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GRAND HOTEL BUDGET PLANNER

[Document subtitle] Budget

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2017397

Financial Management for the Hotel Industry (BMIT5007, BMIT5002)

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Executive Summary

An executive summary may be that the grand hotel needs to implement incremental budgeting, value proposition budgeting, zero-based budgeting and activity-based budgeting. They need to use their revenue of £1,915,100 and their expenditure of £5,589,113. They need to control their budget to make it sustainable which will be beneficial for the company in the long run. The managers and leadership team need to monitor this and alter it.

The Grand Hotel offers many services which need to be implemented into the budget, such as premier league streaming, mini bar, newspaper, laundry, car insurance and many more. They attract many tourists in London and visiting it.

One way to make a budget is using incremental budgeting, using their revenue and expenditure from last year to get an accurate demographic of where the company is going. Then using this to make a budget.

Another way is activity-based budgeting, this may be looking at all their services and which ones are generating more income (the investment must be taken away to get total profit) and using this information in investing more in the more profitable features.

Another way is value proposition, this is also looking at the services (such as sky tv) and questioning if they are reasonable and if an optimal amount is being spent towards it.

A final way is zero-based budgeting. This is when grand hotel assumes that all their revenue in each department is zero and add costs to work up towards a full budget. The management and leadership team must justify every cost.

The grand hotel must implement one of these strategies to make their business operation successful.

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1. Introduction

A budget is vital for any business, such as the grand hotel. Furthermore, there are several types of budgets that the Grand Hotel may use; incremental budgeting, activity-based budgeting, value proposition budgeting and zero-based budgeting. These budgets need to be planned and controlled to make it sustainable. They may use these budgets to arrange their balance of £5,589,113 and their revenue of £1,915,100. To conduct business efficiently, the grand hotel **MUST** implement an effective budget.

2. 500-words analysis of Grand hotel budget planner

There are four types of budgets: incremental budgeting, activity-based budgeting, value proposition budgeting and zero-based budgeting. Implementing a budget is vital as it creates stability in finance. It also makes it more easier to follow a plan and track expenses. It also ensures that money that is not available is not spent and it also helps prepare for financial emergencies that the grand hotel may face as inflation is at an all time high and people may not use grand hotels services due to this. It helps to achieve long-term goals and work toward them. (Amy Bell, 2022)

Incremental budgeting is when last year's figures are taken, and this is used to get a demographic of the budget of the current year. The grand hotel has used incremental budgeting as they have predicted the monthly revenue of each month of the year. The revenue totalled to £1,915,100. There are some problems with this as many external factors influence the performance. An example of this may be the increase of inflation, which may make the grand hotel increase the total cost of £5,589,113. This type of budgeting just assumes the cost and the percentage of growth. It also carries on efficiencies. An example may be that the team may pursue to grow their budget while not thinking about ways to decrease the costs. It may also need to the overstatement of the budget so the team could be under pressure due to the low budget. It is the easiest budgeting approach (CFI team, 2022)

Activity-based budgeting is when a company determines the things they need to do to achieve the targets of the company. The grand hotel company could be able to do this by adding new products to to the restaurant or bar to gain this money. A problem arises as this type of budget is too expensive. This is as resources need to be allocated to complete this. Less resources are needed in other types of budgets. It is also more time consuming compared to other budgets as the need to information to make methods of achieving their output. It is system that records research, and analyses activities that lead to costs for a company (Daniel Liberto, 2020)

Value proposition could be used by the grand hotel if they question if the cost (£1,915,100) is reasonable and if the value is more expensive than the cost. Another question they may ask is if it is valuable to the team, customers, and the investors. A

final question they need to ask is why it is in the budget and what value does it have. It is essential as it makes sure everything is in the budget and eliminates unnecessary costs. It ensures the budget delivers value for the business (CFI team, 2022).

