



7th EUROPEAN
hostel meeting
BARCELONA 2008



CZECHINN

EHC Conference – Barcelona 2008
Presentation on Financial
Management for Hostels
“Getting Financially Fit”



Preview of the Presentation:

Welcome to “Financial Management for Hostels – Getting Financially Fit”

Are you in the right place?

Our Plan for the Presentation:

- ✓ Give you an introduction to the presenters - Michael & Chris
- ✓ Ask you some quick questions as participants to the presentation (not audience)
- ✓ Engage in a conversation about financial management
- ✓ Discuss the definition of financial management & other relevant terms
- ✓ Discuss a process by which your hostel can get into “financial shape”
- ✓ Conduct a “Question & Answer” Session



Preview of the Presentation:

Financial Management for Hostels – “Getting Financially Fit”

During this presentation, our goals are as follows:

- 1) To educate you about the importance & benefits of prioritizing financial management at your hostel.
- 2) To get you to think about the “financial fitness” of your hostel. Specifically, we would like you to consider the following questions:
 - Is your hostel in good financial “shape”?
 - Does your hostel need to “lose” a few pounds?
 - Does your hostel need to change its financial “lifestyle”? If so, how an increased focus on financial management can help you achieve that objective.



Information on the Presenters:

Michael Tumminia, 212 Partners

- Worked for the public accounting firm PricewaterhouseCoopers for 8 years & left the firm as a senior manager (Washington, D.C. & Moscow offices).
- Is a Certified Public Accountant in the United States (since 1993).
- Currently runs 212 Partners, a boutique consulting firm based in Manhattan.



Chris Syvertsen, Czech Inn

- Obtained B.S. in Accounting in 1994 from Kings College, PA.
- Has 11 years of finance experience, primarily in the consumer finance & banking industries
- Worked for Bank of America
- Moved to Prague in 2005
- Currently the General Manager & Co-Owner of the CZECH INN Hostel Prague





Questions for the participants:

- How many people in the room are hostel owners?
- How many people in the room are hostel managers?
- How many people in the room are hostel employees?
- How many people in the room establish an operating budget for your hostel?
- How many people in the room actively monitor an operating budget?
- How many hostels outsource their accounting function?



Financial Management Overview

What is financial management?

Definition of financial management:

The management of the finances of a business in order to achieve financial objectives.

The key objectives of financial management would be to:

- ✓ Create wealth for the business,
- ✓ Generate cash, and
- ✓ Provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested.



Why do I care? Is your hostel out of shape?

- Financial management is like physical fitness – it is a part of keeping your business healthy.
- Businesses sometimes tend to let financial management go (like many people stop exercising after a while). The result may not be as drastic as bankruptcy, but you will certainly not be as profitable & efficient as you could be.
- Several reasons to care – You are (1) Seeking private equity to grow, (2) You would like to increase net income (i.e., put more money in your pocket), (3) You want to control spending to increase positive cash flow (so that you can grow organically), (4) You would like a loan from a financial institution, or (5) You want to buy some new beds, etc.
- Financial management requires commitment & possibly a financial investment by your business.



The 3 key elements of financial management:

1. Financial planning – Establishing your “fitness” goals
2. Financial control – Executing your plans (“getting fit”)
3. Financial decision making – Assessing your performance (i.e., analyzing the results to determine how your hostel performed).
4. Start the process all over again with new goals (“staying fit”).



The 3 key elements of financial management:

Number 1 - Financial Planning - Establishing your “fitness” goals:

- Management needs to determine what its goals are going to be for the period. They could include the following:
 - Ensuring that the hostel has enough funding available at the right time to meet the needs of the business. In the short term, funding may be needed to invest in equipment & supplies & pay employees.
 - In the medium and long term, funding may be required for significant additions to the productive capacity of the business or to make acquisitions – i.e., you want to grow from your current size as a hostel to a larger business with more beds.



The 3 key elements of financial management:

Number 2 - Financial Control - Executing your fitness plans:

Financial control is a critically important activity to help the hostel ensure that the business is meeting its objectives. Financial control addresses questions such as:

- Are assets being used as efficiently as possible?
- Are the hostel's assets secure?
- Do management & staff act in the best interest of shareholders & in accordance with business rules?



The 3 key elements of financial management:

Number 3 - Assessing your performance & financial decision-making

- After the financial planning & execution phases, we assess the hostel's performance by reviewing financial & management reports & by comparing the results against the company's plan.
- Based on the assessment, & considering the hostel's financial situation, management makes financial decisions for the next period.



Financial Planning - Budgeting – Why Do I need a budget?

- ✓ A budget is a financial management tool that defines an organization's financial plan for a period of time.
- ✓ A budget contains projected revenues & expenses. It helps you to understand exactly where your business spends its money each month.
- ✓ Why do I need a budget? A budget can be used by a company to achieve its financial objectives.
- ✓ Consider a budget to be your “fitness” road map – if you want to get somewhere, you need directions to your destination.
- ✓ Your “destination” may include saving additional cash each year, purchasing some capital equipment, opening a new hostel within a certain period of time, or earning more income for yourself.



