%	32.6%	32.1%	32.8%
29	Employees' Meals		1.7	1.8	1.9	1.7	1.6	1.6	1.8
30	Payroll Taxes and Employee Benefits		7.8	7.9	9.1	6.8	7.4	6.3	8.1
31	Subtotal		42.8%	41.6%	46.9%	41.0%	41.6%	40.0%	42.7%
32	Music and Entertainment		2.5	2.4	1.7	2.1	2.3	4.0	2.7
33	Laundry and Dry Cleaning		1.0	1.0	.8	1.0	1.0	1.1	1.2
34	Kitchen Fuel		.3	.3	.4	.3	.3	.4	.3
35	China, Glassware, Silver and Linen		2.1	2.2	2.4	1.9	1.8	2.4	1.9
36	Contract Cleaning		.5	.5	.6	.7	.3	.3	.4
37	Licenses		.2	.1	.1	.2	.2	.4	.1
38	All Other Expenses		4.5	3.8	4.7	4.8	4.5	5.5	4.0
39	Total Food and Beverage Expenses		53.9%	51.9%	57.6%	52.0%	52.0%	54.1%	53.3%
40	Food and Beverage Departmental Income		20.0%	24.2%	19.6%	19.3%	21.5%	18.5%	20.6%

*Averages for top 25% based on Income per Available Room Before Other Fixed Charges.

Line No.	Rate Groups: Under $30.00	Rate Groups: $30.00 to $35.00	Rate Groups: $35.01 to $40.00	Rate Groups: Over $40.00	Size Classifications: Under 250 Rooms	Size Classifications: 250 to 500 Rooms	Size Classifications: 501 to 1,000 Rooms	Size Classifications: Over 1,000 Rooms	Hotels in Large and Small Cities: 25 Large Cities	Hotels in Large and Small Cities: Other Cities and Towns	Hotels Built During Past 15 Years: 500 Rooms and Under	Hotels Built During Past 15 Years: 500 Rooms
1	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2	16.3%	14.2%	14.7%	13.7%	14.2%	14.1%	14.7%	14.0%	14.0%	14.2%	13.6%	13.0%
3	.3	.3	.4	.5	.4	.4	.3	.4	.4	.5	.4	.5
4	3.0	2.7	3.3	3.4	3.4	2.8	2.9	2.9	3.2	4.2	2.6	2.9
5	19.6%	17.2%	18.4%	17.6%	18.0%	17.3%	17.9%	17.3%	17.6%	18.9%	16.6%	16.4%
6	1.9	2.2	2.1	1.9	2.0	1.9	1.8	1.8	2.0	2.1	1.8	1.9
7	1.2	.9	.9	.9	.9	.9	.9	.9	1.0	.9	.9	1.0
8	.4	.5	.6	1.1	1.0	.6	.6	.8	1.0	.9	.7	1.0
9	.7	.8	.7	.9	.9	.7	.6	.7	.8	1.4	.7	.8
10	.2	.3	.3	.4	.4	.2	.2	.3	.3	.5	.3	.2
11	3.3	2.9	2.8	2.2	2.4	3.0	2.9	2.9	2.8	2.0	2.8	2.8
12	27.3%	24.8%	25.8%	25.0%	25.6%	24.6%	24.9%	24.7%	25.5%	26.7%	23.8%	24.1%
13	72.7%	75.2%	74.2%	75.0%	74.4%	75.4%	75.1%	75.3%	74.5%	73.3%	76.2%	75.9%
14	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
15	40.9%	39.5%	38.2%	35.9%	36.3%	39.2%	41.6%	39.0%	36.3%	32.0%	39.9%	36.1%
16	3.1	3.5	3.9	3.7	3.9	3.2	3.5	4.0	3.7	3.1	3.5	3.4
17	37.8%	36.0%	34.3%	32.2%	32.4%	36.0%	38.1%	35.0%	32.6%	28.9%	36.4%	32.7%
18	62.2%	64.0%	65.7%	67.8%	67.6%	64.0%	61.9%	65.0%	67.4%	71.1%	63.6%	67.3%
19	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20	23.9	22.3	21.2	20.5	20.6	22.3	23.1	21.7	21.1	18.4	22.0	20.0
21	76.1%	77.7%	78.8%	79.5%	79.4%	77.7%	76.9%	78.3%	78.9%	81.6%	78.0%	80.0%
22	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
23	33.6	32.0	30.7	28.9	29.1	32.0	33.5	31.2	29.5	26.0	32.1	29.2
24	66.4%	68.0%	69.3%	71.1%	70.9%	68.0%	66.5%	68.8%	70.5%	74.0%	67.9%	70.8%
25	2.0	2.8	2.6	2.1	2.2	2.5	1.8	2.7	2.0	2.1	2.8	2.3
26	.9	.8	1.3	2.2	2.1	1.1	.6	1.2	2.6	2.5	1.1	2.1
27	69.3%	71.6%	73.2%	75.4%	75.2%	71.6%	68.9%	72.7%	75.1%	78.6%	71.8%	75.2%
28	32.1%	32.3%	33.2%	33.8%	34.5%	31.1%	32.4%	32.8%	34.0%	34.1%	31.1%	32.0
29	1.2	1.4	1.5	2.0	2.0	1.3	1.4	1.6	1.8	2.3	1.4	1.4
30	5.6	6.5	7.9	8.4	8.5	6.5	6.4	7.1	8.0	9.9	6.2	7.4
31	38.9%	40.2%	42.6%	44.2%	45.0%	38.9%	40.2%	41.5%	43.8%	46.3%	38.7%	40.8
32	4.4	2.8	2.1	2.3	2.3	2.9	3.7	2.4	2.9	1.0	3.2	2.3
33	.7	1.1	1.1	1.0	1.1	1.0	.9	1.1	1.1	.8	.9	1.0
34	.3	.3	.3	.3	.4	.3	.3	.3	.3	.4	.3	.3
35	1.5	1.5	1.9	2.3	2.3	1.6	1.5	1.9	2.3	2.4	1.7	2.0
36	.2	.3	.4	.5	.5	.4	.3	.3	.5	.7	.3	.3
37	.4	.3	.2	.1	.2	.2	.3	.2	.1	.1	.3	.2
38	5.4	5.1	4.8	4.4	4.3	4.7	4.8	5.0	4.6	3.6	4.9	5.1
39	51.8%	51.6%	53.4%	55.1%	56.1%	50.0%	52.0%	52.7%	55.6%	55.3%	50.3%	52.0
40	17.5%	20.0%	19.8%	20.3%	19.1%	21.6%	16.9%	20.0%	19.5%	23.3%	21.5%	23.2

