

Sample chapters from:

The Prosperous Hotelier

***A Guide to Hotel Financial Literacy
for the Hospitality Professional***

by David Lund

Selections include:

Foreword by Heather McCrory

Introduction by David Lund

Chapter 6: “Why Financial Acumen (aka Leadership) Is so Important to Your Hospitality Career”

Chapter 19: “How to Read the Hotel Financial Statements and the Link”

Chapter 27: “Measuring Labor Productivity”

Chapter 32: “Food and Beverage Costs or Contribution Margin?”

Chapter 43: “Why Managing Your Budget Is Like Playing Baseball”

Chapter 46: “The General Manager’s Yardstick”



MAURICE BASSETT

Praise for

***The Prosperous Hotelier: A Guide to Hotel Financial Literacy
for the Hospitality Professional***

Most hoteliers operate under the philosophy, “Look after the guests and the money looks after itself.” The truth is the money never looks after itself—you need to be and stay on top of it every day in this industry we call hospitality. David spells out clear and executable strategies that any hotel leader can use to be more financially effective and a better leader.

~ **Chip Conley**, Founder, Modern Elder Academy, *New York Times* bestselling author, Former CEO and founder of Joie de Vivre Hospitality, Former Head of Hospitality and Strategy at Airbnb

As someone who writes about the hospitality industry for a living, I find David Lund’s financial perspective is invaluable in my ability to understand the nuances of hotel finance—clearly and concisely. David possesses the exceptional ability to write about complicated subject matter and convey it in a way that is simple and succinct to understand—for the tyro starting out or for the expert who needs a refresher.

The Prosperous Hotelier should be on the desk of every hotel GM and accessible to anyone interested in the financial success of a hotel asset, which, when it comes down to it, is every employee. His writing breaks down esoteric financial concepts in a way that is easily digestible and, in the long run, will help a hotel, a hotel portfolio or a hotel company bolster their bottom lines.

~ **David Eisen**, VP, Editor-In Chief, *HOTELS Magazine*

A thoughtful and well-articulated guide for hoteliers at all levels of seniority and experience. David has an incredible ability to simplify and teach an area of the business that is often misunderstood and even feared.

~ **Michael Grove**, Chief Operating Officer, HOTSTATS

There is a general misconception that understanding the financials of a hotel is best left to professionals with formal education in accounting, as these financials are perceived to be too complex and challenging for those without

such a background. However, David Lund's new book *The Prosperous Hotelier* debunks this myth and will help you demystify the financials of the hotel industry. Whether you're a seasoned hotelier or just in the early stages of your hospitality career, this book will provide valuable insights and inspiration. I highly endorse this book and give it my highest recommendation.

~ **Henri Roelings**, Publisher, hospitalitynet.org

The Prosperous Hotelier is the best guide for success in the hotel business I have ever read. In an easy-to-read style, David simplifies the complexities of hotel finances for operational leaders. Regardless of your department or position, if you are a leader in a hotel, you need to be a *financial* leader. This book shows you how with common sense and practical examples. Pay attention!

~ **David Garcelon**, Hotel Manager, Fairmont Hotels

This book is for you if you want the most comprehensive collection of financial leadership strategies. David provides the most straightforward method for financial leadership, regardless of whether you are a seasoned hotelier or an aspiring hospitality leader. I had the opportunity to work with David on several occasions in both his team workshops and mentoring program, and I saw firsthand the advantages of his straightforward approach to financial leadership.

~ **Patrick McClary**, CEO/Founder, CORE Food & Beverage Consulting

I highly endorse *The Prosperous Hotelier* by David Lund. As someone who has participated in several financial leadership training courses led by David, I can attest to David's expertise and ability to convey complex financial concepts in an easy-to-understand manner. This book provides valuable insights and practical strategies for financial success in the hospitality industry, and I highly recommend it to anyone looking to enhance their financial leadership skills.

~ **Claude Brock**, CFO, KSL Resorts

The switch that brings light to your hotel finance understanding, making it easy and clear for everyone—for financial and non-financial people. With clear and easy explanations, David shows you that what you need to get is a sense of business through a good understanding of your reports, forecasts, etc., and the way your property works. This book will become a bible for the hotel business . . . for sure.

~ **Olivier Lot**, Resort Manager

This is a must-read for hotel professionals. I had the pleasure of working with David in San Francisco and can confidently say that he is a true expert in hotel accounting and finance. His new book is a comprehensive guide offering valuable insights and practical advice for hotel professionals looking to improve their financial management skills.

From budgeting and forecasting to cost control and reporting, this book covers all the essential topics that are crucial to the success of any hotel operation. David has brought his years of experience in hospitality and deep understanding of the financial side of the business to create a must-read for anyone looking to stay ahead of the curve in this highly competitive industry.

I highly recommend *The Prosperous Hotelier* to any hotel professional looking to take their financial management skills to the next level.

~ **Adam Knight**, Co-Founder and CEO, Recreation Vacation Rentals

David Lund has spent his career elevating leaders by growing their business acumen. In this well-structured book, David draws upon years of experience as a trusted coach to make financial leadership approachable. First-time managers and experienced hoteliers alike are sure to benefit from his clearly deliberate and thoughtful presentation of concepts, ideas and best practices that help leaders strike the balance between hospitality-smart and business-smart. A must-read for any hospitality professional looking for a competitive advantage.

~ **Tim Ostrem**, MBA, Area Director, Atlific Hotels

For anyone looking to build on their financial acumen, find their financial “superpowers,” and deepen their understanding of hotel operations, this is the book for you. Through his relatable stories, David Lund outlines the

steps to take to have the right financial leadership skills for a prosperous career and a prosperous life.

~ **Jamie Caraher**, President & CEO at Lodging Dynamics

I highly recommend *The Prosperous Hotelier* to any hotel pro who wants to maximize their potential in the hotel industry. Actually, many of the principles apply to any business, and actually they apply to your personal finance as well! I love how David weaves in the concept of mindset throughout all of his teaching. What paralyzes most people from mastering their hotel's finances is believing that they aren't a numbers person or that the numbers are somehow too complex for them. This is not true! Understanding the basics of hotel financial statements is going to help anyone add more value to their organization and go further faster. *The Prosperous Hotelier* will help you master those basics and then take you as deep as you want to go. You just have to decide you can, and get started!

~ **Katie Paolino**, Partner Hotel Solutions

The Prosperous Hotelier is a must-read for hoteliers at all stages in their career. Coach David brings a hands-on approach that is relevant and fun for everyone and really helps engage hoteliers in areas that they may not engage in in their normal day to day. Great read! My team will be getting copies!

~ **Ray Roberge**, General Manager, Delta Hotels by Marriott Beausejour

David's book is what operations managers have been missing. The lessons he includes and the practical explanations remove the confusion and fear around the numbers, allowing leaders to confidently take the next steps in their career. I recommend it to anyone who wants to prosper in this business we call hospitality.

~ **Saurabh Mehta**, General Manager, 1 King West, Toronto

The Prosperous Hotelier is a life-changing tool for operational leaders to truly look at the business through an entrepreneurial lens. Nowhere else can you find such a candid instrument to understand the numbers and how they relate to the daily routine of a busy hotel. David makes this learning process easy and fun. And surprisingly, you end up loving finances no matter what your role is in the organization. This is a book to keep on your night table at all times.

~ **Gamal El Fakih Rodriguez**, Vice President of Operations (Luxury), Caribbean and Latin America, Marriott International

From David's lectern to your library, Lund's essential financial wisdom is now at our fingertips. Never on a shelf, *The Prosperous Hotelier* must be on the corner of your desk, beaten, dog-eared, coffee-stained with passages underlined and excerpts read aloud. There is nothing passive about our industry, and this book emphasises repeatedly that if we are going to be successful in this business, we must engage the lessons of this book and very actively implement them into our daily hotel lives.

~ **Jim Bence**, President/CEO Hospitality Saskatchewan

The Prosperous Hotelier shows us that the numbers are not the hard part of hospitality. It shows that if one approaches the business of hotels with attention and passion, the mystery of the financial piece evaporates. Creating superior results around the numbers is not only possible, it's what will happen.

~ **Brett Hollenbeck**, Associate Professor of Marketing at the UCLA Anderson School of Management.

The Prosperous Hotelier isn't just a finance book—it takes you on a journey through David's career while explaining hospitality financials in a relatable way.

For hospitality leaders, financial management can be daunting and often overlooked. David not only explains financial leadership but provides real examples that can be taken back to your business. In order to generate an ROI for investors, it's crucial that all levels of management possess a strong understanding of financial leadership and the ability to share that knowledge. *The Prosperous Hotelier* shows us how to do that!

~ **Ryan Cochrane**, Corporate Director of Operations, MasterBUILT Hotels

After more than twenty-five years covering hospitality, I finally understand how property-level financials work! Thank you, David, for demystifying what seemed overwhelming and complicated, and for turning it into something fun and easy to learn.

~ **Glenn Haussman**, #1 Hospitality Podcast (No Vacancy), Event Speaker, Board Member at LI Hospitality Association & Creative Xchange

David's ability to explain, to make it real, and to educate on the simple principles of hotel finance is remarkable. His human approach explaining the reality of financial hotel management for junior, middle and executive management is a tool that everyone can benefit from. A must read. (And keep it on the desk. You will use it again and again.)