Zero-based budgeting could be used by grand hotel if they assume that all of the budgets in each sector is nothing and must be made from the beginning. The managers of the grand hotel must find a reason for every expenditure. It avoids any unnecessary costs like value proposition. A disadvantage may be that is time consuming as many departments are involved, and an adequate measure may be impossible or be extremely hard to find. Another one may be that it needs a lot of information to determine and getting this information may be difficult to gain or it may take time to gain. It is where expenses must be justified for each new period (Julia Kagan, 2022)

3. Task 2

3.1 Importance of budgeting

3.2 Understanding of incremental budgeting

3.3 Activity based

3.4 Value proposition based

3.5 Zero based budgeting

3.6 How budgeting control can support sustainability

A budget is a financial plan of spending over a certain amount of time. Many factors, such as income, affect this. It ensures an organization has enough resources to meet its goals (Catherine Cote, 2022). A budget is made typically for the year ahead as the year before is considered when making this. A budget is extremely important for a business. Creating a budget is an important pillar of the overall success and security. It is a necessary tool for business to track income and expenses. Setting up a budget helps create financial stability (Amy Bell, 2022). A budget allows the company to oversee and understand whether the businesses have enough revenue (incoming money) to pay its expenses. Using a budget can help to make more informed financial decision. Budgeting ensures that the company is not spending more than they are making. It will allow the company to plan for short- and long-term expenses. A successful budget can set up the desired goals and objectives. It will prevent the misuse of money for a non-beneficial project and will enrich the company's economy, policy, establishment, and fame. An enriched budget will save the company during the contingency period. A good budget will allow the staff to be habituated with the company's policy. It also helps to keep some funds standby for emergencies. Emergencies can arise due to various reasons, such as global adverse weather, adverse epidemic situations and global conflicts affecting supply of many essential products and resources. These unprecedented factors can affect the conduct of day-to-day business and budgets. There have been many recent emergencies, such as COVID and now inflation being at an all-time high. Setting some money apart for these unprecedented circumstances may ensure a smooth business for the year ahead. Therefore, it is especially important as it also helps you control your spending (Zach Buchenau, 2022). Most importantly, the budget forces you to take control of your spending habits (Total Advice Partners, 2018)

Incremental budgeting is the traditional budgeting method where the budget is prepared by taking the current period's budget or actual performance as a base, then adjusting it by incremental amounts. (Datarails, 2022). In simple terms, it adds or subtracts from the previous year's actuals. (finmark, 2022) When company follows the incremental budget, the company takes the last year's actual figures and then include or exclude a percentage to obtain the current year's budget. Due to the simplicity of this, it is a common type of budget. It is considered as an appropriate type of budget

if the primary cost drivers do not change from year to year. However, there are some problems with using this method. As sometimes using incremental budget cannot achieve the maximum amount of profit for the company. For example, if an account director knows that there is an opportunity to grow his budget by 10% every year, then the account director will simply take the opportunity to produce a bigger budget, while not putting effort to find out the ways to cut cost or economise. Another disadvantage may be that it stops useful innovation. In this type of budgeting, some funds are allocated for activities that have taken place the year before. There are typically no funds set apart for new features and products which may be extremely beneficial for business. An advantage may be that it is quite simple. This is as it uses the last year to project the year ahead. This means that it does not require complex calculations to figure it out.

Activity based budget is activity dependent. It is a top- down approach (Divvy, 2022). The management of a company has several teams. This type of budget refers to a budgeting method where the higher management prepares a high-level budget for the company. In simple terms, it is an accounting tool that does not consider the past year's budget to arrive at the current year's budget (Sanjay Bulaki Borad, 20128). The senior management prepares the budget based on its objectives and then passed it on to department managers accounts for implementations. This determines the amount of input required to support the targets or outputs set by the company. As for example, a company can set an output target of \$ 150 million in income. For this budget, the company initially need to discover the activities that need to be committed to fulfils the sales target and then need to find out the expenditure of carrying out these activities. During the preparations of this type of budget, their company's management accounts the previous experiences and the present market conditions. The management also consists of the previous year's budget. Most of the times the prominent level of management can ask for suggestions or opinions from their subordinate. The subordinate managers may submit their suggestions or opinions with details of advantages or disadvantages before finalising the budget preparation. The important level of management will then emphasis the opinions or suggestions. Whether the managers involvement to the budgeting process will be used or not is at the management's discretion. After the finalisation of the budget creation, the

management makes specific allocations to the different departments, which must then create their own budgets based on their budget allocation and target setting.