APPENDIX #2

Uniform System of Accounts

To obtain "Uniform System of Accounts," write to:

Hotel Association of New York City
141 West 51st Street
New York, New York 10019

APPENDIX #3

Sample Balance Sheet and Statement of Income

Sample Balance Sheet

	Beginning of Year	End of Year
Current Assets:		
Cash	$ 5,000	$ 4,500
Accounts Receivable	10,000	12,000
Food Inventory	2,000	2,000
Prepaid Expenses	2,000	1,500
Total	19,000	20,000
Property and Equipment:		
Furniture and Fixtures	40,000	48,000
Accumulated Depreciation, Furniture and Fixtures	(30,000)	(25,000)
Building	400,000	400,000
Accumulated Depreciation Building	(300,000)	(307,000)
Land	50,000	50,000
Total	160,000	166,000
Total Assets	$ 179,000	$ 186,000
Current Liabilities:		
Accounts Payable	$ 7,000	$ 6,000
Wages Payable	2,000	2,000
Total	9,000	8,000
Noncurrent Liabilities:		
Mortgage Payable	100,000	95,000
Note – Local Bank	-0-	7,000
Total	100,000	102,000
Shareholders' Equity:		
Capital Stock	10,000	10,000
Retained Earnings	60,000	66,000
Total	70,000	76,000
Total Liabilities and Stockholders' Equity	$ 179,000	$ 186,000

