UNIT -2

MANAGEMENT FUNCTIONS:

1.**Planning:** At the planning stage, the front office manager shall determine the department's goals. Later, the front office manager shall use these goals as a guide for planning more specific and measurable objectives. Lastly, the front office manager shall determine the strategies and tactics to reach these objectives.

2.**Organizing:** Organising may be defined as a process of arranging the parts of the organisation i.e., work, people and the system. Using the planning goals as a guide, a front office manager organizes the department by dividing the work among front office staff. Work should be distributed so that everyone gets a fair assignment and all work can be completed in a timely manner. Organising includes determining the order in which tasks are to be performed and establishing completion deadlines for each group of tasks. The total organisation is known as "structure " which includes every level of management, every job and sub-division of each job in small tasks. The process of organising also consists of delegating and decentralization of powers, etc.

3.**Coordinating:** Involves bringing together and using the available resources to attain planned goals. Co-ordinating involves bringing together and using the available resources to attain planned goals. A FOM must be able to co-ordinate the efforts of many individuals to ensure that the work is performed efficiently, effectively and on time.

4.**Staffing:** Involves recruiting applicants, selecting those best qualifies for positions, and scheduling employees. Staffing involves recruiting applicants and selecting those best qualified for positions. Staffing also involves scheduled employees. Most FOM's develop staffing guidelines. These guidelines are usually based on formulas for calculating the number of employees required to meet guest and operational needs under specified conditions.

5.**Leading:** Involves overseeing, motivating, training, disciplining, and setting an example for the front office. Leading is a complicated management skill that is exercised in a wide variety of situations and is closely related to other management skills such as organising, co-ordinating and staffing. For a FOM, leadership involves overseeing, motivating, training, disciplining and setting an example for Front Office staff e.g., to direct the work of others, a FOM must first analyze the work to be done, organize the tasks in a logical order and consider the environment in which the tasks will be performed.

6.**Controlling:** Ensures that the actual results of operations closely match planned results. Every front office has a system of internal controls for protecting the assets of the hotel. However, internal control system works only when believe in the systems importance and follow the established procedures for their use. The control process ensures that the actual results of operations match planned results. The FOM also exercises a control function when keeping front office operations on course in attaining planned goals

7.**Evaluating:** Determines the extent to which planned goals are, in fact, attained. Moreover, it involves reviewing and, when necessary, revising or helping to revise front office goals. Evaluating determines the extent to which planned goals have been attained. This task is frequently overlooks in many front office operations or is performed haphazardly. Evaluating also involves reviewing and when necessary, revising or helping to revise front office goals.

Establishing Room Rates

The management should consider various factors such as operating expenses, guest demand, market conditions, and related business issues when determining rack rates or discounted rates. Room rates are very important for a hotel's success.

There are three methods of establishing room rates:

A. Market Condition Approach

In this method, the management looks at similar hotels in the area and sees what they are charging for the same product. These properties are often called the competitive set, which is made up of a number of properties in a market that are a property's most important competition. The competition can be based on location, type, brand or other factors. According to this approach, the hotels will charge only what the market will accept. This information is available through various public domain sources and periodic blind calls to competing hotels. A blind call does not identify the hotel making the call and simply asks for availability and rates on specific dates.

B. The Rule-of-Thumb Approach

This method sets the rate of a room at Rs.1/- for each Rs.1000/- of construction and furnishings cost per room assuming a 70 percent occupancy. For example, if the average construction cost of a hotel room is Rs.80000/-, the average room rate will be Rs.80/- according to this method. The emphasis on the hotel's construction cost fails to consider the effects of inflation. It also fails to consider the contribution of other facilities and services towards the hotel's desired profits.

The rule-of-thumb approach should also consider the hotel's actual occupancy level instead of a fixed 70 percent occupancy.

C. Hubbart Formula Approach

In the 1940s the American hotel association asked the gentleman by the name of roy hubbart to develop a way to compute room rates. Mr.Hubbart came up with a method to calculate a hotel room rate based on the costs incurred in operating the hotel and a reasonable return on investment for the investors. Going beyond simple room cost, the Hubbart formula allowed the hotel to scientifically illustrate to a banker what the return on investment would be. This quantifiable approach was well received. The formula incorporates three different sections or schedules:

1. Looks at specific financial calculations
2. Looks at the rates per occupied room
3. Incorporates square footage into the analysis.

