MODULE 7

Financial management for events: Part 1

University of Cape Town
Events Management short course

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Tel: +27 21 447 7565 | **Fax:** +27 21 447 8344
Website: www.getsmarter.com | **Email:** info@getsmarter.com

Learning Outcomes:

LO1: Use the basic principles of accounting.

LO2: Use the budgeting process to develop an event budget.

Disclaimer:

These notes are adapted from the University of Cape Town and GetSmarter's course notes for Module 3 of the Events Management elective offered as part of the blended version of the UCT Postgraduate Diploma in Management and Marketing.

1. Introduction

What defines a successful event? Could it be the effective communication of an experience to a responsive audience? Could it be efficient organisational and project management skills, which result in the meeting of deadlines and event delivery? Is it a venue decorated and designed so beautifully that guests are in awe? It is a mixture of all these things. However, without efficient and profitable financial management, even the most innovative and beautifully designed and delivered event can turn into a commercial flop. Capital is required to stage an event and, more often than not, financial profit is expected and required. For the vast majority of events there will be both income and expenditure. For all events, efforts need to go into providing an overview of the financial aspects of the event in the planning stages, during the event itself, and after the event.

It is true that certain types of events are not profit driven, for example, birthday parties or private celebrations. However, good financial management of these events is still necessary to make sure the budgets are well spent and not exceeded. On the other hand, most medium to large-scale events (even charity events) have the end goal of profit generation. Companies, entrepreneurs, and organisations look to events as profit-making endeavours, hence the growth of the event sector worldwide. With this in mind, the first step to effective financial planning for events is to always understand the financial objectives of the event. It may be to make a good profit, to raise money, or to break even and create an enjoyable community experience.

Good financial management is fundamental to the delivery of successful events. The advice for event managers is simple: plan ahead, set realistic budgets and targets, keep on top of budgets through all stages of the event, and implement effective controls suited to the nature of the event. Part 1 of this module's notes:

- Explains the process of budgeting for an event and how to create accurate and realistic budgets;

- Outlines key financial documents that are used to report on the financial success of an event;

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2. Budgeting

A budget is “a forecast or a plan, which helps to regulate the operation of an event (or any business) over a given period of time” (Shone & Parry, 2013:147). An event budget is there to help estimate income and ensure that expenditures for the event stay on track in order to make the most efficient use of the finances allocated to the event. Effective budgeting will also ensure that events are more likely to be profitable if that is the goal.

Budgeting also helps to ensure accountability for financial resources, as when developing a budget, financial resources should be allocated to each section of the event. For example, catering, venue hire, staff salaries, and entertainment should be allocated a certain amount of money, and the individuals managing those aspects of the event have to ensure that they stay within the bounds of that allocated sum when organising those aspects.

Video 1: Melanie Woodward from Event Planning Blueprint TV shares her five top tips for staying within an event budget. (Source: http://www.youtube.com/watch?v=YczPKgxdc0w)

2.1 Preparing a budget

Before planning any event, it is important to first work out a budget in order to ensure that the concept or vision for the event is viable given the available financial resources. The budget must also be worked out with the event’s objectives in mind, because a budget for an event with the goal of making a large profit, such as a music concert, for example, will look very different to a budget for a private social event like a wedding (Shone & Parry, 2013:139). If the goal is to make a profit, budgeted ticket prices will have to be much higher than those for a small community event that simply needs to break even.

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The following questions are useful to ask before drafting a budget:

- What is the financial aim (objective) of the even? Is it to generate profit, break even, or raise funds?
- How much will the event cost?
- What are the sources of revenue for the event?
- How many tickets need to be sold (if applicable) to break even?
- What is the current cash flow situation?

(Van der Wagen & White, 2010: 336)

Budgeting tips:

It is helpful to draft a budget by creating a few columns and labelling them as follows:

Item: The items that you're budgeting for. Be specific. List item. Don't group items together. For instance, alcohol and food seem to go well together; however, if they are in the same category in your budget, you will find it difficult to distinguish between individual items. More detail is better than less.

Description: Describe each item you need for the event. Descriptions are indispensable to an event budget. If an organisation or client needs to approve your budget, it is helpful and in your interest to detail each item. This way, you can save money by distinguishing the essential components of the event from the non-essential, removing the non-essentials.

Amount Needed: Sometimes units are used to measure quantity. With furniture, for example, one allocates ten tables, but when it comes to items like flooring or marquees you would work on square meterage and have a unit cost per m^2. So, if the square meterage changes, the total automatically changes.

Actual Cost: As the name suggests, in this column you track the actual cost of the item.