Sample Hotel Balance Sheet

Sample Statement of Income

	Revenue	Cost of Sales	Payroll and Related Expenses	Other Expenses	Income (Loss)
Rooms	$120,000	$ -0-	$30,000	$30,000	$60,000
Food	50,000	20,000	15,000	8,000	7,000
Rentals and Other Income	10,000	-0-	-0-	-0-	10,000
• Total	180,000	20,000	45,000	38,000	77,000
Undistributed Operating Expenses:					
Administrative and General			20,000	2,000	22,000
Marketing			-0-	5,000	5,000
Property Operation, Maintenance and Energy Costs			5,000	15,000	20,000
Total	$180,000	$20,000	$70,000	$60,000	47,000
Total Income Before Fixed Charges					30,000
Rent, Property Taxes and Insurance					7,000
Interest Expense					5,000
Depreciation Expense					10,000
Total Income Before Gain on Sale of Property and Income Taxes					8,000
Gain on Sale of Property					2,000
Income Before Income Taxes					10,000
Income Taxes					3,000
Net Income					$ 7,000

Note: The food operation sold 12,000 covers during the year, while 6,000 rooms were sold

Sample Hotel Statement of Income

APPENDIX #4

Rainbow Hotel Statement of Income 1980

RAINBOW HOTEL

Statement of Income 1980

Revenue:		
	Rooms	$136,019.00
	Restaurant	119,156.00
	Lounge	92,430.00
	Meeting Rooms	6,107.00
	Banquet Food	27,605.00
	Banquet Bar	142,181.00
	Office Rentals	10,020.00
	Parking Rental	4,008.00
	Elbon Club Bar	29,630.00
	Elbon Club Food	24,003.00
	Other Income (Elbon Club rent, laundry, phone commission, vending machine commission)	12,133.00
	Total Revenue	$603,292.00
Operating Expenses:		
	Payroll	$295,032.00
	Payroll Taxes	28,533.00
	Employee Benefits	148.00
	Total Payroll & Related Expenses	$323,713.00
	Rooms:	
	Linen	$ 3,020.00
	Supplies	32,234.00
	Laundry	20,600.00
	Uniforms	1,205.00
	Total Rooms Expense	$ 57,059.00
Cost of Food & Liquor:		
	Food	$154,261.00
	Liquor (Lounges & Elbon Club)	52,580.00
	Total Cost of Food & Liquor	$206,841.00
Property Operation, Maintenance, Utility Costs:		
	Utilities	$ 50,358.00
	Repairs & Maintenance	22,201.00
	Total Property Operation, Maintenance Utility Costs	$ 72,559.00

(Continued)

Rainbow Hotel Statement of Income 1980 (Continued)

General Expenses:	
Office Supplies	$ 3,189.00
Rental Equipment	458.00
Travel & Entertainment	830.00
Advertising	9,297.00
Business Promotion	7,732.00
Bank Charges and Fees	2,905.00
Music	5,976.00
Restaurant Supplies	1,260.00
Dues & Subscriptions	572.00
Casual Labor	75.00
Freight	811.00
Telephone	10,695.00
Legal & Accounting Fees	6,579.00
Life Insurance	1,356.00
Total General Expenses	$ 51,735.00
Total Operating Expenses	$711,907.00
Total Income before Fixed Charges	($108,615.00)
Deduct Fixed Charges	$ 69,490.00
Income/Loss before Income Taxes	($178,105.00)

APPENDIX #5

Room Sales Survey
Great Falls, Montana

Great Falls, Montana
Hotel/Motel Rates

	Single	Double*	Special Rates
Rainbow	$18.00	$22 - $28	$10.00 (Consolidated Trucking)
Triple Crown	20.00	$25 (1 BD) 28 (2 BD)	NONE
O'Haire Manor	19.50	25 - 30	10.00 (day rate)
Shasta	14-17	16 - 20	NONE
Heritage Inn	32.00	38-44	29.00 (single commercial)
Ponderosa Inn	25.00	29-33	NONE
Sheraton	33.00	39.00	Flexible & Varied
Elmore Hotel	13.00	15-20	NONE
Holiday Inn	33.00	39.00	26.00 (Commercial)
Holiday Village Super 8	17.88	20.88-22.88	NONE
Imperial 400	21.00	23-27	19.00 (Commercial)
Midtown Motel	19.00	25.00	NONE
Motel Central	16.00	18.00	NONE

*Survey accomplished September 3, 1980.

*Rate ranges vary according to room size; size of beds; number of beds; black and white -vs- color TV's; and location in complex, i.e., poolside, etc.