The formula considers the following;

1. The operational costs/expenditures and include a certain percentage of returns on land and building and another percentage on hotel keeping capital employed.
2. Deduct from the above cost the incomes received through rentals, food and beverage sales and other miscellaneous sales. (all sales other than rooms)
3. Divide the remaining for charging room rates by projected number of rooms occupied.

It is a bottom-up approach to pricing rooms. This approach considers operating costs, desired profits, and expected number of rooms sold to determine the average rate per room. It is considered a bottom-up approach because its initial item – net income (profit) – appears at the bottom of the income statement. The second item – income taxes – is the second item from the bottom of the income statement, and so on. The Hubbart Formula approach involves the following eight steps:

1.Calculate the hotel's desired profit by multiplying the desired rate of return (ROI) by the owner's investment.

2.Calculate pretax profits by dividing desired profit (Step 1) by 1 minus the hotel's tax rate.

3.Calculate fixed charges and management fees. This calculation includes estimated depreciation, interest expense, property taxes, insurance, building mortgage, land, rent and management fees.

4.Calculate undistributed operating expenses. This calculation includes estimating expenses for the following categories – administrative and general, information technology, human resources, transportation, marketing, property operation and maintenance, and energy costs.

5.Estimate non-room operated department income or loss, that is, food and beverage department income or loss, telecommunications department income or loss and so on.

6.Calculate the required rooms department income. The sum of pretax profits (Step 2), fixed charges and management fees (Step 3), undistributed operating expenses (Step 4), and other operated department income (Step 5) equals the required rooms department income.

7.Determine the rooms department revenue. The required rooms department income (Step 6), plus rooms department direct expenses of payroll and related expenses, plus other direct operating expenses equals the required rooms department revenue.

8.Calculate the average room rate by dividing rooms department revenue by the expected number of rooms to be sold.

Example

Holiday Inn, a 200 room property, is projected to cost Rs.9900000/- inclusive of land, building, equipment and furniture. An additional Rs.100000/- is needed for working capital, bringing the total cost of construction and opening to Rs.10000000/-. The hotel is financed with a loan of Rs.7500000/- at 12 percent annual interest and cash of Rs.2500000/- provided by the owners. The owners desire a 15 percent annual return on their investment. A 75 percent occupancy is estimated. Thus 54750 rooms will be sold during the year (200 x 0.75 x 365). The hotel's income tax rate is 40 percent and additional expenses are estimated as follows:

Property tax expenses	Rs.250000/-
Insurance expenses	Rs.50000/-
Depreciation expenses	Rs.300000/-
Administrative and general expenses	Rs.300000/-
Data processing expenses	Rs.120000/-
Human resources expenses	Rs.80000/-
Transportation expenses	Rs.40000/-
Marketing expenses	Rs.200000/-
Property operation and maintenance	Rs.200000/-
Energy and related expenses	Rs.300000/-
The other operated departments' income (losses) are estimated as follows:	
Food and beverage department	Rs.150000/-
Telecommunications department	Rs.50000/-
Rentals and other departments	Rs.100000/-

The rooms department estimates direct operating expenses to be Rs.10/- per occupied room.

The Hubbart Formula is very useful in setting target average rates.

Item	Calculation	Amount
Desired Net Income	Desired Profit = Owner's Investment X ROI	625000
	2500000 x 0.15 = 375000	
	Pretax Income = Net Income / 1 – T	
	Pretax Income =375000 / 1 – 0.4	
Plus: Interest Expense	Interest Expense = Principal x interest rate	900000
	7500000 x 0.12	
Income needed before interest expense ans taxes		1525000
Plus: Estimated Depreciation, property taxes and insurance		600000
Income before fixed charges		2125000
Plus: Undistributed operating expense		1240000
Required operated departments income		3365000
Departmental results excluding rooms		
Less: Food and Beverage department income		150000
Rentals and other department income		100000
Plus: Telephone Department Loss		50000
Rooms department income		3165000
Plus: Rooms Department direct expense	54750 X Rs.10/-	547500
Rooms Revenue		3712500
Number of Rooms Sold		54750
Required average room rate		67.8

Forecasting Room Availability

The most important short-term planning that front office managers do is forecasting_the number of rooms available for future reservations. *Room availability forecasts* are used to help manage the reservations process and guide front office staff in effective rooms management. Forecasting may be especially important on nights when a full house (100 percent occupancy) is possible.

