teaching note

I Don't Need to Know Accounting, I am Going to be a Hotel Manager. Right?

Most hospitality programs, like business programs, require at least two accounting or finance classes in their undergraduate curriculum. Financial accounting and managerial accounting are the two most common courses, but many schools also have finance and revenue management. Schools also cover additional accounting and finance concepts and skills within other courses such as cost control, financial analysis, strategic management, and/or capstone classes. Undergraduate hospitality programs build leaders for the industry so they should be exposing students to the skills they need to make this transition. Instructors often need to connect what is required by students to learn, to why it is important in their career for them to be engaged in the learning process and to better retain the material for when they need it as they work their way up. This is especially true in undergraduate accounting courses.

This case study evaluates managerial accounting competencies often addressed in a hospitality program and how industry professionals use or do not use those concepts. There are a variety of managerial accounting books that hospitality instructors can choose, but this case study will concentrate on the main topics that should be covered. This case study will evaluate just one segment of the hospitality industry, hotels, but the outcomes are applicable to all areas of hospitality, although certain reports discussed are only available to the hotel industry.

This case study is designed for use in an undergraduate managerial accounting class, but unlike other case studies, this case study can be a guide for a majority of the course and not just to supplement one or two topic. The instructor can have students do tasks in whichever order they teach them and end the semester with a culmination of proof of competencies for students to include in an e-portfolio.

The best way to use this case study is over an entire semester, a part at a time. The case study has the flexibility of allowing the instructor to choose what order they want the content delivered. Revenue management material, while included here for the STAR report, should be covered in a revenue management course since in depth revenue management techniques need to be covered in their own class and cannot be sufficiently covered in one semester along with all managerial accounting topics. Also, the capital budgeting material can be moved to a finance class for courses that cover that material there instead of in a managerial accounting class. They are both included though to show the interaction with managerial accounting and data.

Learning Objectives

Students completing this case study will be able to:
- Interpret P&Ls using horizontal and vertical analysis
- Describe and apply various quantitative and qualitative forecasting methods
- Explain and apply the techniques used for operations budgets
- Analyze and interpret monthly STAR reports
- Use basic functionality in Excel to produce professional management reports
- Effectively communicate company performance

Class Instruction

Start the semester by having the students read the case study as an introduction to the course. The instructor then needs to determine in what order they want to conduct the activities. Based on the results of the case, it is evident that industry requires a deeper understanding of the material so instructors also need to determine what items should be required as a project to confirm the student understand context, can communicate their outcome, and know how to use Excel instead of just memorizing for an exam. In addition, there is opportunity for individual or group work in this case, whether in the classroom or as a project. The instructor can also use the case study activities as a sample in class and have the students recreate similar analysis with outside class projects.

This case study needs to be supplemented with data that the instructor sees as appropriate. Due to confidentiality agreements with the properties, data could not be reproduced for this case study, but there are plenty of alternative options. One alternative is to have the professor get property information from a local hotel that works with the school. Another scenario is to use financial information from the last couple years of a company's 10-K. Another third option is for the instructor to build their own financial information, where they can concentrate on certain issues they want to address.

STAR reports cannot be included as those are also confidential, but STR asks universities to be involved in their SHARE Center (https://www.strglobal.com/products/share-center) to get access to sample reports. Once a school is a member of the SHARE Center, they have access to a Dropbox with a variety of reports, including weekly and monthly STAR reports. Also included in the Dropbox, are around five years of HOST/Profitability reports, which could be used for the P&L analysis and the forecast/budget.

It is assumed that delivery of the concept, including definitions, formulas, and practice problems for each topic are adequately delivered before attempting the activities in this case study. This case study delves deeper into the concepts but the students must have introductory exposure before attempting to sufficiently discuss the topics. The phases below and the recommended times assume this has already occurred.

Phase P&L Analysis: 90 to 120 Minutes

This phase is best conducted in a computer lab or having students bring their own laptops. While students can still learn while teaming up, having each student work individually on building the financials statements will make sure that every student is being exposed to the basics of Excel and not having just the students strong in this area carry the ones who are unsure. Having students recreate the P&L in Excel also confirms/reminds students of how the income statement is built, including all subtotals, from financial accounting. Students that have minimal Excel exposure generally state that the in class Excel day is extremely beneficial. Appendix A has an example of the assignment to be covered for this phase. This phase can also be supplemented with a project, in which each student or group has a different company.