Budget formulation & monitoring – How often should I put a budget together?

- The budgeting process is challenging. It requires you to commit some time to the process. It can be like going to the dentist.
- May also need to bring in an accountant or consultant to assist.
- Frequency of the budgeting process – Budgets are beneficial if they are prepared at least once a year (usually before your new fiscal year begins).
- Budgets are “living” documents. You may need to change them as the fiscal year proceeds.



Budgeting - How do I do it? And what do I next?

- How budgets are prepared – putting on a green visor.
- What now? Inputting your budget into your accounting system.



Developing an operating budget

Revenues:

- Bed revenue (projected occupancy by month X average bed rate)
- Internet revenue
- Food & bar revenue (may be a % of bed revenue)
- Laundry revenue

Expenses:

- Advertising
- Credit card processing fees (% of revenue X credit card fee %)
- Cable & internet
- Cleaning & laundry
- Commissions
- Insurance
- Payroll (including employer costs)
- Postage & delivery costs
- Professional fees
- Rent/mortgage
- Telephone
- Travel & entertainment
- Utilities (perhaps a % of square footage)
- Maintenance
- Transportation
- Depreciation
- Taxes (% of net income)



Financial Controls - What are financial controls?

Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- ✓ Effectiveness and efficiency of operations.
 - ✓ Reliability of financial reporting.
 - ✓ Compliance with applicable laws and regulations.
- Making internal controls a priority



Financial Controls continued:

- The first category addresses an entity's basic business objectives, including performance & profitability goals & safeguarding of resources.
- The second relates to the preparation of reliable financial statements as well as reliable management reports.
- The third deals with complying with those laws and regulations to which the entity is subject.
- The bottom line - Financial controls exist to help ensure that financial transactions are recorded & maintained accurately, & that personnel don't unintentionally (or intentionally) corrupt the financial management system.
- Controls range from very basic (i.e., using a checkbook and cash register tapes) to more complex procedures (i.e., getting an annual financial audit).



- Making internal controls a priority



Best practices – Financial Controls

The following is a brief list of some of the most important of financial controls that all businesses should implement. Although it is not meant to be totally comprehensive, it does represent some best practices for businesses.

- ✓ Maintain up to date, accurate, & complete accounting records. Discussion topic - Do I need an accountant or bookkeeper? Or should I outsource this function?
- ✓ Maintain a fixed asset list of items owned by the hostel (i.e., computers, beds, tables, etc). These items should be numbered so that you can keep track of them (i.e., Czech Inn 0001).
- ✓ Keep a close eye on your bank accounts & corporate credit cards.
- ✓ Go on-line periodically to review transactions for anything unusual.
- ✓ Establish controls to handle cash at the hostel (i.e., perform reconciliations of cash on-hand to cash reported by management system for each staff shift change).
- ✓ Ensure that someone in your organization is reconciling your bank account & corporate credit cards on a monthly basis (or reviewing your accountant's reconciliations for accuracy).



Best practices – Financial Controls

- Limit access to cash, checks, & corporate credit cards to authorized staff only.
- Establish a control process to make purchases for your organization (i.e., only authorized personnel should make a purchase on behalf of the hostel).
- Establish departments within the hostel to increase accountability (i.e., Housekeeping, restaurant & bar, reception, central office, etc). Managers of each department should sign off on invoices before being submitted to the General Manager for final approval.
- Make sure that cash deposits are made on a regular basis.
- Review your financial reports on a monthly basis to identify any possible issues. This includes your monthly profit & loss statements, your budget to actual reports, your management reports, etc.
- Hire & retain “good” staff (i.e., making staffing a priority).



Financial Reporting:

Among the several reasons for implementing strong financial controls is to ensure that your financial & management reports can be relied upon.

These reports include:

- ✓ Management reports (i.e., occupancy reports)
- ✓ Profit & loss statement
- ✓ Balance sheet
- ✓ Budget to actual report



Financial Decision Making – Assessing your hostel’s performance Is your hostel “financially” fit?

The financial & management reports should be used on a periodic basis to determine whether your hostel is meeting its financial objectives. From these reports, you should be able to get the answers to the following questions:

- Is your hostel generating as much revenue as you projected? If not, why not? Do you have to adjust the projected revenue downwards for the future?
- Are you spending more than you budgeted? If so, why?
- Are you saving as much cash as you would like?



In Summary –

Make “Financial Fitness” your New Year’s Resolution

- ✓ Staying financially fit is the difference between being a “good” business & being a “great” business.
- ✓ Staying financially fit is a commitment that yields rewards.
- ✓ Being financially fit is empowering.



Question & Answer Session