A room availability forecast can also be used as an *occupancy forecast*. Since there is a fixed number of rooms in the hotel, forecasting the number of rooms available for sale and the number of rooms expected to be occupied forecasts the occupancy percentage expected on a given date. The forecasted availability and occupancy numbers are very important to the daily operations of the hotel. Occupancy forecasts are the foundation for making room pricing decisions. They also influence when rooms are to be placed on out-of-order status for

maintenance or deep cleaning. Without an accurate forecast, rooms may go unsold or be sold at inappropriate rates. Room occupancy forecasts can be useful to the front office manager attempting to schedule the necessary number of employees for an expected volume of business. These forecasts may be helpful to other hotel department managers as well. For example, the housekeeping department manager needs to know how many rooms the front office expects to be occupied to properly schedule room attendants. Restaurant managers must know the same information to better schedule service staff. The chef requires this figure to determine how much food to purchase for the restaurants.

Obviously, a forecast is only as reliable as the information on which it is based. Since forecasts can serve as a guide in determining operating costs, every effort should be made to ensure forecasting accuracy.

Forecasting is a difficult skill to develop. The skill is acquired through experience, effective recordkeeping, and accurate counting methods. Experienced front office managers have found that several types of information can be helpful in room availability forecasting:

- A thorough knowledge of the hotel and its surrounding area
- Market profiles of the constituencies the hotel serves
- Occupancy data for the past several months and for the same period of the previous year
- Reservation trends and a history of reservation lead times (how far in advance reservations are made)
- A listing of special events scheduled in the surrounding geographic area
- Business and historical profiles of specific groups booked for the forecast dates
- The number of non-guaranteed and guaranteed reservations and an estimate of the number of expected no-shows
- The percentage of rooms already reserved and the cut-off date for group room blocks held for the forecast dates
- The room availability of the most important competing hotels for the forecast dates (as discovered through blind calls)

- The impact of citywide or multi-hotel groups and their potential influence on the forecast dates

- Plans for remodeling or renovating the hotel that would change the number of available rooms

- Construction or renovating plans for competitive hotels in the area

Forecasting Data

The process of forecasting room availability generally relies on historical occupancy data as well as business already committed. Historical data is used to take some of the guesswork out of forecasting. To facilitate forecasting, the following daily occupancy data should be collected:

- Number of expected room arrivals: based on existing reservations and historical trends for new reservations and on cancellations prior to the arrival date.

- Number of expected room walk-ins: based on historical records.

- Number of expected room stayovers (rooms occupied on previous nights that will continue to be occupied for the night in question): based on existing reservations.

- Number of expected room no-shows: based on historical records.

- Number of expected room understays (check-outs occurring before expected departure date): based on historical data.

- Number of expected room check-outs: based on existing reservations.

- Number of expected room overstays (check-outs occurring after the originally reserved departure date): based on historical records.

Some hotels with a very high double occupancy percentage may be as concerned with guest counts as room counts. For example, an all-inclusive resort with a large amount of business from vacationing couples may want to forecast guest as well as room count activity. Convention hotels may often have the same concerns.

Chances are good that much of this information is available in reports, documents, and other data sources at the property. The hotel's daily reports will likely be invaluable in this research. These reports should be summarized and stored in a way that is easily accessible.