~ **Ingrid Jarrett**, President & CEO, British Columbia Hotel Association

To all hotel salespeople: Get the book, read the book, and keep the book as a reference. David's book takes the fear out of that upcoming owner's or P/L meeting. Trust me.

~ **Andrea E. Gonzalez**, CMP, DES, CHBA, Founder and CEO, RESET Marketing and Events

Through *The Prosperous Hotelier*, David has set in print what he has done so well teaching in-person—he makes financial acumen relatable, approachable and, surprisingly, interesting! He makes space at the financial “table” for all leaders, with the belief that everyone, at all organizational levels, must contribute for shared success. Knowledge is power, and for “operational” leaders David's approach is both convincing and heartfelt. His desire to see them prosper as leaders, and in life, is as strong as his desire to see the same for the hotels they lead.

~ **Ken Flores**, General Manager, Fairmont Hotels

The Prosperous Hotelier is a great place to find all of David's hospitality financial tips and advice in one place. This book can appeal to both financial and non-financial-minded individuals in the hospitality industry and is a great resource to have on hand. I know my copy will be within reaching distance at all times while I am at work!

~ **Megan Wood**, CPA, Vice President of Accounting and Finance – Oxford Group

A comprehensive guide on how effective financial management and business practices can contribute to the balanced scorecard in any hotel. The

format provides an effective blueprint for new managers taking on P&L responsibility or experienced leaders requiring more in-depth skills to engage with senior leadership and owners to maximize performance.

~ **Chris Cahill**, Former Deputy CEO Accor, EVP Las Vegas Sands, & President/COO Fairmont Hotels

In this book, hospitality maverick David Lund provides a simple and practical approach to decoding finance and teaches us how to transform that understanding into actionable leadership skills. As someone who has worked in the hospitality industry for many years, I have found this book invaluable.

It offers practical strategies and insights that can help anyone in a leadership role better understand and manage financial performance and ultimately drive success in their organization.

What I appreciate most about *The Prosperous Hotelier* is how it presents complex financial concepts in a way that is easy to understand and apply. David Lund's writing style is engaging and straightforward, making it accessible to readers of all levels of financial literacy.

I believe *The Prosperous Hotelier* is a must-read for anyone in the hospitality industry who wants to improve their leadership skills and drive tremendous financial success.

~ **Michael Tingsager**, Founder, Hospitality Mavericks

David gives our industry an approachable and practical how-to guide for financial success. Implementing these principles and processes created a culture of ownership with our management and better results for our business. I know this book will become an important tool for the training and development of our managers.

~ **Brooke Christianson**, Owner, Canalta Hotels

I was so incredibly fortunate to have had these insights and principles taught to me by David early in my career as a Chef. They gave me confidence and built a foundation for me to become a Subject Matter Expert in Hotel F&B finances and controls. This book instills the principle that everyone has a role in the financial health of the business every day, not just the last day of the month. I have passed along these learnings to so many of my leaders who have worked with me through the years. They continually share with

me how this has helped them get promoted into their current roles at their hotels no matter the brand, the hotel, or the country they are in.

David's approach to removing the fear and providing the knowledge to all levels of leadership has created generations of great hoteliers who are successfully employing the learnings that he has proven work. After all, great processes and controls in F&B finances allow you to be focused on the opportunities rather than fighting P&L fires every month.

No matter where you are in your Hospitality Career, whether you are in your first role or the Hotel GM and beyond, you will have personal and professional success with these teachings. I encourage you to keep this book close—the insightful and easy understanding offered by the QR Codes are a great way to keep you and your teams engaged and on the same page.

And Chefs: Are you committed or just involved? As you know, taste is truly subjective but the technique is not. It is either right or wrong. This book and its teachings may be more important to your future successes than your entire collection of cook books. What you learn here should be passed along with diligence and purpose as if teaching a new cook how to make an omelet. The foundation will stick with them forever.

~ **Chad Blunston**, Corporate Director of Culinary Training, White Lodging

The smartest people make complex subjects simple and intuitive. That is exactly what David has done with this book. Business acumen is essential for any leader, but accounting and finance can be intimidating, and some leaders make it that way intentionally. David does an outstanding job distilling key financial concepts and practices leaders need to know to run a successful hotel. This book is easy to read, and it will benefit both experienced leaders and young professionals starting their career.

~ **Ian Wilson**, CEO Wilson Innovation Lab, ex SVP Non-Gaming Operations, Marina Bay Sands

I believe every hotelier should have this book—EVERY ONE OF THEM! Compartmentalizing departments and not allowing them to participate in the financial pillar of the hotel is clearly not working. This book is easy to follow, the videos are instructive, and everyone who uses it can become a hotel finance person. I always talk about adding tools to our “toolbox,” and this book is one of the best tools we can add. It should be shared with all staff. We often talk about how everything in the hotel costs money, and this

book will help staff understand this and learn to care for the financial health of the property.

~ **Lisa Martin**, Regional Controller, Davidson Hospitality

The Prosperous Hotelier

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THE PROSPEROUS HOTELIER

A Guide to Hotel Financial Literacy
for the Hospitality Professional

DAVID LUND



MAURICE BASSETT

The Prosperous Hotelier: A Guide to Hotel Financial Literacy for the Hospitality Professional (*The Prosperous Series #3*)

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Foreword

Who would have thought that two junior accounting clerks working in Food and Beverage Control (a department that doesn't even exist anymore) would be writing a book—and a Foreword for said book? Yet, here we are, with career paths that intersected through CP Hotels and Fairmont Hotels over the last forty years. David excelled in his lane and developed expertise as a leader in hotel finance and accounting, while I continued to chart my path in Sales and Marketing. Fast forward to 2007 and I had just finished my MBA when I had an opportunity to change career paths from Fairmont's Global Vice President of Sales and Distribution to the dark side, as the Regional Vice President and General Manager. As I have said many times when I talk about my career path, I don't think . . . No, let me correct that, I *know* I would not have been as successful without an incredible team. There are many people I worked with whom I could mention, but the one who was the most impactful and who definitely stands out above the crowd was my Regional Director of Finance, David Lund.

Why? Two reasons. First and foremost, David is highly intelligent, helpful and a very patient person. He is so passionate and knowledgeable about finance and accounting, and the hotel business in general. And two, something I will always admire David for and which is somewhat rare in the hotel business: David has always had a balanced approach to life. He structured his time so he would be at work when he needed to be and not be there when he did not need to be. This seems like such a simple concept, but it's often difficult to

manage in hospitality, and it reflects David's deep awareness of the moving parts of the hotel business.

You might think I simply did a quick summary review of *The Prosperous Hotelier* in order to write this Foreword for an old friend and colleague. But you would be incorrect—I read it cover to cover. I kept two viewpoints in mind as I green-highlighted my way through the chapters: that of an experienced leader who has been in the business for a long time, and that of myself, way back at the beginning of my hotel career beginning the journey that had me growing up in this industry.

My first takeaway from *The Prosperous Hotelier* relates to the two prevalent aspects at play through every chapter of the book: David's passion for the potential of a hotel's performance, and his undeniable depth of knowledge and expertise regarding hotel financial leadership. When you consider the depth of interconnectivity related to a hotel's financial workings you see that the whole is more than the sum of its parts. David helps us see this interconnectedness. This is demonstrated by the comprehensive nature of the book, which moves well beyond the areas traditionally covered by a Director of Finance to scope out what every leader in a hotel should hold themselves accountable to regarding financial and accounting matters. David and I agree that to truly succeed in the hospitality business you need to not only understand the financial fundamentals but—and even more importantly—to understand and apply financial leadership. Both of these themes are palpable through the entire book and it makes you want to read more; he pulls you into the realm of financial leadership—which, by the way, is saying a lot given that it is usually a fairly dry topic.

My second takeaway from this book is around the perspective of new leaders. There is no doubt in my mind that it would have been a significant advantage to have read this book when I was starting out. There are so many pearls of wisdom, so many detailed explanations

on procedures and concepts, and so many questions answered that you would either not know to ask or be afraid to ask. And it isn't a boring textbook! It is all written in an easy to comprehend manner.

Usually during training your direct boss or peer walks you through your various job tasks: forecasting, scheduling, RPI, and so on. This book will fast-track your training by augmenting it with the explanations as to why each element of the training is important and how it fits together within the structure of the hotel. It reminds me of our days at The Fairmont Royal York when David held training sessions for the new leaders. There was typically a turning point, a moment of comprehension, when you saw that these new leaders *understood the why behind their everyday tasks*. For every new supervisor (and some experienced department heads) *The Prosperous Hotelier* will be the hotel bible on financial leadership. It will help anyone in the hotel industry better understand all of the pieces that make up the hotel financial leadership puzzle.

To sum it all up (pun intended), I feel strongly that this book should be read by a majority of leaders in our industry. It is a type of self-help book for new and seasoned leaders alike. This book will provide guidance and broader understanding to all leaders – from the General Manager all the way to the first time supervisor in the hotel bar/restaurant. (Incidentally, in Chapter 46 David talks about the General Managers who he felt did not have the financial acumen needed. For the record, I was one of his many General Managers over the years, whom he rightly calls to the carpet!)