Mark-up: The mark-up column displays the percentage mark-up added to each item. You can manage this column with mathematical formulae on excel or Google Sheets.

Selling price: This is the cost the client pays. If you mark up each item you manage and hire staff on behalf of client, then this column applies. If you only mark up certain items, this column applies. However, if you only charge a once-off management fee, it is added at the end of the budget, making the selling price column unnecessary.

(Adapted from Lopez 2017)

It is also very important to remember that the conditions of any event can change, and the budget needs to be flexible to accommodate this. Revenue can't always be predicted accurately, as people's tendency to spend on events is also dependent on external factors such as the state of the economy. There can also be variances in an event budget for many other reasons, such as price escalations, unforeseen costs such as extra power required, or an unforeseen delay or problem, which ends up costing more than what was budgeted for.

Each event manager will work differently when it comes to managing these variances. Some prefer to build in a "contingency" budget within the main budget to accommodate these unforeseen costs, while others will rather inform the client that they may occur and charge for them as and when they do. Regardless of what the event manager chooses to do, it is important to always keep the client well informed of any changes and potential additional costs, as the budgeting process relies strongly on good open communication between the event manager and the client. The client should always receive an explanation of why the costs have gone up, and the event manager needs to ensure that they keep a running log of all extra costs and bill the client accordingly.

Smart tip:

From the start, ensure that you set a realistic budget with built in flexibility and identified contingencies. If you are looking to raise public funds or sponsorship, don't approach a potential funder until you are able to present a realistic outline budget.

Remember, you need to convince yourself of the event's financial viability before you can convince others.

2.2 What needs to be included in a budget?

The details of what to include in a budget will differ depending on the event; for small-scale events, it may be perfectly acceptable to draft a simple table with columns for budgeted income and expenditure, and to simply list expected expenses and income as one-line item. For larger, more complex events it could be useful to categorise each item in the budget according to the type of income and expense it is (for example, income can be grouped as ticket revenue, sponsorship revenue, and entertainment revenue). Figure 1 gives an example of what can be included in a budget for an event (Shone & Parry, 2013:148-151).

(Summary) Event Budget		
Event:		
Date of Event:	Date of this budget:	
Attendance (Paying guests)	Forecast:	Actual
Income/Revenue	**Budget R:**	**Actual R:**
Ticket Sales		
Catering		
Income from concession stand rental		
Raffle		
Other (Specify)	R	R
Total Income	**R**	**R**
Expenditure:	**Budget R:**	**Actual R:**
Venue Hire		
Staff / Labour		
Advertising		
Printing / Posters / Tickets		
Signs / Place Cards / Menus / Programmes		
Custom T-Shirts / Uniforms / Badges		
Equipment Hire		
Food		
Drink		
Entertainment		
Music		
Decorations		
Linen / Linen Hire		
Prizes / Complimentary items		
Floristry / Plants		
Security / Crowd Control / Guides / Info point		
Insurance		
Refuse Removal / Cleaning		
Power / Heat / Light / Air Conditioning		
Ticket Distribution / Stationery / Postage		
Licence / Licence Application		
Audio Visual / Sound		
Phones / Mobiles / Radio Links		
Photographer / Video Company / Press kit		
Other Items		
Total Costs	**R**	**R**
Surplus (Profit) / Deficit (Loss)	**R**	**R**

Figure 1: Example of an event budget. (Adapted from: Figure 6.7 in Shone & Parry, 2013:148)

If an event is being held for the first time, historic financial information will not be available to work from and a zero-based budgeting method will have to be used. This means that a zero cost is used as a starting point, and expenses that can be justified are added. The event manager will be required to calculate and justify all expenses for the first time, instead of simply adjusting the budget by making small changes to the previous year's budget.

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It is advisable to develop a budget according to necessity, and then add extras that will enhance the event. Balance the income with anticipated expenses, always keeping the financial goal in sight. If sponsorship doesn't cover upfront costs, a fundraising drive may be necessary. This should all be taken into account when planning an event. Some of the expenses that will need to be considered before the event will be publicity, food and beverages, printing and postage, site fees, licences and permits, labour costs, insurance, deposits, decorations, and prizes.

Both fixed and variable costs will need to be kept in mind when preparing the budget, as variable costs can vary considerably depending on attendance and participation in the event, whereas fixed costs will stay the same regardless of the number of people attending the event (Shone & Parry, 2013:144). An example of a fixed cost is rent for the venue, as this will have to be paid regardless of whether 20 or 2000 guests arrive. A variable cost would be the cost per head for catering, because the caterer will only charge for the number of people that they are preparing meals for.