Overall, these data are important to room availability forecasting, since they are used in calculating various daily operating ratios that help determine the number of available rooms for sale. Ratios are a mathematical expression of a relationship between two numbers that is determined by dividing one by the other. Most statistical ratios that apply to front office operations are expressed as percentages. The ratios examined in the following sections are percentages of no-shows, walk-ins, overstays, and understays. Occupancy history data from the fictitious property shown in Exhibit 7 (the Holly Hotel) are used to illustrate the calculation of each front office ratio. Managers should look for consistency in ratios. Consistency may be roughly the same ratio every day or identifiable patterns. Without consistency, forecasting ratios and projecting operating performance may be very difficult.

Percentage of No-Shows. The percentage of no-shows indicates the proportion of reserved rooms that the expected guests did not arrive to occupy (and did not cancel) on the expected arrival date. This ratio helps the front office manager decide when (and if) to sell already-committed rooms to walk-in guests.

The percentage of no-shows is calculated by dividing the number of room no-shows for a specific period of time (day, week, month, or year) by the total number of room reservations for the same period. Using figures from Exhibit 7, the percentage of no-shows for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of No-Shows} = \frac{\text{Number of Room No-Shows}}{\text{Number of Room Reservations}}$$

$$= \frac{52}{288}$$

$$= .1806 \text{ or } 18.06\% \text{ of Reserved Rooms}$$

Some properties track no-show statistics in relation to guaranteed and non-guaranteed reservations. Non-guaranteed reservations typically have a higher no-show percentage than guaranteed reservations, since the potential guest has no obligation to pay for the accommodations if he or she does not register at the property. Properly incorporating no-show allowances into room availability forecasts also depends on the hotel's mix of business; for example, corporate groups generally have a much lower no-show percentage than do other types of groups or individual guests. A hotel that works with a large corporate meetings market will most likely have a low no-show percentage. Conversely, a hotel with very little corporate group business, such as a hotel located in a suburban area alongside an interstate highway, is likely to have a much higher percentage of no-show reservations since guests desire flexibility in their travel plans. Hotels and resorts strive to control no-shows through a number of policies and procedures, such as requiring a cash or credit card deposit in advance of the stay and/or contacting the guest before arrival to confirm travel and room arrangements.

Percentage of Walk-Ins. The percentage of walk-ins is calculated by dividing the number of rooms occupied by walk-ins for a period by the total number of room arrivals for the same period. Using figures from Exhibit 7, the percentage of walk-ins for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of Walk-Ins} = \frac{\text{Number of Room Walk-Ins}}{\text{Total Number of Room Arrivals}}$$

$$= \frac{90}{326}$$

$$= .2761 \text{ or } 27.61\% \text{ of Room Arrivals}$$

Walk-in guests occupy available rooms that are not held for guests with reservations. Often, hotels can sell rooms to walk-in guests at a higher rate, since these guests may have less opportunity to consider alternate properties. Front desk agents are sometimes asked to show a guestroom to a walk-in guest—which tends to be much more effective than trying to sell rooms over the telephone or through a website. Walk-in guest sales help improve both occupancy and room revenues. However, from a planning perspective, it is generally better to have reservations in advance than to count on walk-in traffic.

Note that other ratios can dramatically affect the walk-in ratio. For example, if a hotel has ten no-shows beyond forecast, it may accept more walk-ins than usual to make up for the lost business. When this information is tracked for historical purposes, it is essential that the other ratios also be tracked to show how they affect one another. One effective way to predict walk-ins is to know what is going on in the marketplace. There will be a better opportunity for walk-ins (and a higher rate) if nearby hotels are experiencing high demand.

Percentage of Overstays. Overstays represent rooms occupied by guests who stay beyond their originally scheduled departure dates. Overstay guests may have arrived with guaranteed or non-guaranteed reservations or as walk-ins. Overstays should not be confused with stayovers. Stayover rooms are rooms occupied by guests who arrived to occupy a room before the day in question and whose scheduled departure date isn't until after the day in question.

Using historical data, the percentage of overstays is calculated by dividing the actual number of overstay rooms for a day or a period by the total number of expected room check-outs for the same day or period. The number of expected room check-outs is the number of rooms shown by the front office system or the manual count of occupied rooms as due for departure. Stated another way, the number of expected room check-outs can be calculated from historical data as the number of actual departures on the books minus understays plus overstays. Note that in this case, the term understays refers to people checking out early on the day in question, not to those guests who were originallyscheduled to leave on the day in question but who chose to check out one or more days early. For purposes of this equation, those latter guests would be considered understays on the day they checked out.