APPENDIX #6

Room Sales Analysis

Rainbow Hotel
1980

RAINBOW HOTEL

Room Rent Analysis
1980

Month	Available	Average Occupancy (Percent)	Average Room Rate (Dollars)
JAN	5,177	7.7	12.80
FEB	4,843	10.8	14.61
MAR	5,160	12.1	14.43
APR	4,419	14.6	17.19
MAY	5,010	14.9	20.44
JUN	4,952	16.3	19.50
JUL	5,177	12.1	18.10
AUG	5,177	20.4	19.43
SEP	5,009	59.2	16.43
OCT	5,078	20.7	15.97
NOV	4,043	10.7	16.05
DEC	5,177	8.6	13.89

Total Rooms Available: 59,222

Total Rooms Sold: 10,269

Average Rooms Available per Night: 164.5

Average Occupancy: 17.34%

Average Room Rate: $16.57

APPENDIX #7

Bibliography Provided By
American Hotel & Motel Association

American Hotel & Motel Association
888 SEVENTH AVENUE • NEW YORK, N. Y. 10019 • (212) 265-4506

BIBLIOGRAPHY

HOTELS/MOTELS/CLUBS/RESTAURANTS

(Planning-Construction-Renovation-Decoration-Operation)

NOTE: Publications are to be ordered directly from the publisher of book firms indicated. For complete addresses of these firms, see page 19 of this bibliography. Since all prices are subject to change by the publishers without notice, they have not been indicated.

INDEX

ACCOUNTING

BASIC BOOKKEEPING FOR THE HOSPITALITY INDUSTRY - by Stanley B. Tarr, Clifford T. Fay, Jr. Educational Institute, 1975. 148 pp. Also: National Restaurant Association. This book gives the reader a comprehensive picture of the basic accounting methods used by the hotel and motel industry. The activities of the front office and the night auditor play an important role in the accounting process. Chapters are included in the text covering these functions, so that accountants will have a better understanding of how these activities affect their responsibilities.

COST CONTROLS FOR THE HOSPITALITY INDUSTRY - by Michael M. Coltman. CBI Publishing Co., Inc., 1980. 410 pp. Subjects covered: Costs and Decision-Making; Cost Control by Budgeting; Purchasing and Inventory Cost Control; Food Purchasing, Receiving, and Inventory Control; The Food Cost percent; Evaluating Food Cost Results; Beverage Purchasing, Receiving, and Storeroom Control. Beverage Cost Control: The Bar, Introduction to Labor Cost Control, Labor Cost Standards, Control of Other Direct and Indirect Costs, Long-Term Investment Cost Control, Asset Management.

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HOTEL ACCOUNTING - by Ernest B. Horwath and Louis Toth. Revised by John D. Lesure. (Ronald Press), John Wiley & Sons, Inc., 1978, Fourth Edition. 424 pp. Also: Educational Institute. This comprehensive guide provides a detailed program for handling the specialized accounting requirements of hotels and motor inns of all sizes and types. The book draws on the practices of well-managed, economy-minded establishments to demonstrate the best procedures for installing, operating, and auditing accounts and systems, controlling departmental operations, and spotting and stopping profit leaks. Special attention is given to problems associated with internal control of income and accounts receivable, sale-and-leaseback transactions, syndicated ownership, guest referral groups and credit card sales. Emphasis is placed on simplified food and beverage control, payroll control and forecasting and budgeting. Computerized methods are highlighted throughout. Illustrated with scores of records, forms, tables and specimen financial statements.

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choose the most efficient, space-saving layouts for parking areas of a variety of sizes and shapes. It gives recommended specifications for securing a quality asphalt pavement job, suggests proper construction and maintenance procedures, and offers guidelines for estimating construction costs of parking areas, walks and driveways.

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CONTROLLING AND ANALYZING COSTS IN FOODSERVICE OPERATIONS - by James Keiser and Elmer Kallio. National Restaurant Association, 1974. 291 pp. This book covers receiving, storing, issuing, and menu control. Unlike other books, it stresses labor costs analysis and control--a foodservice factor which often overrides all others. It considers control as a function in itself rather than a part of other functions. Also includes extensive discussions of accounting, budgeting, break-even, theft control, data processing, and decision making.