A final thought: one of the often-cited comments from female leaders is that they are not strong in finance. This book is for you, too. It is a chapter-by-chapter, self-guided tour through the landscape of financial leadership. If you are in the hotel business and buy into the philosophy of developing your leaders and sharing information across all levels of the leadership group, then financial leadership is a concept that will build strong teamwork, likely create more time for

leaders to focus on the guest—and most certainly drive profit.

Happy reading.

Heather McCrory

Chief Executive Officer, North & Central America, Accor

Introduction

Having worked in the hotel business for over four decades, I know most people think the numbers are the “hard” part of hospitality. There’s a common belief that the financials are best left to professionals who can sort out the complex interplay between the different departments of a hotel. It’s just too challenging and complicated for anyone who didn’t go to accounting school.

This idea is just a myth—one you can bust wide open with this book.

As hotel employees, we all grow up in the world of guest service and colleague engagement. Then one day we find ourselves in a different world. A new place where we are expected to manage our department and the numbers too.

If that’s you—welcome to the big leagues. This book is for you.

And if you aspire to the big leagues, well—welcome aboard. This book can help you get there faster and far more prepared and ready for action.

I’ve worked with hundreds of hotel leaders, so I know that having confidence and knowledge around the financials is the key to a successful hotel career and—to a very large extent—your own personal prosperity. Every successful hotel executive knows that the numbers are the currency for advancement. And their secret is this: it’s not accounting but “hotel-business thinking” that you need to cultivate and possess. It’s seeing that the component parts of a hotel can be integrated into a seamless whole—and understanding the financials is the key to doing this.

I spent the first ten years of my hotel career in operations. I know what managers and leaders deal with every day. I also know how your typical hotel financial person makes the numbers seem mysterious and confusing. *The Prosperous Hotelier* was written to show in a straightforward way what the numbers mean and how you can bring financial skills and abilities into your world.

This book is about the business of hotels, and it's written for two types of colleagues:

1. Non-financial people who want to cross that bridge and become leaders who possess hospitality business mojo. In these pages I explain the language of the hotel business in clear, relatable examples, using stories from the front lines and the back of the house. I've lived it all.
2. Financial leaders and managers who want to do what I do: bring everyone into the loop around the finances with all aspects of hotel operations, because once everyone's on board, everything runs more smoothly, and everyone's happier. We're all part of something bigger—together.

Along the way I'll share a lot of what I've learned as a financial leader in hospitality, and how I was able to unlock what didn't work for me and my leadership and make it work. How I was able to take my communication and leadership abilities to a whole new level. In sharing these details with you, I hope you'll see yourself in them and cultivate the ability to effectively engage with your colleagues and the numbers.

I have personally helped many individuals just like you overcome their fear and uncertainty around hotel financials. It's my passion.

Don't wait to get started! No one is coming to save you and do the heavy lifting. You have the ability to change your world and create a prosperous life with the hospitality financial leadership skills I'm sharing in this book. Put them to good use, and before you know it,

you'll be swinging in the big leagues.

A few notes to help you while reading the book.

1. Most of the book is written from the perspective of a financial leader, Controller or Director of Finance, but not always. Sometimes it comes from an operational leader or General Manager's viewpoint. Sometimes it's slanted to the corporate or regional office view of things. This will help you see why certain concepts and processes are so important.
2. Broadly speaking there are three different business models in the hotel world. The "owner operator," the "franchise" and the "branded/managed." This book is largely slanted to the view of the branded/managed hotel.
3. The hotel business is not a science but rather an expression of ideas and best practices. The book lays out what I think based on my experience having worked inside a global 4-star brand for over thirty years. The hotels I worked in were full-service, with large staffs and leadership teams. Much of what is in this book is based on this experience.
4. I often repeat the main themes and strategies, and I do so on purpose for three reasons. One, it's important stuff and I want you to get it on a DNA level. Secondly, I believe it's how we learn best—by seeing a similar idea more than once. Third, the themes I repeat are pervasive and show up in different places and events throughout the financial and operational landscape of the hotel.
5. There are QR codes throughout the book that will take you to additional resources, including videos and spreadsheets, to enhance your learning and experience.

This book does not claim to be a comprehensive presentation of the inner workings of hotels and their financials. I doubt any book

could do this, especially because the hospitality industry is changing all the time and there's never a shortage of different opinions! But it's based on my more than forty years in hotels, holding various positions, including entry-level ones like bartender, waiter, front desk clerk, room and food and beverage operations, and so on. I moved on to a position in food and beverage control, and quite by accident ended up in an accounting role. My operational experience provided me with a unique outlook as my responsibilities in accounting grew, later, as a Controller and Hotel Manager, Corporate Director of Financial Systems and Analysis. My earlier positions influenced how I did those later jobs, and gave me a unique, more holistic perspective on hotel financial operations. I have been a coach and consultant for the industry for the past ten years.

I hope that what I share here at the very least helps deepen your understanding of hotel operations and supports you in your career growth and satisfaction. Onward!

I

FINANCIAL LEADERSHIP



This section lays out the concept of what financial leadership is all about for the reader, their career, and their prosperity.

Chapter 6

Why Financial Acumen (aka Leadership) Is so Important to Your Hospitality Career

It is common sense: With more knowledge and skills, your career prospects and advancement possibilities are enhanced. In hospitality, as it's related to the financials, this commonsense idea is not quite as well understood.

There exists a counterculture to growing up in our business, to raising oneself out of the guest and colleague-only world into the financial arena. I know and have met many people who camp out in hospitality to avoid the numbers; this may be one of the reasons why they got into the industry in the first place—they didn't want to deal with the “hard facts” of business. But to advance in hospitality you need to know your numbers.

The hotel world has changed tremendously in the past twenty to forty years. I have been at it for forty-plus years, and the most profound change I see is a movement away from the brands, aka the owner/operator model, to one where most hotel companies became management companies, or franchises. In simple terms, this means the name on the door forty years ago was the owner of the bricks and mortar. Today the name on the door, nineteen times out of twenty, simply means the brand has a management or franchise agreement with the hotel owner or owners. What this translates to—as far as how the hotel is run—is where we have all seen and felt the changes.

The old model had a much kinder and gentler approach to fostering a culture of inclusion, family, longevity, and a strong service culture. I distinctly remember my first stint in a “managed hotel” inside my company. People had warned me that it was different, and they were right. The owned hotels had a clear sense of togetherness, and you knew what was important. I grew up with this slogan in my DNA, “Look after the guests and the money looks after itself.” When I left the safety of the owned nest, I learned a few new things.

The owner in my new, managed hotel needed a certain return each quarter to meet his debt and investor obligations. Back home in the owner/operator model this was never a topic of discussion. It seemed head office was always grumpy about the results but never spoke of external obligations. These new owner obligations had a profound effect on how we operated, especially the first year I was at the managed hotel.

Things started out bad and were not going well at my first managed hotel.

We missed the first two quarters and immediate action ensued. Staffing and expense reviews had a level of focus I had never seen before on department managers being accountable for their monthly forecasts and the results. We scheduled F&B outlet days and hours using occupancy by transient and groups to determine demand. We designed and implemented a staffing guide of all scheduled positions. Each manager was accountable for their schedule based on an approved formula. No more looking after our colleagues in the low occupancy periods. This was a luxury we could not afford. We tore apart the food cost and especially the buffet offerings, and designed menus that reflected business levels. Back at the ranch, there was never a focus like this.

In all, my experience with my first managed hotel was very positive. As luck would have it, business really picked up after my second quarter there, and for the next two years our team enjoyed great results. Our owner’s rep (today’s version of an asset manager)

was happy and more than willing to invest. This was another point of sharp contrast to the old homestead reality. At the owned hotels, money came for capital on a regular train, regardless of the results. In the new world, we saw the intent and the desire for investment as a clear link to our ability to generate a return.

So how does this relate to you and your financial acumen? Simple: you are in a business that now needs you to operate as a businessperson. Just like my story of going from the safety of the owned into the new world of the managed hotel, your career will be greatly enhanced by getting your financial leadership game on. Perhaps you just made a move to a new position or hotel and the demands and expectations are a little different.

Don't turn from that light—do the opposite:

Run straight at it!

Maybe your new role is a little scary and has a sharper focus on profit performance. Do not worry—that is par for the course today. Owners need to make their numbers. Your job now is to deliver. Your tools are the same as mine were. Get to know your costs and how to flex them.

Once these tools are in place, your job is to make sure the other managers and leaders in your business all buy in and use them.

Watch a short video on “The Best Hotel Career Advice”

<https://qrco.de/bd6fzJ>



II

BUSINESS PRINCIPLES AND FINANCIAL STATEMENTS



This section is about the mechanics of the financials and the “why” behind them. The why is an important issue to examine because as adults we question why we need to do something, and especially “why” in a certain way. This section explores the universal principles of business and offers insights into how the financials work.

Chapter 19

How to Read the Hotel Financial Statements and the Link

The first thing you need to know about reading a hotel financial statement is that there are two different “primary” statements you’ll want to get comfortable with:

1. The income statement (most people call it the P&L or “Profit and Loss” statement).
2. The balance sheet

Now you might be thinking that balance sheets are for the accounting types, as they’re most certainly complicated. Nothing could be further from the truth. In this chapter we’ll discuss them, and I’ll share a secret about the balance sheet and its relationship to the P&L.

One thing to always keep in mind is something many miss: in hospitality we do what we do the way we do it because of the book.