Class 1: It is assumed that horizontal and vertical analyses have already been covered in class, which is generally two class periods of lecture and practice problems, before attempting an analysis. If the instructors combine the lecture days with this phase, anticipate two weeks of classes, one for lecture and one for Excel and analysis. Have students conduct vertical and horizontal analysis in Excel. It is also possible to have students do all the horizontal and vertical analysis outside of class and address the discussion questions in class. This option would decrease class time from 90 – 120 minutes to 50 – 75 minutes. Depending on whether your program requires students to take an Excel class or not, this day can be modified. In programs that require no Excel this will take a full class, although some students would prefer two days.

Class 2: Following the questions in the case, students should choose which accounts they believe are the most important variances to investigate as a manager. Students should support their decisions with numbers based off the analyses they conducted and also based on what they think are concerns for industry. There are no right or wrong answers but students should be able to sufficiently support their decisions. Even accounts with minimal or no change can be a concern if students can support it with comments such as other accounts increase so why not this one? Consider bringing up current trends in the industry such as potential minimum wage changes, technological advancements, economic issues, etc. to promote discussion of how these issues may affect the P&L in the future.

How students answer these discussion questions will allow the instructor to get a firm understanding of how much the students retained from financial accounting. For instance, if the students use revenue and profit interchangeably they need a refresher. Also, while the balance sheet is normally not analyzed by department managers, which is why it is not included here, students need to understand the difference between what goes on the P&L and what goes on the balance sheet so it is worthwhile to have this discussion, particularly around fixed assets and inventory and how those affect both statements. While students will most likely not be required to do

journal entries as managers, understanding accounts from financial accounting is extremely important to accurately analyze company performance.

Phase STAR Report: 150 to 300 Minutes

This phase can be covered in managerial accounting, revenue management, or marketing depending on individual course objectives, but should be covered in at least one of those. STAR material generally requires two to four class periods and instructors can choose to analyze a weekly or monthly report. The weekly report is a better fit in a revenue management or marketing class, while the monthly report works well in a managerial accounting course.

Class 1: Lecture on the STAR report including all the terminology and calculations, i.e. "hotel math" as STR call it. Students should read STR's How to Use the STAR Report or HM Bookstore's Revenue Management/STAR Report ebook, which has some videos, before class. Even though the material should be reviewed before class generally students want/need more in-depth discussion and lecture.

Class 2: Instructors must get a copy of a STAR report from STR or a local company before starting this class. This class includes finding information on the report, such as what day of the week the company has the highest occupancy, which assist students in working around the report. There is a lot of information within the STAR report and students can sometimes get overwhelmed so guiding them with specific questions assist them in getting comfortable with the report and data. Appendix B, Part I gives some sample questions the instructor can ask to guide the class/discussion.

Class(es) 3-4: For instructors that want a more in-depth analysis of the STAR report, one to two more classes are required. These days are more strategic in nature and best done with students working in groups. Appendix B, Part II lists more strategic questions for students to address. These questions (or similar) should be handed out to students. Students can then work the entire first class period and during the second class all groups will discuss their answers and student groups can compare to what everyone else did. A second option is to still have students work in groups, but instead of having them do all questions on their own and compare at the end, have them all work on one question at a time. Give students 5-10 minutes a question to work on them as a group. Then once everyone has come to a conclusion discuss as a class. This will make sure students are staying on track and it will catch misinterpretations early. The instructor should play the role of the General Manager with follow up questions on the student analysis. Address what they potentially left out or play devil's advocate.

In addition to the discussion questions listed in the case and Appendix B, instructors can have students:
- Create procedures/training guide on how to evaluate a daily, weekly, or monthly STAR report

• Discuss what the most important information is on the STAR report

This is another topic that works well as a group project outside of class. Since STR provides a variety of reports every 2-3 groups can be given a different report. By having students do this outside of class, they have more time to think more in depth of what is occurring in the company instead of making decisions with an hour. The same questions listed in Appendix B, Part II can be used for this project. This will give students time to work on their own and analyze a second report. In addition to a group project, the instructor can offer students the opportunity to take the Certification in Hotel Industry Analytics (CHIA), which centers on STR data and the STAR report. Instructor and student information on this exam is located at: https://www.strglobal.com/products/chia.

Other segments of the industry may not have as detailed information as the STAR report but the analysis would be conducted very similarly if properties were collecting this in their area. Listed in supplemental readings are examples of food and spa reports that are available on an annual basis that can also be analyzed to show how this is not just a hotel analysis.