To manage the event finances effectively, it is useful for event managers to keep a "live working budget" on their computer; this is a spreadsheet that can be updated daily or weekly. Microsoft Excel is good software for managing budgets as it contains all the necessary numerical functions and allows for the application of formulas, which saves a considerable amount of time.

Keeping track:

Shone and Parry (2013:138) suggest that it is always useful to keep a list of forecasted (budgeted) and actual event expenditure and income in order to track how well the event stayed within budget. This is a useful financial control mechanism, as it allows the event manager to see what happened before, after, and during an event, and whether the actual and the expected income and expenditures are aligned.

2.3 Common budgeting mistakes

Not every event manager will be experienced in budgeting from the start, and it is normal to make some budgeting mistakes when first working on events. Below are some of the more common budgeting mistakes that event managers make when conceptualising a budget for an event:

- Ignoring the objectives of the event when setting the budget.
- Setting ticket prices without determining what the event is going to cost first.
- Not involving all stakeholders in the budget preparation.
- Failing to identify the full range of costs (fixed and variable) accurately.

- Being over-optimistic about the demand for the event, or underestimating demand and not planning a venue that is able to accommodate it.

- Overlooking subsidiary costs such as security, permits, and tax.

- Not having enough capital and a healthy cash flow to get the event off the ground.

- Spending money without keeping receipts or invoices, resulting in unchecked money and no record of who spent it, and where it was spent. This leads to a lack of control over the financial aspects of the event.

(Shone & Parry, 2013: 141-144)

Budgeting advice:

When starting out in the event industry, it is useful to gather as much advice about budgeting and financial planning as possible. The following BizBash articles are a great starting point for some practical event budgeting tips:

- Checklist: 8 budget items you can't afford to overlook

- 7 tips to make the most of your event budget

- 8 cost-saving strategies for meetings

2.4 Budget preparation tips

The following budget preparation tips are useful when considering how to set up an event budget and what to include in the budget:

- **Contingency planning:** Ensure that appropriate and realistic contingencies are built into your budget. There are many external factors that can cause budgets to escalate and it is very difficult to justify those costs after the fact if they have not been budgeted for. It is essentially a financial buffer of sorts, protecting the event from financial losses.

- **Presentation:** Create a presentable budget that is easy to read and interpret. This is important, as there may be other people within the company viewing or working with the budget. A neat and tidy budget helps to prevent mistakes and oversights.

- **Realistic expectations:** Be realistic; do not include funding sources that are unlikely to materialise.

- **Attention to detail:** Itemise each and every source of income and expenditure. The complexity of the budget will depend on the size and nature of the event; some events have very long, detailed budgets while others have short, simple budgets.

- **Software considerations:** If the budget is extensive and you are using a software package such as Microsoft Excel, it's useful to link worksheets to the front page "budget summary" in order to keep a detailed breakdown of each line in the budget.

- **Value Added Tax (VAT):** Always state clearly if the budget figures are produced as net (excluding VAT) or gross (including VAT). An event company that is VAT registered can claim the VAT back from the South African Revenue Service, so in such a case it is advisable for that company to always produce a net budget. Event companies that are not VAT registered should always keep a gross budget. Also, take note of the VAT status of any income received. For example, grants are generally not subject to VAT, but commercial sponsorship is likely to be. Remember that VAT applies on the sale of tickets and other items at the event and this needs to be factored in.

- **Break-even figures:** Always calculate the break-even figure before setting ticket prices. Don't overestimate ticket income targets. Tickets are often difficult to sell before an event.

- **Income:** Remember to consider any tax deductions, concession rates, group bookings, or special offers that could have an effect on your income.

- **Sponsorship:** Keep a record of any "in kind" sponsorship the event may receive. This record should be kept separately so that it doesn't cause confusion in the budget, as it is not a monetary income.

- **Back-up plans:** Keep back-up copies of the budgets at the various stages of financial planning, and each budget should be dated. You always need to know which versions may have been presented to relevant parties.

- **Allocating responsibility:** It is advisable that one person be in charge of managing and updating the budget. This is not always possible, especially on big events, but it is easier to keep control of it if only one person is adding or deleting entries.

- **Transparency:** The budget should always be transparent (in other words, there should be no hidden costs).

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Budget development tips

Align your funds according to your priorities. Do you want people leaving remembering the amazing ambiance, or do you want them leaving remembering the delicious food? What is the event's focus.

Detail every item. Do not ignore any item regardless of its size or importance. Sometimes the cost of one element is dependent on the cost of another. For example, consider that AV costs could change depending on the venue you choose.