The *Uniform System of Accounts for the Lodging Industry* lays out in excruciating detail the standards for our industry. (Always get the latest version of this essential book.)

The USALI is a great resource for defining what goes where and for standardizing formats for the hotel financial statement, but it does not include several key aspects—like flow thru and productivity reporting—which are incredibly powerful and useful tools. In any case, if you are serious about hotel financial knowledge, I highly

recommend you get yourself a copy.

More on “you Sally” (USALI) in the next chapter.

Income / Profit and Loss Statement

First, let’s be clear: hotel income statements are free-form items and are not all created equal. What I mean is that each business is free to set them up as they see fit. That said, one characteristic of hotel statements that are set up using USALI have is that they are all set up by department.

They usually go in the following order:

- Rooms department
- Food and Beverage department
- Minor operating departments, such as: golf, spa, telephone, and laundry.

These departments are called “operating departments” because they all generate income.

Next come the non-operating departments, which include:

- Administration and general
- Sales and marketing
- Maintenance & energy

These departments are called “non-operating” because they do not generate any income. I know some of you think the sales department makes money—but not so fast. Sales books business, but the rooms department generates the income when the guest actually stays in the hotel.

Inside each department you will see the same layout:

- Income
- Cost of sales (if required)
- Payroll and benefits

- Expenses

The Summary Statement

A good summary P&L is probably the most read and highly anticipated financial statement in any hotel.

The P&L usually starts with a summary or overall report, and this is where you will want to start your review. Here you should find total revenues for all hotel activities and the total costs, leading you to the gross operating profit and net operating profit lines. The statement is usually laid out so you can see the results of the month compared to the budget and/or forecast for that same month, as well as a comparison to the previous year's figures. In addition to the month's numbers, you will want to see the accumulated year-to-date (YTD) results, normally to the right of the monthly numbers.

In the YTD you want to see the accumulated result. Let's say you're looking at November in the current year. You will want to look at:

- Accumulated budget values up until November
- Accumulated YTD for the previous year up until November (of the previous year)

Always compare like periods of time in the P&L, as well as the previous year, to the actual monthly and YTD amounts.

Individual Department Statements

Next, moving beyond the summary statement, you will find the balance of the income statement laid out by department in the same order you see at the top level. Each of these departmental statements will have totals for revenue, cost of sales (food and beverage, spa, telephone), payroll and expense that need to tie back to the summary statement.

Once people make this connection it all comes together rather

quickly. What you may have previously thought was a complicated and confusing report becomes far more straightforward.

Why Is the P&L so Important?

The P&L (income statement) is really the most interesting statement because it shows you how you are doing related to profit or loss for a given period of time. It is a snapshot of what revenues and costs are for the period you're looking at. If you are looking at the June statement and it's December, it really isn't relevant. The income statement tells how you are doing financially regarding the operating profit. It is how you keep score relative to the budget (the promise) and last year. You can clearly see these comparisons for the most current month and year-to-date.

The P&L allows you to see where operations are successful and where they're facing challenges. This is pivotal; in fact, it's really the main purpose of the income statement.

How can you improve? Is payroll too high? Are expenses out of control? Are revenues falling short of the budget? How much more payroll than last year? It all comes out on the income statement. Like a report card and a wake-up call to pull up your socks and your marks too. This is where the income statement transcends the black and white piece of paper and becomes the vehicle for change and ideas. Get your team involved and change the way you manage.

That's what's possible using financial leadership.

The Balance Sheet

The second most common statement you want to be comfortable reviewing every month is the balance sheet. The balance sheet tests the fundamental accounting equation. The equation states that:

$$\text{assets} = \text{liabilities} + \text{equity}$$

Most people get quiet here because it sounds like we're talking

mumbo jumbo.¹ But really, this concept is very easy to grasp, and once you get it, you'll see the world of finance in a completely different light. What's more, it's like riding a bike—once it clicks you won't ever go back to struggling to get it.

When I teach my students this concept in my workshops, they often comment that they had no idea it was so simple.

I liken the explanation of the fundamental accounting equation to the ownership value relationship of a house. You—along with the bank—own the house. In this example, the house has a market value of \$500,000 and you have a mortgage of \$350,000 on the house through the bank. You subtract your mortgage from the value of the house, and that's your share. Or, in accounting terms, your owner's equity is:

$$\$500,000 \text{ (assets)} - \$350,000 \text{ (liabilities)} = \$150,000 \text{ (equity)}$$

This basic concept is exactly the same as the balance sheet mechanics. It is the “fundamental accounting equation.”

You can run the most complicated business in the world and everything will still boil down to the same concept:

$$\text{assets} = \text{liabilities} + \text{equity}$$

In the example of the house, it's clear that the \$150,000 is yours. In business, the assets minus the liabilities is what the owner is entitled to—their equity.

It is important to remember that the equity can also be a negative. Using the example of the house, and given the financial crisis of 2008, you know houses can end up with bigger mortgages than their value. In a business, you want to have a healthy asset-to-liability ratio, but this is not always the case. So, knowing this simple equation you can

¹ For more discussion on this topic you can also revisit Chapter 7, “She Said She Was Born Without the Financial Gene.”

now test the health of the business by examining the values of total assets and liabilities.

The quality of those assets in a hotel should be relatively easy to measure. Cash, receivables, inventory, prepaid expenses . . . You use these items to make money, hence they are assets.

The liabilities are all the commitments you have that you must honor. Vendors to pay, deposits for future guests, taxes collected that need to be paid, employee wages, vacations to honor . . .

In simplistic terms, you have the good stuff (the assets) minus the bad stuff (the bills you need to pay). The difference is the equity.

The Link

The link between the P&L statement and the balance sheet is an important and powerful concept.

When you make a profit or have a loss in your business, you can see the bottom-line number in the year-to-date column on the income statement, usually called the net profit, or net operating profit, NOP.

What you can also see is that it is the same number on the balance sheet when you look at the current year's retained income or earnings line in the equity section.

The other line, called "retained income from prior periods," represents the accumulated profits and losses since the business was created. This is the link between the current year's profit performance and the lifetime of the business's accumulated profit and/or loss results.

The business and its balance sheet only get created when it is bought/sold. A new set of books is created, and you start everything from the purchase price values. Everything from that point forward moves from the income statement each month to the balance sheet, and its accumulated profit or loss is found in the equity.

$$\text{assets} = \text{liabilities} + \text{equity}$$

See? Not so difficult.

Watch a short video on the “Two Principal Statements and the Link”

<https://qrco.de/bd6XMy>



III

MANAGING PAYROLL AND EXPENSES



In this section we get into the tools of the trade—that is, how to manage our costs, the payroll, and the expenses. If you’re going to be successful in hospitality these two areas require mastery. No exceptions.

Chapter 27

Measuring Labor Productivity

It is important from the beginning to establish the goals for measuring productivity in your operations. This first section will focus on rooms, and the next will cover Food and Beverage (F&B).

Measuring productivity means we have two instruments we need to pay attention to at the same time. Like your sportscar's speedometer and tachometer. One tells you how fast the car is going; the other tells you how fast the car's engine is going—two very different but connected measures. With hotel labor productivity it's EFTEs and Hours Per Room or Hours Per Cover that we want to measure simultaneously.

Productivity in Rooms

The goal in measuring productivity in the rooms division is to see, monitor and ultimately improve on the number of hours of work it takes to service a room. The expression to use is **“hours per room occupied.”**

“Hours worked divided by the number of rooms sold.” This labor productivity statistic is the most important tool available to manage your biggest expense in the rooms division.

If you were making cars, you would want to know and continually improve on how many hours and minutes of labor it takes to make a car. Regarding rooms, labor comes down to how many hours it takes to service one room, which includes not just cleaning the room, but time related to reserving the room and other associated activities in

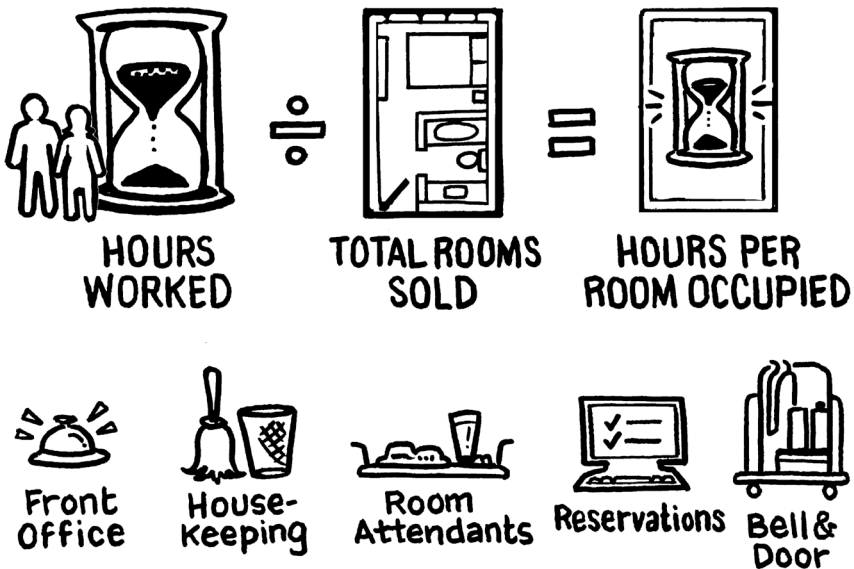
the hotel, like checking in and out, concierge services, and so on. You want to see this at the total rooms level as well as how it breaks down.