Value proposition-based budgeting is also known as priority-based budgeting (LINDSEY STEFANKA, 2022). This type of budget involves analysing and explaining a business expenses for a given fiscal period. In simple terms, it communicates the product or service benefit you promise to deliver to your customers (Shanelle Mullin, 2022). At its core, values proposition budgeting aims to find out where a business should spend money based on how much value each expense brings on. In value proposition budgeting, the budgeter may take some factors into consideration prior finalised the value proposition budgeting. Some factors may be the reason of adding the amount in the budget, the reason of creating the value for customers, staff, or other stakeholders, justifying the cost etc. An advantage may be that it concentrates on the products that will generate the most revenue. It focuses on the most relevant activities that will attract the most customers. Another advantage may be that it makes you understand the customers as the more revenue a product is generating, the more customers are spending money on it. If customers spend money on it. It means that they are attracted to it. A disadvantage may be that it focuses more on short term revenue rather than long term revenue which is better for the company in the long run.

Zero based budgeting is a budgeting method where all the expenditure is justified for each new period. This budget is distributed in the most efficient manner — based on current needs, rather than past trends. (Michelle Heath, 2022) Simply, it is income minus your expenditures should equal zero (Lauren Schwahn, 2020) When the budget is made, every factor starts at zero and the organisation's needs, and costs are analysed to find out how much money needs to be contributed. This is done for each area of the organisation. An advantage of this method may be that the managers are thinking about every single penny that is spent. This forces them to justify every expenditure and finds the places where revenue is made. It also means that there is minimal miscalculation and every penny implemented is used efficiently. This means that all resources are efficiently used, not wasted. Many added benefits of this may be flexible budgets, focused operations, lower costs, and more disciplined execution

(THE INVESTOPEDIA TEAM, 2021) A disadvantage may be that it takes lots of resources. It takes many resources as everything needs to be justified although, resources can be used with much greater efficiency (Keith Murphy, 2022). This also means it takes a lot of time. Another disadvantage may be that it is more short term as it focuses on the next year instead of building up a framework that may be extremely beneficial in the long term. A final disadvantage may be that it keeps fewer performing units in the hotel the same as they do not get additional funding.

A sustainable budget is a circumstance in a budget in which the client's income meets or exceeds his or her expenses. (HUD exchange, 2016). This can be an estimated amount or the real income. This type of budget shows the better choice in some demanding situations. It also allows managers to monitor various costs within a particular period. Budgeting control is a process when a company tracks the actual spending against the planned budgets. (Spendesk, 2022). The process of this starts with setting a goal for the budget. The grand hotel may need some budget goals to be implemented and managers may help with this. The next part is rewards, when the goal is met a reward will mean it will create a positive feedback loop. The next part is to flag defective actions. This will ensure the company learns from mistakes. The final part is to take action to correct the defective action. Budgeting control helps sustainable budgeting as it takes feedback from all departments and the sustainable budget can be changed according to the feedback. Another way it helps it that it may create good habits for the grand hotel which can be implemented in the budget.

4. Conclusion

In conclusion, budgeting, an estimated set of income and expenses over a period, is extremely important during business. This would be vital for the grand hotel. There are numerous types of budgets: incremental budgeting, activity-based budgeting, value proportion-based budgeting and zero-based budgeting. These have their own pros and cons. Budgeting control also provides a sustainable budget. This further shows the urgency of implementing a budget in the grand hotel.

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4. Appendix Budget Calculations

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