Phase Leadership/Executive Meeting: 50 to 75 Minutes

This phase should be a discussion to engage students on how departments work together and what information should be shared. The instructor can start the class by having students form groups of 5-10 students. Since students need to work with all people and not just their friends, groups should be randomized. One option to do this is to have students select out of a bucket a sheet of paper that has a company name and their position in that company. Give groups 20-30 minutes to conduct their own leadership meeting. Students should, at a minimum:

• Determine what role everyone in the group is taking on, i.e. what position they are. This is only needed if the instructor decided to just give companies and not positions originally. This will allow students to select position based on their strengths.
• Determine if there are key people "missing from the meeting"
• Present information from their department that they believe should be addressed
• Discuss how information from one department is used in another
• Determine what actions to take in the next week based on the meeting

After the meeting time, have students discuss what occurred in their meeting. Start by asking groups who was present and who was missing, followed by comparing and contrasting the groups to see if there is any consistency. Make sure students do not have leadership groups that are so big that they become ineffective. Follow the same for each of the questions getting students to think about how everyone uses data. It is important to fill in any gaps the students are missing in the discussion.

Phase Operations Budgeting/Forecasting: 75 to 150 Minutes

This phase builds off the P&L analysis and STAR report and while the instructor can choose what order to cover the case study, it is recommended to cover this after those two since students need to have historical P&L information and pricing decisions to effectively produce a budget.

The instructor should provide five years of data or have students take their two years of P&L information and add to it. The project can be conducted in the classroom on the first company used as an example or as an outside of class project on the same company the students did their P&L analysis on. All data needs to be collected or provided prior to starting the forecast. To make sure students are comparing similar information, the in class project should all be on the same company the instructor provides. Appendix C provides examples of some forecasting techniques that the instructor can have students do. This breakdown of classes assumes the instructor will do all 6 techniques.

Class 1: Students should start by doing the two moving average forecasts. These require the least amount of calculations and are generally the easiest for students to understand. Once students do the moving averages they should compare the two and discuss why they are different and if they are significantly different. Next students need to conduct horizontal and vertical analyses for all years. This needs to be done before the next forecasting methods can be completed.

Class 2: Based on the completed horizontal and vertical analyses, students need to look for trends in each account. After finding a trend they should apply the trend to forecast the next year for each line item. If students think there are years that are anomalies those can be removed when looking for a trend. Do each trend one at a time, i.e. all dollar trends, then percentage trends, then the vertical trends. Limit each analysis to 20 minutes. This will not be enough time to go through every account, but students can select the main accounts they want and at least get the idea. No good forecast can be done in a day, which is why this is a good project outside the class. Students should then take 10-15 minutes to discuss which forecasting method is most appropriate for that company.

To determine which method is the best, students need to first determine how each account is historically changing. If the data is fluctuating with no pattern the students should forecast based on a moving average and need to decide and support how many time periods of data to include in the moving average. If the data shows that the account is increasing or decreasing over time, the student should use a trend and determine if it should be a trend based on the dollar or percentage change. There will most likely not be a consistent trend, so the student will have to make some decisions on how to determine the best trend. Do they take the lowest, highest, or average of the change? Any change would be reasonable as long as the student supports why.

Students also need to interpret how accounts affect one another. For instance, does food revenue increase with room revenue? Is payroll a relatively consistent percentage of revenue indicating a variable expense or is it more fixed? Not all accounts are forecasted just on a moving average or trend. Students should also discuss any qualitative factors that are a concern for the budget.

Assessment

Since communication is one of the main skills demanded by hotel industry managers, students should deliver at least one part of this case study in written or oral form. As an example, depending on how instructors choose to use this case study they can choose to deliver one concept as a written report, one as a presentation, and the rest as discussion in class. In addition, the end result of this case study is not only a detailed understanding of the managerial skills that the hotel industry seeks from managers but students have a physical project (whether conducted in class or outside) that they can include in their e-portfolio.

Supplemental Readings

HM Bookstore. (2017). Revenue manager/STAR report. Retrieved from http://www.hmbookstore.com

National Restaurant Association. (2016). Restaurant operations report. Washington, DC: Author

PKF Consulting. (2014). Trends in the hotel spa industry 2014. Atlanta, GA: Author.

Smith Travel Research. (n.d). How to use the STAR report. Retrieved from http://www.strglobal.com/Media/Default/Documents/ProductTutorials/HowToReadSTAR_STR.pdf

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Appendix A

Sample P&L assignment

Vertical and Horizontal Analysis (Excel Based)

1. Select a publicly traded hospitality company
    a. The instructor can choose one themselves or let students select it so they are more interested in what they select
    b. If the instructor has access to a company's internal financial statements that can also be used.
2. Build the Income Statement and Balance Sheet (if you choose) for the last two years for your hospitality firm based off the company's 10-K.
    a. All subtotals and totals should be built in Excel. This gives students not only practice in basic Excel functions including formatting, but also reiterates the building of financials statements from financial accounting.
3. Have students do a horizontal and vertical analysis for each statement.
    a. This will require four new statements, two for each financial statement.