The breakdown (or “stack”) is best demonstrated with the following detailed subtotals of labor from each sub-department:

- Front office
- Housekeeping
- Room attendants
- Reservations
- Bell/door

These categories must be separate to see where there are productivity wins and challenges. To be able to see labor categories separately, use proper department and job codes so they fall into the different stacks. In addition to the separation of the stacks, you need to separate hourly and management positions in each stack.

To do this effectively and consistently, I recommend creating a kind of “payroll dictionary” that establishes a consistent way to



segregate labor. Start by defining the difference between management and hourly positions in each sub-department. For consistency, ignore salaried versus hourly and union versus non-union. (These are ignored because they differ greatly from location to location.) Instead, focus on job title. The word “manager” is critical. If “manager” or higher appears in a category’s title, this position falls into the **management category**. If “supervisor” or a lower title appears in the job title, the position falls into the **hourly category**. Here is an example for “front office.” It is important to recognize that management or hourly terminology is only a way to organize data and is not an indication of any regard.

Front Office Stack

“Front Office Hourly”

Front Office Clerks,
Reception Clerks, Front
Office Cashiers, Front
Office Supervisor,
Reception Supervisors,
Night Audit Clerks,
Secretary, Admin Assistant

“Front Office Management”

Front Office Manager,
Reception Manager, Assistant
Manager, Front Office Director,
Rooms Division Director, Night
Manager and Assistant Night
Mgr.

Repeat the same exercise and organize rooms department and positions into the different stacks and by the “hourly and management” classifications.

Once the classifications are established:

- track the hours worked in each stack
- divide the hours worked in each stack by the total number of rooms sold for the entire hotel: for one day, one month or one year.

Then you can capture the number of units of labor (hours of labor)

it takes to sell the rooms and divide this by the number of units sold. You will have rock-solid data.

The “**hours per room occupied**” measurement can be used everywhere, starting with the annual budget. You will want to know the “hours per room occupied for the year” goal. For example, if the total hours for the rooms division in the budget is 45,978 and the total number of rooms occupied in the budget is 31,525 then the hours per rooms occupied is $(45,978 / 31,525 = 1.4585)$. **This number, 1.4585, is gold!**

In everything you do with rooms labor, you now know the measure of success. Meet or beat the productivity goal of 1.4585 hours per room occupied and you win. If you can use this target in your daily schedule, weekly schedule and monthly forecast you can continually adjust course to track to your target.

Watch a short video on “Rooms Productivity”

<https://qrco.de/bd6YdW>



As the operations manager, you cannot have any impact on pricing or wages; they are out of your control. Any measurement that looks at labor as a percentage of sales is noteworthy, but you cannot control it. As the operations manager, what you have control over is the schedule and hitting the productivity target if sales volume is down or up. The “hours per room occupied” number is your speedometer, and you can tell what stacks are up to speed, which are

not, and whether it is an hourly or management issue.

When you measure and track productivity this way you give leaders and managers on the ground a simple and effective tool. There will be days when you lose big on productivity goals. Days like Mondays in a leisure hotel. Challenging productivity days include days on which you have heavy arrival or departure, multiple occupancy, or low occupancy. On the other side of the coin, you will have days where productivity is naturally high: stay-overs, long-stay guests, business travelers, groups with heavy programs, and single occupancy guests.

What operations managers need to see is the hours-per-room-occupied goal. It's really the only productivity measure they need to focus on. Knowing there will be losses and wins in the days and weeks is natural. Hitting or beating the monthly productivity target is the magic result for operations managers to get excited about.

Productivity in Food and Beverage

In food and beverage, you want to get obsessed about a similar measurement of productivity, only we call it **“hours per customer cover served.”**

Right out of the gate you need to understand the definition of a cover, and it has recently changed. A cover now properly refers to a “customer,” and the “hours per customer cover served” is calculated by dividing the total sales in all food items by the total number of customers seated. We used to calculate only food sales divided by the number of people who actually ordered a food item. Now it's simpler in that the total of warm bodies in the restaurant is divided by total food sales.

So when it comes to measuring productivity, the number to get obsessed about is **“hours per customer.”** Of course, unlike the cover in the rooms division, a “customer” can be more challenging to record consistently and correctly than a room sold. Be diligent with the food

and beverage service staff to ensure they record their “customers” correctly in your point-of-sale system. Reviewing point-of-sale guest checks will tell you very quickly if this is being done properly and consistently. One other tip is to closely review the daily revenue report and look for average covers by meal period that do not make sense.

Productivity in F&B is also best measured by dividing **hours worked** by **customers served**. As already noted, operations managers have no control over wages or pricing, but they do have control over schedules, and this is where they should focus. The percentages and per cover/customer costs are important, but the trump card is hours per customer served. You need to see this measurement in all budgets, forecasts, daily reports, and schedules. What is the total productivity of F&B and how does it break down by outlet? You need stacks for each outlet that can stand on its own, and you also want to see the consolidated results.

In F&B there is a bigger challenge with productivity creation than in rooms. Because of the multiple departmental structures and the allocation of management, food preparation and stewarding, things must be set up a little differently. Again, you are going to need your payroll dictionary and different classifications based on job title.

The first delineation is the people in operations who work on the floor versus those who work behind the scenes. All service staff for an outlet, both management and hourly, are considered “direct.” The hourly and management for food preparation, stewarding and F&B administration is considered “allocated.” To design stacks in F&B, use the following structure.

Direct and Allocated Both Need Hourly and Management Positions:

Any Outlet Hourly Direct

All Wait Staff, Host, Bussers, Bartender, Bar Waiter, Cocktail Servers, Sommelier, Supervisors, Bar Backs, Captains, All Floor Guest Facing Non-Management Positions

Any Outlet Hourly Allocated

Cooks, Dishwashers, Kitchen Helpers, Apprentices, Supervisors, Pantry, Attendants, Porters, Cleaners, Chef de Partie, Butcher, Garde Manger, Secretary, Administrative Assistant, Office Clerk

Any Outlet Management Direct

Outlet Managers, Outlet Assistant Managers, Maître d', Beverage Manager, Assistant Manager

Any Outlet Management Allocated

Executive Chef, Sous Chef, Pastry Chef, Outlet Chef, Banquet Chef, All Chef Positions —Executive and Jr.

In banquets, there will be several additional hourly and management positions; however, the same hourly and management “allocated” positions will apply.

Banquets Hourly Direct

All Wait Staff, Porters, House Person, Bus Persons, Bar Person, Bartender, Banquet Supervisor, Banquet Captain, Banquet Bar Supervisor, Office Coordinator, Payroll Coordinator, Revenue

Clerk, Host, Hostess, Cashier, Banquet Secretary, Catering Coordinator, Administrative Assistant

Banquets Management Direct

Director of Banquets, Assistant Director of Banquets, Banquet Manager, Assistant Banquet Managers, Conference Services Managers, Assistant Conference Services Managers, Catering Managers, Assistant Catering Managers

The value created by these groupings and classifications is well worth the effort.

In food and beverage, **you cannot get away from the allocation game.** In your hotel, the most efficient way to manage your food and food labor costs is to have one main kitchen that prepares cold food, sauces, soups, pastries, banquets, butchers the meat, etc., and then an outlet kitchen that prepares the final product—usually the protein—through a combination of resources from the main kitchen’s efforts and their own.

The same idea is applied to stewarding and administration in the F&B division. Hotels that try to capture all the costs for food and labor directly for each outlet are ultimately not successful. They either spend too much time creating the separation and end up duplicating efforts, or they pretend that they can capture the actual costs.

Either way, allocations of labor and cost of goods are inevitable.

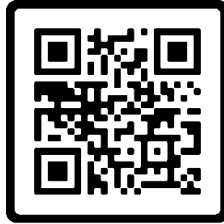
In the end, the allocation method is ultimately the most efficient way to manage labor in food and beverage.

In food and beverage, what you need is an effective way to measure and manage. The **“direct and allocated/management and hourly”** is the way to go.

Have a daily labor analysis produced so you can track and monitor productivity. Include these summaries in the financial statements each month. From that analysis, you can see where the hotel is winning with productivity and where it is not.

Watch a short video on “F&B Labor Productivity”

<https://qrco.de/bd6XFS>



IV

COST OF GOODS AND FOOD AND BEVERAGE CONTROLS



“Food and beverage” (F&B) is different. Not all hotels have F&B offerings, but full-service hotels in some instances have many offerings. F&B is special because it’s a big and complicated landscape that requires discipline to tame. Everyone likes to eat, and most enjoy a drink, so wrapping your arms around your understanding in this area is critical to your success in hospitality.

Chapter 32

Food and Beverage Costs or Contribution Margin?

The concepts in this chapter apply to both food and beverages; however, I'm using beverages as my example.

We hear about it every month: the beverage cost! Usually, it's not pretty. It's always too high, and it typically creates lots of finger-pointing and pontificating. Beverage cost calculations are always a slightly complex beast, and the process of getting the right figures is often misunderstood. This is largely because this poor cousin to food cost is shrouded in a bit of mystery and mystique, like a secret cocktail recipe.