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FOOD AND BEVERAGE OPERATION - by Charles Levinson. National Restaurant Association, 1976. 256 pp. A complete analysis of the control systems required for food and beverage operations. Each step in the entire control system is detailed and demonstrated, with illustrations of how changes affect the efficiency of established systems. Also, outlines employment opportunities.

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HOW TO OPEN AND OPERATE A RESTAURANT - by Ray Petteruto. Van Nostrand Reinhold Co., 1979. 270 pp. The author, with 32 years' experience in the foodservice field, has presented practical guidelines for restaurant ownership. It begins with financing options, continues with menu considerations, furnishings and decor. There's a discussion of equipment, purchasing, receiving, and storage of food and beverages.

HOW TO PLAN AND OPERATE A RESTAURANT - by Peter Dukas. Hayden Book Co., 1973. 141 pp. Second Edition. Also: National Restaurant Association. Covers almost every phase of restaurant operation: location, credit, best form of organization, financing, equipment and layout, insurance, promotion, personnel and training, menu planning and purchasing, storing and control of food costs.

THE IFMA ENCYCLOPEDIA OF THE FOODSERVICE INDUSTRY - by Julie Woodman. National Restaurants Association, 1975, Second Edition. 136 pp. This edition has been totally rewritten, revised and updated! Gives you, once again, fingertip expertise. It includes: Census Bureau data; market statistics; market trends; state and metropolitan market data; business indicators. In addition, this book is a complete reference source, including names addresses and phone numbers of: Foodservice Associations, Foodservice Publications, Consultants, Market Research Firms, and Federal Agencies, and includes contact's names.

INTRODUCTION TO HOTEL AND RESTAURANT MANAGEMENT - by Robert A. Brymer. Kendall/Hunt Publishing Co., 1979, Second Edition. 326 pp. Subjects include a brief history of the franchise requirements for Wendy's International, a lengthy interview with John Portman and the philosophy behind his hotel designs. Provides overviews of food and beverage cost control and electronic folioing. A guide to recreation and entertainment facilities that appeal to long-staying guests. Many subjects of particular interest to hotel sales people. Each of the 43 readings is written by a different author.

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MANAGEMENT BY MENU - by Lendal H. Kotschevar. National Restaurant Association, 1975. 381 pp. An authoritative new book on foodservice management with a fresh perspective. The whole range of operation--from purchasing through production and service--is covered from the standpoint of the menu as the key management tool as well as the merchandising message to the customer. Abundantly documented with reproductions of menus and effective control forms.

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THE MANAGEMENT OF PEOPLE IN HOTELS, RESTAURANTS, AND CLUBS - by Donald E. Lundberg and James P. Armatas. Wm. C. Brown Co., Publishers, 1980. 384 pp. Relates theory of personnel management to actual practice. It covers job analysis, recruitment, selection, placement and training. Applies motivational theory to management development. Labor relations, wage and salary administration and ways of increasing employee morale are discussed.

MANAGING BARS FOR PROFIT - A Liquor Control System for Hotels, Clubs, Restaurants and Taverns - by Peter Dukas. Hayden Book Co. For students to take with them for future on-the-job success. Gives concepts, principles and step-by-step data evolved from the experiences of many successful bar operations throughout the country. Spells out the function of marketing and promotion for bars; sifts out those practices right for bars to build an ever-increasing sales volume. Consists of a convenient vinyl folder, complete with profit/inventory control forms and a 48-page instruction booklet.

MODERN FOOD SERVICE PLANNING - by William L. Kahrl. National Restaurant Association, 1975. 91 pp. This new manual will help you improve your present operation, remodel an existing facility or start a new operation. Helps you plan accurately for the menu, equipment, budget, staff hours, atmosphere and tone, and food preparation methods that will spell success for you.

PLANNING AND OPERATING A SUCCESSFUL FOOD SERVICE OPERATION - by William L. Kahrl. Lebhar Friedman, Inc., 1973. 239 pp. Also: National Restaurant Association. This book covers in-depth subjects such as how to choose the right site for a restaurant, planning the building, selecting the right equipment for the job, buying and preparing food, promotion and others. Readers will feel they have an expert at their side.