Overstays and understays can be determined for periods beyond one day by summing the actual overstay and understay counts calculated separately for each day within the longer period. Using figures from Exhibit 7, the percentage of overstays for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of Overstays} = \frac{\text{Number of Overstay Rooms}}{\text{Number of Expected Check-Outs}}$$

$$= \frac{47}{346 - 33 + 47}$$

$$= .1306 \text{ or } 13.06\% \text{ of Expected Check-Outs}$$

To help regulate room overstays, front office agents are trained to verify an arriving guest's departure date at check-in. Such verification can be critical, especially when the hotel is at or near full occupancy and there are no provisions for overstay guests. Overstays may also prove problematic when specific rooms have been blocked for arriving guests. This is especially important for suites or other rooms that may have special importance to an incoming guest.

Percentage of Understays. Understays represent rooms occupied by guests who check out before their originally scheduled departure dates. Understay guests may have arrived at the hotel with guaranteed or non-guaranteed reservations or as walk-ins.

The percentage of understays is calculated by dividing the number of understay rooms for a day or period by the total number of expected room check-outs for the same day or period. Using the same approach as that just described for determining the percentage of overstays, the understays are counted as understays only on the day of their early check-out, and understay counts should be determined separately and summed for each day in a multi-day period. Using figures from Exhibit 7, the percentage of understays for the Holly Hotel during the first week of March can be calculated as follows:

$$\text{Percentage of Understays} = \frac{\text{Number of Understay Rooms}}{\text{Number of Expected Check-Outs}}$$

$$= \frac{33}{346 - 33 + 47}$$

$$= .0917 \text{ or } 9.17\% \text{ of Expected Check-Outs}$$

Guests leaving before their stated departure date create empty rooms that typically are difficult to fill. Thus, understay rooms may represent permanently lost room revenue. Overstays, on the other hand, are guests staying beyond their stated departure date and may boost room revenues. When the hotel is not operating at full capacity, overstays result in additional, unexpected room revenues. In an attempt to regulate understay and overstay rooms, front office staff should:

- Confirm or reconfirm each guest's departure date at registration. Some guests may already know of a change in plans, or a mistake may have been made in the original processing of the reservation. The sooner erroneous data are corrected, the greater the chance for improved planning.

- Present an alternate guestroom reservation form to a registered guest, explaining that an arriving guest holds a reservation for his or her assigned room. A note card may be placed in the guest's room the day before or the morning of the scheduled day of the registered guest's departure.

- Review group history. Many groups, especially associations, hold large closing events for the entire group on the last day of the meeting. Guests may make reservations to include attending the final event. However, changes in plans or other priorities may require guests to leave early. While it is difficult for the hotel to hold guests to the number of nights they reserved, managers may be better able to plan for early departures, based on the group's departure history. Some hotels that have a lot of association business or a history of transient guests departing before their scheduled date may apply the reservation deposit to the last night of the stay, not the first night.

- Contact potential overstay guests about their scheduled departure date to confirm their intention to check out. Room occupancy data should be examined each day; rooms with guests expected to check out should be flagged. Guests who have not left by check-out time should be contacted and asked about their departure intentions. This procedure permits an early revised count of overstays and allows sufficient time to modify previous front office planning, if necessary.

Forecast Formula

Once relevant occupancy statistics have been gathered, the number of rooms available for sale on any given date can be determined by the following formula:

$$
\begin{array}{ll}
 & \text{Total Number of Guestrooms} \\
- & \text{Number of Out-of-Order Rooms} \\
- & \text{Number of Room Stayovers} \\
- & \text{Number of Room Reservations} \\
+ & \text{Number of Room Reservations} \times \text{Percentage of No-Shows} \\
+ & \text{Number of Room Understays} \\
- & \text{Number of Room Overstays} \\
\hline
 & \text{Number of Rooms Available for Sale}
\end{array}
$$

Note that this formula does not include walk-ins. They are not included because the number of walk-ins a hotel can accept is determined by the number of rooms that remain available for sale. If a hotel is full due to existing reservations, stayovers, and other factors, it cannot accept walk-ins.