But a major key to profitability in F&B is *learning to offer first what profits the most*. So, the really important concept to understand when it comes to beverage sales is "contribution margin." This helps you determine which drinks bring in the biggest dollar profit. In this chapter I'll show you how to calculate the contribution margin of individual beverages, and then you can share this information with the people who need to know it.

Booze is the primary driver here, and we have three main categories of it to consider:

- Liquor
- Beer
- Wine

A possible fourth category is “minerals”—which includes soft drinks, tonic water and so on. These are often used in creating cocktails, for example. But mineral sales are generally much smaller, and their contribution margin is consequently less relevant, so to keep this discussion more manageable we can safely set them aside for the moment.

Like most people’s children, these three categories of drinks all look and behave very differently. And what’s important to consider in this discussion is not so much cost as *contribution*.

Contribution is measured two ways. The first is the inverse of the cost divided by the selling price minus one. So, if your cost for a drink is \$2.50 and you sell it for \$10.00, the formula will look like this:

$\$2.50 \text{ (cost)} / \$10 \text{ (selling price)} = 1 - 25\% = 75\% \text{ (profit/contribution margin)}$

If this seems confusing, read on for more comparisons and it will become more clear. I teach this material in my workshops, and I occasionally get the same feedback in the beginning. There can be a bit of a learning curve, but stick with it.

Contribution Margin of Liquor

Let’s look at some specific drinks. We’ll start with a vodka tonic—a well-known member of the liquor family.

Let’s say we pour 1.5-ounce drinks in my establishment. A 26-ounce bottle of Smirnoff costs our hotel \$8. We get 17.3 pours out of one bottle when we sell highballs ($26 / 1.5 = 17.3$).

We sell each highball for \$8. My portion cost is \$8 divided by 17.3, the number of pours:

$$\$8.00 / 17.3 = 46.2 \text{ cents}$$

My contribution margin in this example is **94.2%**.

Another way to establish the contribution margin is to express this as:

$$\$8.00 - .462 = \$7.53$$

In my liquor highball example, we produce a gross contribution of \$7.53 and a gross contribution margin of 94.2%, or, inversely, a cost of 5.8%.

Contribution Margin of Beer

Now for the second example: contribution margin of beer.

If a bottle of beer costs me \$2.05 and I sell it for \$6.00, the math is. $(2.05 / 6.00) = 34.2\% - 1 = 65.8\%$. My contribution margin on this example is 65.8%, my beer cost is 34.2%.

Another way to establish the contribution margin is to express this as $(6.00 - 2.05 = 3.95)$.

In the beer example, we produce a gross profit of \$3.95 and a gross contribution margin of **65.8%**.

Contribution Margin of Wine

The third and final part of the family we will look at is the **contribution from wine**. In this example, we will use house wine.

My house white wine costs \$12 per one-liter bottle and I sell a glass for \$11. I pour a 5-ounce portion. There are 35 ounces in a one-liter bottle, so I get 7 glasses per bottle. (When I serve wine, I want to use a 5-ounce carafe or a portioning device to ensure my quantities are always correct.)

My cost is $(\$12 / 7 = \$1.71)$. My contribution margin on this example is 84.5%. My beverage cost is 15.5%.

Another way to establish the contribution markup is to express this as $(11.00 - 1.71 = \$9.29)$. In the house wine example, we produce a gross profit of \$9.29 and a gross contribution margin of **84.5%**.

Portion Control

You can see from the above that accurate portion control is

essential. In another chapter we'll discuss this in greater depth, but it's clear that having methods in place to accurately track portions is key to profitability.

Summary

To summarize: we have liquor, beer and wine all behaving very differently:

Liquor cost of \$.42 per portion, beverage cost of 5.8%, gross profit of **\$7.53, and a contribution margin of 94.2%**

Beer cost of \$2.05 per portion, beverage cost of 34.2%, gross profit of **\$3.95, and contribution margin of 65.8%**

Wine cost of \$1.71 per portion, beverage cost of 15.5%, gross profit of **\$9.29, and contribution margin of 84.5%**

It should be clear from this why knowing a drink's contribution margin is highly relevant to understanding profitability. You can see, for example, that although your dollar profit from wine is higher than that from liquor, liquor's cost percentage is actually better. This is what most people get hung up on—fixating on a lower percentage. We have to remember we take dollars to the bank, not percents. It is interesting to consider, too, that profitability doesn't equate to charging the customer as much as possible; you can see this again with the highball example, in which even though they are paying less for their highball than a glass of wine, the drink is still highly profitable for the hotel.

Getting the Information into the Right Hands

Who in your establishment should know and understand this? Who knows which products produce the highest margins and which ones to sell first? Primarily the servers in the restaurants and the catering managers; the former because they take the orders from customers, the latter because they sell the group events. Think about

your local car dealer. They know which car models have the biggest markups and the highest contribution margins. Your beverage operation is no different. This intel should be front and center.

In your restaurants and bars, do your servers know what products to offer first? Do they understand the difference between the contribution margin and the beverage cost? I bet most of them do not. You now have an excellent tool to use to help get your service staff to sell the most profitable items first.

Make sure colleagues like your food and beverage manager are well aware of these details. Convey the information to your restaurant and bar managers. You may need to sit down with various individuals to teach these and other principles, particularly if you notice something wrong in areas of profitability and cost versus contribution margins. The most important part is to train people to understand and, when it makes sense, to sell the most profitable thing first.

In your banquet and catering operation, what products are your sellers actively promoting? Clients often know exactly what they want, but there are also many instances in which they are looking for suggestions, help, and service. So, when a client presents with a budget figure and needs your help putting together their event, you have an excellent opportunity to steer them in the highest profit direction. (I am not suggesting you deceive or take advantage of them—as noted above, the highest profit for the hotel is not always related to how much a customer is charged.)

Learn to offer first what profits the most. When it comes to beverage cost, the contribution margin is the key factor, and understanding it leads to greater profits.

Watch a short video on “Understanding Contribution Margin”

<https://qrco.de/bd6YtP>



V

HOTEL BUSINESS STRATEGY AND FINANCIAL ANALYSIS



The hotel business is not terribly technical but there are some basic financial strategies that you need to understand. In this section I examine some of the common ones you need to be fluent with, and I share some budgeting knowledge.

Chapter 43

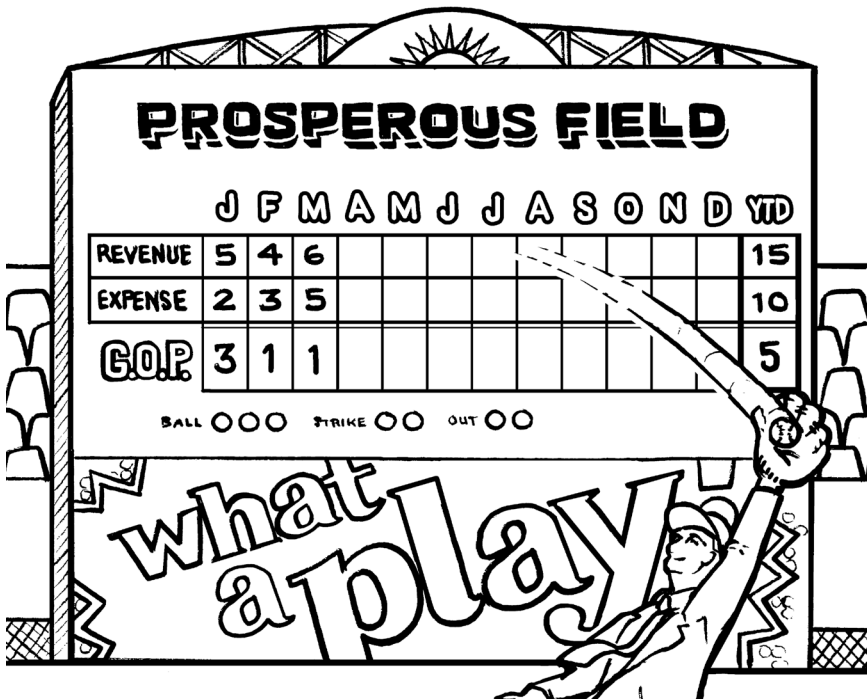
Why Managing Your Budget Is Like Playing Baseball

If you're involved in the budget in your hotel and you've also played baseball then you are probably saying to yourself that I am off my rocker for drawing a connection between the two. The budget is a mean, unruly and nasty guest that comes to visit every year and which sometimes doesn't leave (get completed) for weeks, even months. And working with a budget is certainly not fun and engaging in the way a good game of baseball can be.

But there's more than one way to look at a budget. So, let's dig a little deeper and see what I'm talking about. Much of life is how we choose to do battle—managing the budget in your hotel is no different.

To start with we need to recognize the budget for what it is: a business plan with numbers. Our job is to beat it at its own game. It's important to remember you'll never win all the games you play but with some creative strategies you are going to be better equipped to win more often, and that's what I'll share here.

The first thing to do is get comfortable with the basic rules of baseball and hotel budget-making. The first basic rule is there are at least nine innings in a baseball game, and in the hotel financial/budget-making world there are 12 innings—months—to play.



Those 12 months represent 12 opportunities to win, and even if you lose some innings, you'll still have the opportunity to catch up, especially if you fall behind in the earlier rounds. To bring this strategy to life, you need a system to follow. We need to have a 1-2-3 financial strategy up and running in our hotel.