Explore all available venue options. Some newer venues are transforming into one stop event shops that help eliminate the back and forth in sourcing multiple event vendors. These newer venues could potentially save you a significant amount of money in the long run! Don't underprice an item. Underpricing something may appear manageable, but will ultimately lead to losing money when the event comes to life.

Use your rainy day fund for emergencies only. Conduct thorough research. Researching various venues, catering companies, and other suppliers may help you identify more affordable options and save you much money. Shop around for the best deals and prices without compromising quality.

Ensure that all teams and staff understand what their responsibilities are. After you create your budget, share it with everyone involved in the event. Most importantly, obtain sign-off from the client before proceeding to order any items, book any venues, or pay deposits.

(Adapted from Lopez 2017)

3. Financial documents

There are a few common financial documents, namely quotations, invoices, order forms, and income and expenditure (I&E) statements, that event managers will make use of as they work on an event. These documents are used to keep track of revenues and expenditures, and to provide an account of how the allocated money for the event has been utilised. Event managers can also use these documents as a point of reference should any large discrepancies between budgeted and actual income or expenditure arise.

3.1 Quotations

After the client has provided the event manager with a full brief, the event manager will produce a quotation for the client. The initial quotation is often altered, added to, and changed before a final fee is agreed upon, but it provides the basis for price negotiations between the event manager and the client. As the event planning process moves forward, items may also be added to the initial quote. Quotations are generally only valid for a limited time period, as often the items in the quote are subject to fluctuations in price. Therefore, on a confirmed event for which the quotation was produced a long time in advance, it is better to develop what is known as a working budget, which is an adjustable budget that is continually updated according to changes in the client's needs (Peavler, 2014).

As soon as the client accepts the quotation, it is vital to confirm those costs by placing a written order with the various suppliers for the event. In this way, price differences can be avoided.

Note:

A quotation shouldn't contain both the event manager's costs and marked up prices; it should either just show marked up prices per item, or cost prices per item and a management fee.

The following items should be included in a quotation for a client:

- **Dates:** The quotation should always be dated (as most quotations are only valid for a limited period of time, such as 30 days).

- **Contact details:** The full contact details of the event managers and clients should be present (name, contact numbers, and email addresses).

- **Event details:** As much event information as possible should be detailed on the quotation – the date and time of the event, venue, load in and out dates, any load in restrictions, etc.

- **Terms and conditions:** There should be a terms and conditions section at the end of the quotation that stipulates payment terms, procedures in the event of non-payment, and any other relevant matters. The client needs to sign to grant permission to the event management company to waive liability in the event that anything goes wrong. For example, a popular term in events is: "The event company cannot be held liable for weather conditions out of its control."

- **Job number:** A unique quotation or job number needs to be included on the quotation for reference and accounting purposes.

- **Deposits:** Deposit requirements need to be clearly stated (amounts and dates of expected payments).

- **Signing off:** Event managers need to insist that clients sign off on quotes before they move ahead with the project. It is essential to that all agreements are confirmed in writing before starting on a job.

- **Deadlines:** Clients need to be given a deadline by which to give the event managers sign off. Clients tend to procrastinate and this can often lead to delays in the build-up of the event.

- **Pricing:** Event managers should always shop around for the best prices from suppliers in order to present the most competitive costing to their clients (and to ensure profit generation for themselves). The mark-ups on outsourced items and services vary within the industry, with some companies only adding 10% and others adding as much as 50%. The norm is around 20% and this is deemed acceptable.

  It is beneficial for the event manager to try to negotiate special discounts with suppliers, especially suppliers that they use on a regular basis. In this way, the profit margin is bigger, as the supplier may offer a 20% discount on a product, which can then be marked up by another 20% for the client, allowing for a profit margin of 40%. If the client were to check, only a 20% mark-up would be evident, as arrangements with suppliers are kept private. In some cases, the event manager may only make use of their special discount with the supplier and therefore charge the client the going industry rate, with their profit being the discount percentage only. As long as clients are not being extorted and charged much higher rates than industry going rates, supplier discounts are a good way of ensuring bigger profit margins. However, if the client does receive a discount, remember to make sure that it has been allowed for in the event budget.

- **Product descriptions:** Detailed descriptions of the products and services are essential. It allows the client to understand the associated cost a lot better.

- **Turnaround time:** The turnaround time for a standard event quote should be 24 to 48 hours. Clients don't like waiting for quotes and will often give their business to the companies they receive quotes from first rather than waiting for the others. Naturally, large-scale events require longer preparation time and this is understandable. Always make sure the client understands the time involved and knows when to expect from the quotation.

- **Formatting:** It is best to send clients quotations in a secured PDF format (or any other format that cannot be edited) to avoid the risk of figures being changed.