As an example, consider the Holly House, a 120-room property, where on April 1 there are 3 out-of-order rooms and 55 stayovers. On that day, there are 42 guests with reservations scheduled to arrive. Since the percentage of no-shows has been recently calculated at 18.06 percent, the front office manager calculates that as many as 8 guests with reservations may not arrive (42 x .1806 = 7.59, rounded to 8). Based on historical data, 6 understays and 15 overstays are also expected. The number of rooms projected to be available for sale on April 1 can be determined as follows:

	Total Number of Guestrooms	120
−	Number of Out-of-Order Rooms	− 3
−	Number of Room Stayovers	− 55
−	Number of Room Reservations	− 42
+	Number of Room Reservations × No-Show Percentage	+ 8
+	Number of Room Understays	+ 6
−	Number of Room Overstays	− 15
	Number of Rooms Available for Sale	19

Therefore, the Holly House is considered to have 19 rooms available for sale on April 1. Once this figure is determined, front office management can decide whether to accept more reservations and can determine its level of staffing. Front office planning decisions must remain flexible; they are subject to change as the front office learns of reservation cancellations and modifications. Note also that room availability forecasts are based on assumptions whose validity may vary on any given day.

FORECAST

The front-office may prepare several different forecasts depending on its need. occupancy forecasts are typically developed on a monthly basis and reviewed by food & beverage and rooms division management to forecast revenue, project expenses, and develop labour schedules. These forecasts help hotel departments maintain appropriate staff levels for expected business volumes and thereby help contain costs.

Ten—Day Forecast

It is developed jointly by the front-office and reservations manager . A ten-day forecast usually consists of :

#. Daily forecasted occupancy figures, including room arrivals, room departures, rooms sold, and number of guests.

#. The number of group commitments ,with listing a listing of each groups name, arrival and departure dates, number of rooms reserved , number of guests and quoted room rates.

#. A comparison of previous periods forecasted and actual counts and occupancy percentages.

First ,the current number of occupied rooms is reviewed, the estimated number of overstays and expected departures are noted. Next relevant reservation information is evaluated for each room by date of arrival, length of of stay ,date of departure and reconciled with reservation control data. After that actual counts are adjusted to reflect the projected percentage of no-shows, anticipated understays and expected walk-ins. These projections are based on hotels current history of specific groups scheduled to arrive. Finally, conventions, conferences etc are incorporated in the forecast form.

Three-days Forecast

A three-day forecast is an updated report that reflects a more current estimate of room availability. It details any significant change from ten-day forecast. The three-day forecast is intended to guide management in fine-tuning labor schedules and adjusting room availability information.

The expertise which is beneficial in Room availability forecasting are:

- A radical advantage of the motel and its surrounding area.
- Market profiles of the constituencies the hotel services.
- Occupancy data for the earlier several months and for the same interval of the prior 12 months.
- Reservation traits, and a historical past of reservation lead times (how a ways upfront reservations are made)
- A listing of distinct pursuits scheduled within the surrounding geographic subject.
- Industry profiles of distinctive organizations booked for the forecast dates.
- The number of non-guaranteed and warranted reservations and an estimate of the number of anticipated no-indicates.
- The percent of rooms already reserved and the cut-off date for room blocks held for the forecast dates
- The influence of metropolis large or multi motel corporations and their talents affect on the forecast dates.
- Plans for reworking or renovating the motel that will change the quantity of on hand rooms.
- Developing or renovating plans for competitive motels within the field.

FRONT OFFICE BUDGET

1.The most important long term planning of the Front Office Management team is Budgeting the Front Office Operations.
2.Every hotels Annual Operation Budget is a Profit Plan that addresses all Revenue Sources and Expense Items.
3.Annual Budgets are divided into Monthly Plans which in turn are divided into Weekly and Daily Plans.
4.The Revenue management team and accounting division plays a great role in forecasting the budget for the department.