1. Do monthly financial statements using the accrual basis.
2. Incorporate a current, detailed year-end monthly rolling forecast.
3. Most importantly, include all department managers in the monthly forecast and reforecast process. Without their involvement and commitment, you are sunk.

No sense getting bent out of shape when you fail to deliver on any month, or even suffer a string of defeats, because you have a couple of months where you can literally hit it out of the park and not only catch up but pull into the lead.

The Prosperous Hotelier

Sample Chapters - 56

	Jan '23	Feb '23	Mar '23	Apr '23	May '23	June '23	July '23	Aug '23	Sept '23	Oct '23	Nov '23	Dec '23	Total	Total
	ACTUAL	ACTUAL	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	BUDGET	BUDGET	BUDGET	BUDGET	ACT/FCST	BUDGET
Total REV/PAR	\$ 113.58	\$ 144.97	\$ 181.19	\$ 216.37	\$ 294.00	\$ 375.27	\$ 256.94	\$ 281.64	\$ 301.37	\$ 318.82	\$ 239.65	\$ 141.77	\$ 239.08	\$ 242.76
Total Operating Rev.	880,249	1,014,815	1,404,219	1,622,745	2,278,491	2,814,549	1,991,306	2,182,717	2,260,308	2,470,861	1,992,345	1,323,112	17,324,512	18,211,423
DEPARTMENTAL PROFIT														
Rooms	234,223	334,082	553,636	724,795	1,194,218	1,561,150	864,043	1,024,628	1,175,935	1,300,411	898,719	335,987	10,221,828	10,665,234
Food & Bev.	(73,532)	(27,778)	53,388	(2,676)	83,336	131,547	23,848	62,241	87,845	98,395	47,624	(5,884)	472,353	675,321
Other Depts.	25,863	(1,255)	(10,647)	9,974	6,745	15,460	15,716	14,983	9,125	23,433	13,703	6,370	129,471	128,456
Total Departmental Profit	180,554	305,049	596,377	732,094	1,284,299	1,708,157	923,607	1,101,852	1,272,906	1,422,239	960,045	336,473	10,823,651	11,469,011
Total Undistributed Expenses	530,287	504,158	552,981	577,377	587,046	641,109	668,407	601,136	684,084	634,146	612,312	534,511	7,117,554	6,999,876
Gross Operating Profit	(349,733)	(199,109)	43,386	154,717	697,253	1,067,047	265,199	500,716	588,822	788,093	397,224	(198,038)	3,706,097	3,896,756
Earnings Before Interest, Taxes, Depreciation	(454,439)	(303,786)	(62,284)	31,373	603,500	916,628	131,752	363,130	450,692	645,035	268,426	(56,789)	2,513,238	2,743,243
Replacement Reserve	17,568	20,177	61,053	48,532	68,685	84,436	59,739	65,480	67,809	74,127	53,921	32,961	654,490	650,112
EBITDA Less Replacement Reserve	(\$472,008)	(\$323,964)	(\$143,337)	(\$17,160)	\$534,816	\$632,192	\$ 72,013	\$297,650	\$382,863	\$570,908	\$214,505	(\$ 89,750)	\$1,868,748	\$1,925,435

In this example we have the actual for the first three months of 2021. And you can see by looking at, say, the GOP for these months that things did not go according to the budget. But at this point you can reel the year-end performance back in by working a re-forecast in any month up to the end of the year.

The process goes like this: first actualize the current month, then do a detailed forecast of 30, 60, 90 days and finally a year-end target. This is where you need to do everything possible to make sure the entire team is focused on the year-end result. That means you need to have a team that knows where all the bodies are buried and how you can find the savings in payroll and expenses to drive the profit back into positive territory. That is the game you play. You can really benefit from realizing the game is not over just because you are behind.

Another critical element is your revenue management strategy. As you can see in the table above, you are behind in REVPAR compared to the budget. In this situation, move heaven and earth to find your way back to the target. Just because you fell down in the first quarter does not mean you do not have a fighting chance to turn the ship around.

I cannot tell you how many years I had to battle back from early innings where we were getting our butts kicked financially. Falling behind on the revenues and spending more than planned. But the key is always: don't give up, do not throw in the towel.

Why? Because just like baseball, you can have a great inning (or three, or six) and find yourself magically back in business. The bad luck and seemingly dead market and economy that delivered you such a thrashing in the early innings can turn on a dime.

That is why managing your hotel budget is just like playing baseball. You have several innings to play and win and, most importantly, you never give up! Your next grand slam is just around the corner, and hitting it out of the park is entirely possible as long as you are keeping score—every month!

Watch a short video “Why Managing the Hotel Budget Is Like
Playing Baseball”

<https://qrco.de/bd6gLf>



VI

EFFECTIVE LEADERSHIP WITH THE NUMBERS



Managing the numbers in the hotel can be tricky business. Money and numbers have power in our culture, and therefore you need to conduct yourself accordingly. Learning how to lead your team with the numbers isn't hard—it just takes the right approach.

Chapter 46

The General Manager's Yardstick

Generally speaking, the typical General Manager—at least the ones I have seen, worked with, and gotten to know over the last three-and-a-half decades—is hard-working, dedicated and a bit of an egomaniac.

Let's face it: to rise to the top in any vocation you need to have all three of these traits. They are not handing out keys to the Oval Office to the meek and mild or the stay-at-home crowd. The job of a GM is incredibly demanding, and its responsibilities are huge. The hotel never closes, the guests always want something, and employees are never satisfied. There is always a pot of trouble cooking, and it is usually spiced with all sorts of mystique and intrigue.

GMs usually come from the sales world or have an operations background—which makes complete sense given the long hours and schmoozing required for the job. They need to bring energy, enthusiasm, creativity, and passion to their work.

What the typical GMs do not bring to their role are, unfortunately: administrative skills, focus, computer skills, finance knowledge, business acumen, and—most importantly—any interest in learning these skills.

GMs rely in large part on their financial person to carry the day. And why not? The hotel is full of parallel examples: reliance on the Chef to hold the expertise of the kitchen, produce great food and not poison anyone in the process. Reliance on the Director of Maintenance to make sure the boilers and chillers are operating.

Reliance on the Human Resources Manager to ensure personnel rules are followed and the appropriate benefits programs are in place. You would never expect to see the GM jump into the middle of any of these functions because that is not their job. They correctly rely on the expertise of these professionals to keep the train on the tracks.

If something goes amiss in any of these areas, the owner or brand are typically sympathetic and either grant a pass or add resources to fix the problem.

What the GMs do not and should not get a pass on is poor financial management. After all, finances are a pillar of the hotel business, right alongside guest services and colleague engagement. All three are front and center in a GM's job description (and their performance is directly related to any financial bonus the GM receives). Guest service scores, employee engagement survey results, and the profits—the 1-2-3 of the hotel business.

So, why don't more GMs jump into the middle of the financial machine and make the kind of splash they typically do with service and engagement? I believe the answer is one we've touched on throughout this book: they do not have the training and experience with the numbers, so they hesitate to challenge the financial person or processes. There are many things going on in the financial world, and they all seem complicated. And who wants to go there anyway? It's accounting and numbers and mumbo-jumbo, balance sheets and technical stuff. So most GMs just tune it all out. Sure, they get and read the P&L—they know what the score is after the match. But few will jump into the ring and wrestle their department heads to the ground in order to create the kind of business that holds these heads responsible for their results. GMs seldom go there because they are unsure of what they do not know.

The typical scenario when dealing with the trifecta of a department head, GM and controller goes something like this: the statements come out and the GM sees that expense spending and labor are out of control—they're over-budget, they didn't make their

forecast, and they're spending more than last year, like drunken sailors. And why? The GM asks the controller for an explanation and they convincingly blame the department head who did not do their forecast, and who had little to do with the annual budget because they just do not care. The GM now has another conversation with the department head—and they put the blame squarely on the controller/accountant and his staff, who are certainly inept, because half the stuff in their accounts is old and incorrect. They may claim to have no idea where all the expenses came from.

In other words, there is poor or no communication between the controller and the department head around the numbers.

So what is the GM to do?

He/she has two very different stories. Whom should they believe? The fact is, it's their responsibility for the financial leadership role here. It's their job to reign everybody in and get them on the same page.

It seems every department is in the same boat. No one knows what's going on financially. They are seemingly flying by the seat of their pants. Good months only mean a bad one is around the next corner. Surprises are everywhere—like mines in a field, they just go off when they're least expected. So instead of assuming the leadership role, all too often this mess convinces the GM he should just stay away from the numbers and focus instead on relationships with his direct reports and on trying to get everyone to play well together. The GM often has no idea where to begin to get the hotel's finances in order. He did not sign up for this part of the game. And no one is telling him how to fix it.

Meanwhile, the Asset Manager, Owner and everyone else involved, including the department heads and the Controller, are waiting for leadership and someone to make sense of it all. The GM tries, but usually the effort falls far short of effectiveness because he thinks all the numbers are different—and that there's a magical solution to all the infighting and confusion around who is

accountable. He believes the solution lies outside of his scope.

Can't someone just fix this mess?