PLANNING PROFITS IN THE FOOD AND LODGING INDUSTRY - by Peter Dukas. CBI Publishing Co., 1976. 192 pp. Also: National Restaurant Association. This book offers a number of practical ways of increasing profits that are not found in the average text. For example, it shows how to control gross profit and food costs without knowing the daily food cost or using any paper forms. It gives an example of how to add thousands to your profit figure by reducing certain expenses by only ten dollars. On the other hand, it shows how to increase profits, in many instances, by increasing expenses.

PROFILE OF A RESTAURANT ORGANIZATION - by Frank K. Lemoine. National Restaurant Association, 1970. 105 pp. Advice on planning and organizing a food service operation. Gives students an idea of complexities involved, and helps established restauranteurs to correct mistakes and determine proper proportion of capital to invest in consulting, training and merchandising. Includes feasibility chart, data on food cost and service, purchasing equipment, space planning factors and floor plans, menu design, staffing and merchandising.

PROFITABLE FINANCIAL MANAGEMENT FOR FOODSERVICE OPERATIONS THRU: PROFIT PLANNING - by William Fisher, Ph.D. National Restaurant Association, 1973. 32 pp. The methods and procedures through which a foodservice operator can pre-plan his profits are fully explained in this easy-to-read booklet. Identification of the types of costs incurred, both those that remain static and those which fluctuate over the short run, are discussed. How to use costs in setting menu prices and calculating customer traffic is outlined through the use of actual examples.

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PROFITABLE RESTAURANT MANAGEMENT - by Kenneth L. Soloman and Norman Katz. National Restaurant Association, 1977. 235 pp. From cost-effective operating procedures to little-known profit boosters of successful restauranteurs, this full-course guidebook serves up a proven, systematic program for the profitable management of any restaurant, regardless of size or market. Scores of easily adaptable forms, worksheets and sample menus accompany the book's in-depth coverage of food and beverage cost control, material handling, daily record keeping, financial analysis, short and long-term planning and employee retention.

READINGS ON MANAGING HOTELS/RESTAURANTS/INSTITUTIONS - by Dunnovan L. Sapienza, James R. Abbey and Jerome J. Vallen. Hayden Book Co., 1977. 416 pp. Also: Educational Institute and National Restaurant Association. This book of 56 readings integrates and organizes the management principles, techniques and practices from such fields as business administration, accounting, marketing, psychology, sociology and education that for so long have affected and shaped the hospitality industry.

RESTAURANT FINANCE: A HANDBOOK FOR SUCCESSFUL MANAGEMENT AND OPERATIONS - by John Ilich, National Restaurant Association, 1975. 152 pp. The author analyzes the major financial and legal considerations of starting, owning, remodeling and operating a restaurant. Included are the legal and financial aspects of lease and sublease provisions, restaurant insurance, forms of restaurant ownership, and, of course, the tax aspects of restaurant financing. Also included is a chapter on the benefits and drawbacks of franchising.

SO YOU WANT TO START A RESTAURANT? - by Dewey A. Dyer. CBI Publishing Co., 1971. 163 pp. Also: National Restaurant Association. Guidelines for the individual going into the restaurant business without prior experience--new insights for the experienced operator about to expand, remodel or prepare an analysis of his ongoing operation are presented in an easy reference format. Personnel, hiring, receiving, training and motivation are presented in practical terms.

SUCCESSFUL CATERING - by Bernard R. Splaver. CBI Publishing Co., 1975. 360 pp. Also: National Restaurant Association. This book details the steps necessary to get started and grow in the foodservice business, from part-time accommodator to full-time professional. The book offers facts to consider when purchasing, renting or leasing delivery equipment, and offers valuable help in the purchasing of production and storage equipment. It also lists items to include when preparing estimates, and gives rules that can help make parties more successful. Another feature is a chapter on Kosher catering and its disciplines.

SUCCESSFUL KITCHEN OPERATION AND STAFF MANAGEMENT HANDBOOK - by J. A. Van Duyn. Prentice Hall, Inc., 1979. 224 pp. New handbook packs all vital management know-how to keep profits piling up in today's increasingly competitive restaurant market. Latest money-making ideas, techniques, charts, forms and worksheets. Brings together the expertise of over 100 of the top restaurant minds in the country to help you streamline the costs and raise the quality of your kitchen operation.