It is marked that the Room Division Profits are usually higher than any other department; therefore it is very important to make an accurate room Budget as it is equivalent to creating a Budget of the hotel. The accounts department is responsible for coordinating the front office budget plan of individual department managers into a comprehensive hotel operations budget for top management's review. The hotel general manager and controller review the departmental budget plans and prepare a budget report for approval by the property's owners. If the front office budget is not satisfactory, elements requiring change are returned to the appropriate division managers for review and revision. Rooms revenue is forecasted with the input from the reservations manager and expenses are estimated with the input from all department managers in rooms division.

TYPES OF BUDGET

1- MASTER BUDGET – A master budget is a comprehensive projection of how management expects to conduct all aspects of business over the budget period, usually a fiscal year. Most master budgets include interrelated budgets from the various departments. Managers typically use these subset budgets to plan and set performance objectives. Master budgets are generally used in larger businesses to keep many managers on the same page.
2- OPERATIONAL BUDGET– The operational budget covers revenues and expenses surrounding the day-to-day core business of a company. operating budgets are usually broken down into smaller reporting periods, such as weekly or monthly.
3- CASH FLOW BUDGET– A cash flow budget examines the inflows and outflows of cash in a business on a day-to-day basis. It predicts a company's ability to take in more money than it pays out. Managers monitor cash flow budgets to pinpoint shortfalls between expenses and sales.
4- SALES BUDGET- an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.
5- REVENUE BUDGET– consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.

6- FLEXIBLE BUDGET– Flexible budgets are, as their names suggest variable and flexible depending on the variability in the results expected in the future. Such budgets are most useful for businesses that operate in an ever changing business environment, and have the need to prepare budgets that are able to reflect the many outcomes that are possible.
7– FIXED BUDGET– Fixed budgets are used in situations where the future income and expenditure can be known, with a higher degree of certainty, and have been quite predictable over time.

BUDGET CYCLE

The budget cycle refers to the life of a budget from creation to evaluation. it consist of four phases.

1- Preparing the Budget
2- Approving the Budget
3- Executing the Budget
4- Evaluating the Budget

ADVANTAGES & DISADVANTAGES OF BUDGETING

ADVANTAGES

•coordinates activities across departments.

•Budgets translate strategic plans into action.

•Budgets provide an excellent record of organizational activities.

•Budgets improve communicationwith employees.

•Budgets improve resources allocation, because all requests are clarified and justified.

•Budgets provide a tool for corrective action through reallocations.

DISADVANTAGES

•The major problem occurs when budgets are applied mechanicallyand rigidly.

•Budgets can demotivate employees because of lack of participation. If the budgets are arbitrarily imposed top down, employees will not understand the reason for budgeted expenditures, and will not be committed to them.

•Budgets can cause perceptions of unfairness.

•Budgets can create competition for resources and politics.

•A rigid budget structure reduces initiative and innovation at lower levels, making it impossible to obtain money for new ideas.

Forecasting Rooms Revenue

Historical financial information is very important for the front office managers to forecast the rooms revenue. One method of rooms revenue forecasting involves an analysis of rooms revenue from past years. Another way is revenue projection on the basis of past room sales and average daily rates.

Forecasted Rooms Revenue = Rooms Available X Occupancy % X Average Daily Rate
A more detailed approach would consider the variety of different rates according to room types, guest profiles, days of the week, and seasonality of the business. These are some factors which affect room revenue forecasting.

Estimating Expenses

Most expenses for front office operations are payroll and related expenses, laundry, guestroom laundry, guest supplies, hotel merchandising (in-room guest directory and promotional brochures), travel agent commissions and direct reservation expenses, and other expenses. When these costs are totaled and divided by the number of occupied rooms, the cost per occupied room is determined.

Refining Front Office Budget Plans

Departmental budget plans are commonly supported by detailed information gathered in the budget preparation process and recorded. These documents should be saved to provide an explanation of the reasoning behind the decisions made while making departmental budget plans. Such records also help to solve issues that arise during the budget review. The documents may also provide valuable assistance in the preparation of future budget plans.
If the actual operating figures and budgeted figures are distant from each other, then this suggests a refining or revision of our budget.

•Revision of room demand

•Estimated room revenue

•Rooms direct expenses