Discussion

1. Based on the horizontal and vertical analysis select five accounts per statement that as management of this company you would want to analyze.
    a. Make sure students select accounts not subtotals or totals since in industry managers may quickly look at subtotals, to really understand what happened they need detail on the accounts within that total.
2. Discuss the following for each account:
    a. Why did you choose to analyze this account based on the analysis just conducted?
    b. Upon evaluating the 10-K, explain what caused the change in the account.
    c. As a manager in the company, what do you think of this change?
        i. Is it good or bad for business?
        ii. What other accounts will this change effect? For instance, if revenue goes up do you anticipate expenses going up? If so which ones?
        iii. What can you do to address the change for the future?

Sample STAR Questions

Part I
1. What was your company's current month ADR?
    a. How does this compare to your competitive set?
2. What was your company's year-to-date Occupancy % change?
3. Explain what your company's Running 3 month index for RevPAR indicates?
4. By how much did the number of available rooms change in the current month for the market?
5. Which industry segment had the largest percentage change in rooms sold for the month?
6. How is your company performing in terms of hotel revenue for the year compared to others in your industry segments?
7. How many hotels in your market class submit data to STR? How do you know this?
8. How has your hotel performed over the last 6 months compared to your comp set?
9. What was your company's rank for Occupancy %, ADR, and RevPAR for the current month?
    a. How did this change from the previous month?
10. What does an ADR index of 110.9 mean?
11. What day of the week does your hotel have the best occupancy?
12. What day of the week does your hotel charge the highest?
    a. What about your competitors?

Part II (potential project)
1. Describe the industry segments and comp set you will be comparing to in this report.
    a. How many hotels and rooms are in each?
2. How does the subject hotel perform compared to the comp set based on Tab 2? Address all KPIs, percent changes, and time periods.
3. How does the subject hotel perform compared to various industry segments and the comp set for supply, demand, and revenue for all time periods?
4. How does the subject hotel perform compared to various industry segments (not including the comp set since that was already been discussed) for all other industry information provided? Analyze all KPIs and percent changes for all time periods.
5. Provide a summary of what is occurring in the market in terms of construction.
    a. How many hotels and rooms are entering?
    b. Why is this or why is this not a concern for your property?
6. What were the best and worse months over the last 18 months for each metric? Address all aspects of comparison to the comp set including KPIs, percent changes, indexes, and ranking.
    a. Are there any trends in the data for each metric?
    b. What about in the 3 year data for running 3 month, running 12 month, and YTD?
7. What day of the week does the subject hotel and comp set do the best and worst in each time period for each KPI?
    a. Address all key performance indicators, percent changes, and indexes
    b. What does the different metrics tell you about your property compared to your comp set?
8. Assume that you have just taken over as the Regional Manager responsible for this hotel and you are preparing to meet with the General Manager. Based on your analysis what are 3 possible opportunities that your company should pursue that you found when conducting your analysis?
    a. An opportunity is something external to your company (something your competitors or the industry is doing) that you believe you can also do or something that no one is doing that you can address. An opportunity is not an internal change that does not address an external issue.
    b. Some examples of things that are not opportunities: changing your comp set (internal, not external) and renovating your hotel (this is strategy not an opportunity).
    c. Students should not propose opportunities that are not based on information within the STAR report.
    d. This question will show understanding, not just interpretation, of the report.
9. If you could only decide on one opportunity from the one s just discussed, what would it be and why?
10. What would be a strategy to address this opportunity?

Sample Forecasting/Budgeting Assignment

1. Using the same company you used for Appendix A
   a. This simplifies the assignment since two years of data are already collected and since the students already analyzed the change over two years and they have an initial understanding of the company, which assists in properly forecasting.
2. Have students do the following forecasts for the Income Statement:
   a. Forecast based on moving 3 year average
   b. Forecast based on moving 5 year average
   c. Forecast based on the absolute change trend over the last 5 years
   d. Forecast based on the relative change trends over the last 5 years
   e. Forecast based on the common size trends over the last 5 years
   f. Any combination of the above depending on the line item. (This forecast requires students to analyze each of the 5 forecasts and determine which forecasting method is most appropriate for each account either based on the forecasted value or the relationship of the account to time or other accounts)
3. Students should select which one of the six forecasts they would recommend their company use and support why.
4. The moving average forecasts are pretty straight forward, but the trend forecasts are a little more complicated and require explaining to the students how there are almost no consistent trends in the real world and assumptions have to be made. This may include excluding years that are anomalies, taking the average of all/some years, or using just most recent data. This all depends on the company and what is occurring in it.
5. If this is a graded assignment, and not just an in class discussion, students should be graded on their logic and thought process and not that they come up with the same methodology as other students or the instructor.