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ARE MOTELS FOR YOU - by Van R. Scoggin, Bill Swoboda and W. E. Hoyt. Scoggin-Blue & Associates, Third Revised Edition, 1977. 61 pp. This booklet was written primarily for prospective first-time investors in motels. Includes general information about buying motels; motel records--what to look for in a motel statement, depreciation, etc.; motel values; motel operation; and the future of the motel industry.

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housekeeping, engineering, service and food and beverage. It concerns itself with all the jobs and tasks involved in maintaining the building and related facilities and the management of these jobs and tasks. This book gives the natural solution to the interrelated problems of the several departments to combine the related activities into a property management department, or to at least utilize one person, the property manager, to supervise and direct these related activities. The book develops the role of the property manager within the lodging establishment. Procedures to develop and establish equipment replacement policies are recommended. Considerable time is devoted to personnel staffing and scheduling. Finally, the future is viewed in respect to the rapidly changing technology in the field of property management.

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THE LABOR-MANAGEMENT RELATIONS HANDBOOK FOR HOTELS, MOTELS, RESTAURANTS & INSTITUTIONS - by Herbert K. Kitzky. Educational Institute, 1975. 257 pp. Also: National Restaurant Association. This book is designed as a guide and reference on the effective handling of all kinds of labor/management problems. The book discusses and defines labor's and management's viewpoints, details the growth of unions, and provides guidelines for improving work relations and building a forward-looking personnel philosophy. It also covers effective grievance-handling methods, shows how labor and management conduct organizing campaigns, and tells what management and labor can and cannot do.

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MOTEL HOSPITALITY - by Howard V. Heldebrand. National Restaurant Association, 1971. 85 pp. This book shows how to offer a personal touch to routine motel transactions. Includes relations with fellow workers and management; greeting and registering the guests; handling mail, messages and telephone calls; room service; complaints; guests' departures and promotional pointers. It's like giving your employees a training program on motel hospitality.

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PRACTICAL HOTEL/MOTEL COST REDUCTION HANDBOOK - by Herbert K. Witzky. Hayden Book Co., 1970. 207 pp. Also: National Restaurant Association. You'll find simple, effective cost control charts and reports that really work. Budgeting control systems for gaining maximum return on every dollar spent. Payroll procedures ranging from overtime to work simplification. Sure-fire ways to detect, handle and prevent thievery. Plus a 419-point Master Control Analysis Checklist and Guide that covers every aspect of management control and practice.

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THE PROFESSIONAL HOUSEKEEPER - by Georgina Tucker & Madelin Schneider. CBI Publishing Co., Inc., 1975. 400 pp. Also: Educational Institute; National Restaurant Association. This is a comprehensive text on housekeeping in hotels, motels, and institutions for use in vocational housekeeping courses at the high school and junior college level, for on-the-job training, and for reference and self-instruction. The book outlines career opportunities in housekeeping, describes the different types of facilities requiring housekeeping services, and defines the many housekeeping positions. Some of the contents: History of the Lodging Industry; Types of Lodging Establishments; Staffing the Housekeeping Department; Interior Design--Public Spaces; Bathrooms and Rest Rooms; Equipment and Supplies; Uniforms; The Linen Room; Dewing Room and Storage Areas; Procedure Manuals; Carpet Selection and Care; Linens, Textiles, Bedding and Beds; Walls--Their Covering and Care; Windows-- Their Care and Treatment; Training and Incentives; Turnover, Evaluating, Promoting; Safety, Fire Prevention, Health; the Laundry; Record Keeping--Personnel, Purchasing and Controls.

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READINGS ON MANAGING HOTELS/RESTAURANTS/INSTITUTIONS - by Dunnovan L. Saplenza, James R. Abbey and Jerome J. Vallen. See BAR AND RESTAURANT PLANNING AND OPERATION listing.

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WHAT IS A MOTEL/HOTEL WORTH? - by Holton L. Hudson. The Atlantic Institute, Division of Atcom, Inc., 1978. 37 pp. A checklist of the facts and figures needed to determine true value of a motel/hotel operation for purchase, sale, construction or expansion of property. Contains systematic charts and tables. Author has had 45 years' experience as a motel/hotel executive and as president of the Alabama Hotel & Motel Association. Includes such information as: data necessary to analyze feasibility of an operation, sources for data, suggested procedure for analysis, illustration of financial statements, rule of thumb for placing a reasonable value on a hotel/motel, and an analysis of 48 properties for sale throughout the United States.

