Chapter 9
Finance

ABSTRACT

This chapter deals with the principles of finance as applied in the foodservice industry. It discusses the concept of revenue management, financial analysis and reporting, financial control, principles of budgeting, and forecasting. Specifically, it discusses finance in general and of the financial system and the meaning and application of financial management. It introduces the basics of the advantages and disadvantages of the different types of organizations. The important topics presented are the relationship of finance to other business disciplines, basic financial information in decision-making, understand financial statements, and financial ratios. It applies several analysis tools and techniques to learn about the time value of money, interest, and interest rates.

1. INTRODUCTION TO FINANCE

This chapter, to a certain extent, covers basic principles of finance for nonfinancial managers. It introduces basic financial tools and principles of financial and statistical analysis as it relates to a foodservice operation. It highlights the importance of financial management and the need to understand how businesses can be affected by dreadful financial decisions. Just as in every other business, the management of a food service company is compelled to either employ an executive with sound financial knowledge or to have a finance expert on the middle management team.

The chapter discusses in detail the meaning of financial and statistical analysis, which is an integral part of a company's success, and how to apply financial and statistical analysis to their department or operation to avoid financial pitfalls, which can lead to severe negative consequences, more than often, irreversible. The chapter further provides useful information and references about income statements, financial and statistical analysis techniques, how to apply them, what the results mean, and to a certain extent, how to take preventive or corrective actions.

Foodservice managers need to allocate ample time to analyze the daily, weekly, monthly, and yearly results and compare them to other departments where applicable to other properties in case of a multiunit operation and industry-related data to determine the results organization is obtaining. This should be

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done regularly and "as needed," meaning as a preventive measure to future financial shortfalls and as corrective measures to shortfalls already occurred.

The evaluation should determine how well the foodservice operation is performing and where improvements should be made. Consequently, priorities, objectives, methods, and deadlines for corrective and further preventive actions can be made (Engwall, 1988; Abrams, 2000). Key indicators, in other industries, also called Key Performance Indicators (KPI, also called "flags" red for negative, green for positive. These KPIs show the degrees of efficiency and effectiveness in cost minimization, revenue optimization, and profit maximization.

"Red Flags" indicators must be investigated immediately and in great depth, and corrective adjustment must be considered. One must ask the question: what and when do we need to do it? What if we do it, and what if we do not act? Like many other important decisions, these are decisions that managers, together with financial analysts, must take regularly. For example, the need to drop a price, to substitute an expensive functional product with a less expensive to remain profitable, and the list could go on.

A thorough discussion of top management, finance department, middle management, and line operating personnel is conceivably most needed to develop mutual understanding and suggest solutions to the problems. In cases where all key indicators are satisfactory, such as revenue optimization and cost minimization, but the profit is not maximized adequately, then it may be necessary to examine the operation for possible inefficient purchasing and/or receiving practices, wrong menu pricing, incorrect records or financial statements, incorrect inventory method and computation of inventory value, production waste, on use of by-products, too big plated portions, pilferage, embezzlement etc.

These financial and statistical-operational analysis guidelines can be applied in a single food service establishment for self-analysis, by the unit manager of a multi-unit operation or by the foodservice/ director of food and beverage in a hotel operation.

The Importance of Understanding Finance Within the Context of Foodservice Management

Finance and economic thinking are found everywhere in our daily lives, from personal investing at a young age, such as investing in education, investing in buying a car, marriage, a house, a boat, a vacation home, etc. Finance will always play a role. Once we receive an education, our doors are open to whatever we may wish to become. It is different from decades ago when people held the same job at the same company after high school until retirement.

Today's career paths are different, unpredictable, and changeable, with duality and variety due to the possibility of multitasking and an increasingly dynamic and fast-paced economy. Many attend college, study the topics that will support their future career plan, and eventually become managers, owners, investors, or whichever career path may choose to follow. Therefore, financial decisions are taken daily. In private life, deciding whether to buy something that is wanted but not needed may reduce the balance on the savings account; that decision may be a new gadget such a new mobile phone, a new television set etc. In business life, such as decisions may have different effects on the firm's balance sheet.

Crucial decisions are taken for different reasons; they can take a firm to the next level or can drive it out of business. Should the firm invest in a new product? How much should an innovative company invest in research and development? What will be the return on investment? Will the new discovery be profitable? Should the management explore outsourcing? About international expansion and what would be the financial burdens/benefits for the years ahead?

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