3.2 Invoices

Once a quotation has been accepted, the event manager will generate an invoice. The invoice contains the same items as represented on the quotation, along with a line that requests the deposit. The invoice will also be the document that is used in the accounting process for income reporting purposes.

For accounting purposes, each invoice has to have a unique invoice number. Companies have their own way of developing invoice numbers. As long as there is consistency, it does not matter how they are developed. Each event is generally assigned a job number for ease of reference, which is then referenced in the invoice number. For example, an invoice for the 2010 J&B Met can be numbered 124/001/MARU. The number “124” stands for the unique job number, “001” indicates the number of the invoice (in this case it was the first invoice sent to this particular client), and “MARU” stands for Maru Sport, the client. This is a popular way of referencing an invoice to both an event and a client. There may be more than one client on an event and therefore another invoice could read: 124/001/ABSA, for example. The number “124” links the invoice to the event and “ABSA” associates the invoice sequence to the specific client.

3.3 Orders

Once the client has signed off on the quotation and paid the deposit, the event manager is in a position to place the relevant orders with the various suppliers. A few suppliers on a wedding, for example, include the florist, furniture hire, décor company, minister, caterer, AV company, and stationery designer. The orders, also known as purchase orders, need to detail as much event information as possible, including delivery dates and times and venue restrictions. The order needs to be signed by the supplier as a form of acknowledgement and acceptance. The supplier will have quoted the event manager and those quoted details are what appears in the order. The event manager is held liable to the terms and conditions of the hiring company. If the event manager is receiving a discount, it is important that this discount reflects in the order, as the excluding-VAT total for each order is the figure used in the income and expenditure document, which reflects the profit of the event.

On a large-scale event, there may well be more than one order to a supplier, which is why it is important to keep track of all orders in the income and expenditure document. There are also internal orders that may need to be generated within the company, such as to another division within the company (for example, transport costs or labour costs). This is generally applicable when the event company holds hiring stock themselves.

Each order needs to have an order number. It also needs to reference the event job number, the number of the order and the supplier. For example: 124/002/EXC is an order relating to event 124, it’s the second order placed with this supplier (002), and the supplier reference code is “EXC”, for Exclusive Hire.

3.4 Income and expenditure statements

An income and expenditure (I&E) statement is a basic document that helps event managers to keep track of all the income and expenses on an event, and to assess how the event’s actual financial status compares against budgeted income and expenses (Shone & Parry, 2013:151-152).

The income and expenditure statement is also a working document and is updated as the event planning progresses. All invoices (income) and all orders (expenses) are recorded in this document. All figures in the document are exclusive of VAT.

The I&E statement provides an accurate idea of the profit of an event, as the difference between the income received and the orders which are paid for results in net profit. It is very important to record all expenses in this document in order to get the most accurate profit reflection. Costs such as administration, salaries, wages, and transport need to be reflected.

Some event companies choose to invest in accounting software, such as Pastel or EventPro, which generates quotes, orders, invoices, and I&E statements. It is a useful tool to have, but can be quite costly.

A standard I&E statement should include the following:

- Job number for the event
- Date of the event
- Event name
- Client name
- Consultant (the event manager's name)
- All orders to suppliers or internal orders, which may include administration costs regarding the event or any in-house stock that is being used
- All invoices to the client
- A net profit amount (the total of the income minus the expenses)

Figure 2 outlines a basic example of an I&E statement.

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Income & Expenditure Report

Event: Clark/Mulder wedding
Client: Sarah Clark
Event Date: 25 March 2018
Event venue: Stellenbosch
Consultant: Allison Driver
Job number: 1456
Revision Date: 25 February 2018

Expenditure			Income		
Supplier	Order No.	Cost	Client	Invoice No.	Income
Chattels Chattels	1456/001/CHA 1456/002/CHA	45,000 1,000	Sarah Clark	1456/001/CM (The CM stands for Clark/Mulder)	100,080
Petals	1456/001/PET	15,000			
AV Direct	1456/001/AVD	23,400			
Total		84,400	Total		100,080
Net Profit: 15,680 15,6% profit margin Profit is calculated as follows: Net profit divided by net income x 100 = profit percentage 15,680 / 100,080 x 100 = 15,6%					

Figure 2: Example of an income and expenditure report.

4. Conclusion

It is essential that event managers at all levels understand the financial aspects of the event business. Such managers have a better chance of succeeding in their business venture than those managers who have no financial knowledge. This financial knowledge embraces budget preparation, producing financial documents to be used in accounting records, keeping track of income and expenditures, implementing cost control measures and cashflow management strategies, understanding how to price tickets and generate additional revenue, and how to develop competitive pricing models for clients.

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