YOUR FUTURE IN HOTEL MANAGEMENT - by Roger Sonnabend. Richards Rosen Associates, 1977, Revised Edition. Gives requirements, advantages and drawbacks of hotel career.

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HOSPITALITY MANAGEMENT: AVOIDING LEGAL PITFALLS - by Jon P. McConnell and Lothar A. Kreck, CBI Publishing Co., Inc., 1976. 205 pp. This text has been written for practitioners hospitality operations, and for students of hotel and restaurant management. It is not "legal" book in the common sense, but discusses legal points in common language. The book is up to date: it includes sections on the Occupational Safety and Health Act as well as on the Labor-Management Act and the Equal Employment Opportunity Act.

HOTEL & MOTEL LAWS - National Insurance Law Service, 1977. Annual subscription fee. Laws of individual states at an additional charge. The new reference is not only intended for counsel but also to serve as a day-to-day working tool for executives and operating personnel. Key topics include innkeeper's liability, civil rights and public accommodation licensing, taxation, labor laws, credit fraud, restaurant practices, health and fire laws.

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THE LAWS OF INNKEEPERS - by John H. Sherry. Cornell Hotel & Restaurant Administration Quarterly, 1972. 528 pp. Also: National Restaurant Association; Educational Institute. This is a collection of cases on all aspects of operating hotels, motels, restaurants and clubs. It will serve as an indispensable handbook for the practicing hotelman, as a text for students of hotel administration, and as a standard reference work for attorneys who encounter legal problems in the public hospitality field.

TRAVEL AND LODGING LAW: PRINCIPLES, STATUTES AND CASES - by John R. Goodwin and James M. Rovelstad. Grid Publishing, 1980. 456 pp. The first 15 chapters are devoted to business law concepts tied to the hospitality industry, and only the nine chapters remaining elaborate on the duties of innkeepers, travel agencies, and carriers to their consumers.

PROMOTION

CONVENTION LIAISON MANUAL - prepared by Convention Liaison Council (AH&MA one of the sponsors). American Hotel & Motel Association, 1980. 101 pp. While the manual is aimed at meeting planners, there is a lot of solid information in it for the hotelier including: suggested master account billing procedures, how to create livelier menus, data on contracts and insurance and a glossary of terms.

CONVENTION MANAGEMENT AND SERVICE - by Frank W. Berkman, David C. Dorf, Leonard R. Oakes, Educational Institute, 1978. 230 pp. Also: National Restaurant Association. This book about convention and group business discusses not only large conventions, involving thousands of epople, but the smaller group functions that make up the bulk of convention income for many hotel and motel properties. The authors discuss the wide spectrum of the convention market, individual needs of people who plan and are a part of the group function, and ways to service groups effectively while on the property. It answers the question of the proper balance

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HOTEL-MOTEL MARKETING - by David Hertzson. National Restaurant Association, 1971. 198 pp. The successful hotel-motel professional must be able to perform a multitude of operational duties in a polished, businesslike manner. This book will help him and students of marketing to understand and become functional in hotel-motel marketing.

HOW TO PROMOTE YOUR RESTAURANT - National Restaurant Association, 1965. 141 pp. Includes guidelines to trade promotion; why the food service operator must engage in sales-making activities; planning sales-making activities; credit cards; discount plans and publicity; public relations; internal promotion focused on menus; point-of-sale material and employee participation; external promotional media: newspapers, direct mail, outdoor advertising; transit advertising, building signs, Yellow Pages, radio, TV, and magazines.

MARKETING FOR A FULL HOUSE - by C. DeWitt Coffman. The Cornell Hotel & Motel Restaurant Administration Quarterly, 1971. Also: National Restaurant Association; Educational Institute. This marketing-oriented sales manual provides a complete blueprint to today's travel market and how to promote sales of a hotel, motor inn, and recreational facilities. This book is the successor to THE FULL HOUSE, published in 1964, and widely used as a primer for promotion by individual operators and as a textbook by colleges.

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