

## Hotel Online Special Report

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### It's BUDGET Time Again – Prepared Using Spreadsheets - AGAIN!!!

*by Jose Acosta  
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Finance executives in corporate America today are under so much additional pressure. Burdened by a struggling economy, high-profile accounting scandals, and a weak stock market with consecutive declines, finance executives find themselves pressed by government regulators, owners and investors to produce faster, more reliable, and more transparent financial outlooks upon which they can emphatically place their seal of approval. Of course, this further taxes the finance executive who is then challenged to create better and somehow more reliable budgets and forecasts with the same inadequate systems and processes used repeatedly since the inception of the company. The problem is compounded as it exposes the finance executive's inability to track historical data and its relationship to actual performance, particularly when the only reliable method of gathering this data is via the standard spreadsheet solution.

In fact there are still a stunning number of hospitality accounting divisions at many companies that continue to manage financial performance using the standard spreadsheet, making the process slow, rigid, and complex. This widely used spreadsheet method requires the user to expend a tremendous amount of tedious work and time just to produce the desired numbers that are expected by upper management, investors and owners rather than providing the insight needed to guide the business and present management with a budget or forecasting plan that can help them to anticipate and manage their operation more profitably.

One of the reasons it is so difficult to compare historical trends with actual data and consequently produce a budget and forecast is because this cumbersome number crunching process continues to be handled using spreadsheets. When one builds a complex budget with an intricate set of spreadsheets, it is very difficult to perform the inevitable changes to the data with any ease or speed at all.

Traditionally in the hospitality industry the revenue segments are tracked fairly well in lengthy detail. However, the process falls apart when managers then try to associate expenses to the related revenues. The perfect example is when one budgets revenues by market segment by day but then calculates the associated labor costs needed to service these revenues by month. One of the reasons this occurs is that most accounting offices typically budget labor by the month while the actual expenses associated to that budgeted labor is calculated by dividing the monthly labor budget by the number of days in the month, creating an unreliable and ineffective plan for the company to implement.

## **THE PROCESS**

Budgeting, forecasting and the consolidation of these budgets and forecasts in many organizations are extremely arduous tasks. Slowed down by manual processes and lack of integration among systems, this process inevitably involves constant re-keying of data, usually into existing budget spreadsheets. This entails long planning cycles and rigid, inflexible models that are eventually output to spreadsheets and are difficult to modify, particularly as a company grows. Even when finally completed, these enormous spreadsheets have to be checked and reported on manually as many incorrect formulas can be easily overlooked.

Commonly the budgeting process begins by sending out spreadsheets to the heads of each of the departments. The department manager then has a limited amount of time to input his budget projections into the spreadsheets and return them to the accounting department which must type every department's spreadsheet into a master worksheet. It is true that there are organizations which have very IT departments or a very strong

user who has developed complicated macros and methods to consolidate departmental information without re-entering the data and have managed to address this issue in an automated fashion. Furthermore, it is usually accepted that during the annual budget the department managers must remove themselves from the daily operations of their departments while they are completely consumed by this exhausting, tedious and time consuming process. Once completed, there is another two weeks of typing and adjusting before the budgets can be sent for review by the executive committee. The executive committee finally reviews the budgets at least two or three times before finalizing them for their owners/investors to review and approve for the coming year.

Moreover, by the time the budget is finally approved, it might be obsolete. Most companies which use rudimentary budgeting technology such as spreadsheets can take up to six months to complete a budget. By that time, the market may have changed, and new competition may have been introduced into certain areas.

Finally, it is important to remember that the creation of a meaningful budgeting and forecasting model is an ongoing process. The ultimate goal is not just to do the plan once, have it sit there and gather dust; but, to continually refer to it as the roadmap that is used to run your business.

Current Budgets concerns:

1. Traditionally in the Hospitality industry the average time consumed in preparing the company budget is between four and five months. This process usually involves many people and extracts considerable time from senior executive and financial manager schedules. If one were to place a cost on this entire annual planning and budgeting process, the number would be extraordinary.
2. Managing the results (also known as cooking the books) is a frequent outcome of a poor budgeting process.
3. An inefficient budgeting tool can cloud the visibility of current results and thereby interfere with the better understanding of company trends and decisions on tighter cash-flow controls.
4. Spreadsheet-based budgeting and forecasting processes

may be able to provide focus on key business drivers; however, they do not provide the adequate or necessary data integration for the proper tracking of actual data and its relationship to detailed budget data on a daily or weekly basis.

## **THE BUDGETING AND FORECASTING FUTURE**

With the current economic conditions and the clear need for an accurate, detailed explanation of a company's plan, it is more imperative than ever for the Hospitality industry to migrate from its traditional weak, archaic, and inflexible approach to budgeting and forecasting. Executives are required to produce various scenarios so that owners/investors can make financial decisions more quickly. The current utilization of the spreadsheet method will continue to handicap management and affect company operations. It is unfortunate that the technology in the Hospitality industry has had limited resources and options to facilitate and expedite this important budgeting and forecasting process.

Numerous companies have internally developed programs outside of the spreadsheet environment. However, so often the employee who designed the program leaves the company and creates a gap in the process which begins with the logistical problems of simply supporting the model after changes are made. Further, the non-hospitality industry software packages in the market are over-priced, inflexible, and not easily adapted to the industry.

It is clear that in order to simplify this grueling process and to make it more accurate and flexible; companies should adapt a budgeting and planning software that is database driven. This database solution combined with web-based capabilities would prove to be more convenient for multi-property access and would ultimately be the definitive solution for any hospitality corporation, regional office or property.

The more functional, stable and flexible database application should allow for bottom-up and top-down forecasting, and provide real-time input from the individual properties as events occur and situations change. For example, a salesperson could

use a database planning tool to update his pipeline, and if the probabilities on a deal change, that would be reflected in the forecasts. This budgeting application should allow users to easily revise budget targets and quickly determine how those revisions will affect overall corporate performance. Budgeting software should make it easy to consolidate numbers on the fly. If a change is made, the program should update the data so that the new scenario is immediately available, unlike the currently accepted process of waiting several hours while the change is slowly updated throughout the spreadsheet cells until suitable output is finally available for review.

Such advanced budgeting tools should also provide a large degree of flexibility for creating formulas and allowing users to analyze numbers across multiple scenarios. Another important feature should be the ability to integrate budget data with other operational software by importing and exporting data from multiple applications across the property or corporate offices. Only after implementing such an advanced performance database budget application will there finally be less dread in the anticipation of budget time, less time in creating and establishing the budget, and finally more accessible data to allow for extracting reviewing, reporting and analysis capabilities.

*Jose Acosta is a principal at priZem international inc., the hospitality industry's solution group which provides the desired easy-to-use, advanced and flexible database budgeting software that is outlined above. Combined with priZem's synergistic labor reporting database software that allows the upload of historical labor data directly into the budget software, any company can then breeze through the creation and execution of a successful budget. Go online at <http://www.prizem.com/> for more information on priZem's Budget Intelligence™ software or contact us at 212-327-2400 for more information.*

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