The Hero of this Story

I met our hero rather early in my career when I was an assistant controller in a five-hundred-room, full-service hotel. I had been on the job for less than a year and my boss announced that he was taking the month of August off and that I would be responsible for putting together the first full draft of next year's budget. This meant several things, but out of all of them my biggest fear was having to talk to our GM. Prior to this my exposure to him was very limited, and he had a reputation for being a tough cookie, to say the least.

As the month went by I set about preparing the budget, until at one point the GM called me to his office. He outlined to me how each manager would present their expenses and payroll and how he would be approving any and all budget submissions before I did anything with their numbers.

Interesting, and somewhat surprising.

But, then again, who was I to say otherwise? I was a super-green rookie.

One by one the managers had their appointments with the GM, and I rode shotgun. He had instructed me to send each one their part of the four-year statement, wherein you could see the annual total for each line of expense and payroll. He then instructed his managers to prepare their expenses for the budget and to have a list of items for each account. No approval would be given on a cost-per-room-occupied or cost-per-cover or percentage-of-revenue basis. He insisted on getting the details, and he made each one of his managers responsible for getting their facts together. I have never seen so many people in accounts payable sifting through files and invoices. The same for payroll. He set the standard.

Each manager needed:

- An approved staffing guide for the budget
- A finalized list of salaried positions for the fixed payroll
- A formula for each employee in variable/scheduled (as opposed to salaried) positions that was equal to or better productivity than what was in the previous four-year report.

The meetings were telling. Several managers were shown the door and told the information they had was either incomplete or that it had “too many dollars.” The GM simply looked at the information and asked what was in the expense line, comparing the four-year summary for each line, and the departmental total. The same was done with payroll and line-by-line productivity. Not rocket science, but he sure had his managers in line. Several managers made return visits to present their numbers again until they got it right and had his approval. The material that was given to me for the budget model was already approved.

I quickly changed my feelings about this man from distrust and fear to respect and admiration. This guy knew how to manage his team. He was fair and objective, and if you had good reasons for increases he listened and—more than anything else—asked good questions. I just sat there and took it all in—a great lesson on management, organization, and budgeting. I will never forget what he taught me that August. In that month I learned more about the inner workings of each department in the hotel than I had in the previous five years. That is what a good budget process will teach you.

Many of his managers came to see me after their meetings to whine about their budget ordeal with the GM. I would listen and commiserate. But here’s one very important thing to note: after they all passed muster with the boss, the level of their knowledge and engagement around their numbers went through the roof. They had to know what was in their accounts and payroll, and the boss used budget season to get them all into shape. From this exercise he took the review process to another level. Every month in the following year

he would do the same one-on-one review of their departmental monthly financial results.

This guy was on top of his business.

Back to Budget Season

When my boss returned I was somewhat sad that he did. I was having a lot of fun with the budget and the GM. Two weeks later, it was time to go to a nearby city to present the budget to the corporate team, including the company's CEO and a long cast of other characters. This would be the GM and my boss doing the presenting; it was, as we like to call it, the dog and pony show. To my complete surprise, my boss came into my office a couple of days before the scheduled review with corporate and said, "The GM wants you to go with him to present. You did the work, and he wants you there with him."

Wow! Was I in shock.

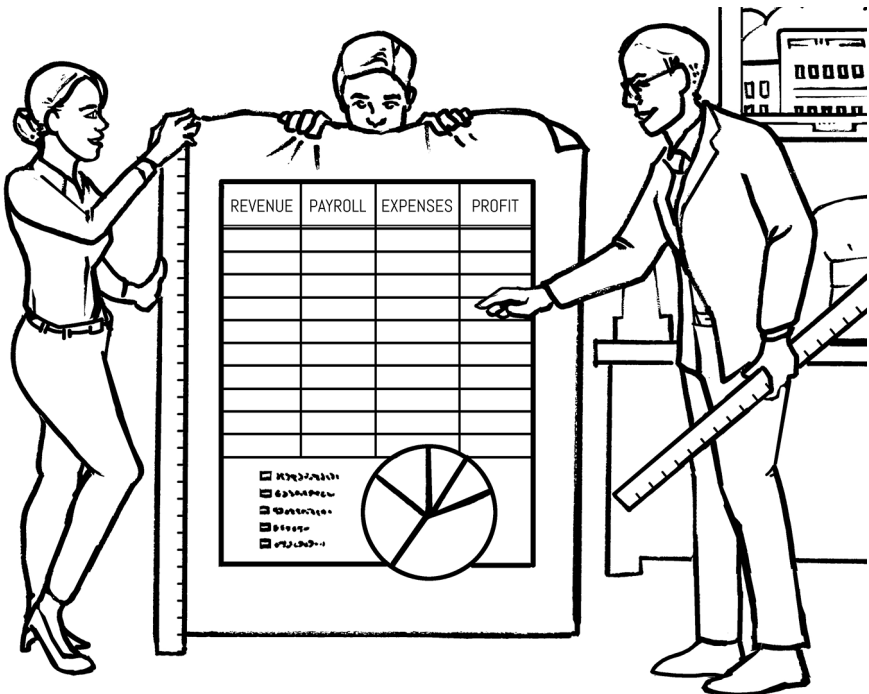
Two days later I was on a helicopter with the GM on our way to the presentation. Here I was, the rookie Assistant Controller, helping to present my hotel's budget to the corporate people. Although my GM did most of the talking (I don't remember saying much), he did take a moment when we were done and the budget was approved to tell the corporate squad what a great job I had done putting the budget together in the absence of my boss (the Controller). It was a great moment for me and my young career.

I can honestly say that I have not worked with a GM since who had as much interest or backbone when it came to the numbers. GMs often leave it up to the Controller to try and sort out the actual needs and the BS from department managers. This causes a lot of wasted time and effort. Usually, the managers have rose-colored glasses when it comes to budgeting. They think budget time is when they can right all the wrongs (overspending) from the previous periods by adding copious amounts of payroll and expenses to the budget. This

then gets flushed out with budget consolidations and reviews, but what happens, as a result, is that people waste an inordinate amount of time and typically get discouraged and feel put upon, because they do not get what they want in their budgets. All of this is nonproductive work.

In the many years since then that I've prepared budgets, in my opinion the only GM who got the entire process right was the one in the story I just shared. He took the time to organize his department heads, and he used the budget process to educate them, himself and me on what was going down in each area of his hotel. That is how it should be, and it's an approach I've encouraged ever since. It's not magic—but the results are magical.

I vividly remember a boss once telling me that the budget is the GM's yardstick. It is his responsibility to get his managers to come to the table with what they need to run their departments. It is also his responsibility to make sure they understand what they have for payroll



and expenses to operate their department. Equally important is what they do not have to play with.

Most GMs do not use their yardstick. Why? They think the financial piece is some weird concoction of computers and numbers, all things outside of their purview and responsibility. But that's not the case. Numbers are just as important as the other pillars that support the hotel. The GM just needs to take an interest—and control—and more likely than not they'll ultimately gain facility and greater comfort with how the numbers play out in the business.

The Moral of the Story

That GM did not know squat about accounting. He did not know the difference between a debit or a credit. All he needed to do his job and become a stalwart support of his hotel was a keen interest in knowing that his department heads had their financial act together.

About the Author

David Lund is the award-winning creator of the original Hospitality Financial Leadership workshop, “My Financials,” at that time with Fairmont Hotels. He left his day job in 2013 and became The Hotel Financial Coach. He has published a weekly blog to thousands of subscribers since 2016. He has also published over 300 original articles on several hotel industry websites and LinkedIn.

David has held positions as Regional Controller, Corporate Director and Hotel Manager with an international brand for over thirty years. He mentors hospitality leaders, provides online financial workshops, and speaks at hospitality associations and company events. He is the author of the book *The Seven Secrets to Creating a Financially Engaged Leadership Team in Your Hotel* and of a popular online video course. David is a CHAE through HFTP and a Certified Professional Coach.

He is a proud father of three young adults, and is also a grandfather. He and his lovely wife, Johanne, live in Portland, Maine, with their two dogs Max and Dakota. He loves to travel and deliver his workshops throughout North America. You can visit him online at:

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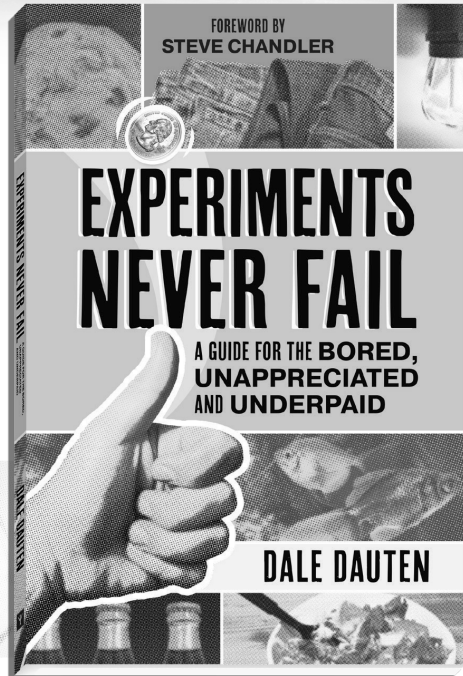
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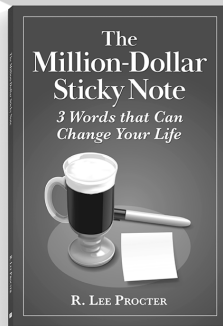
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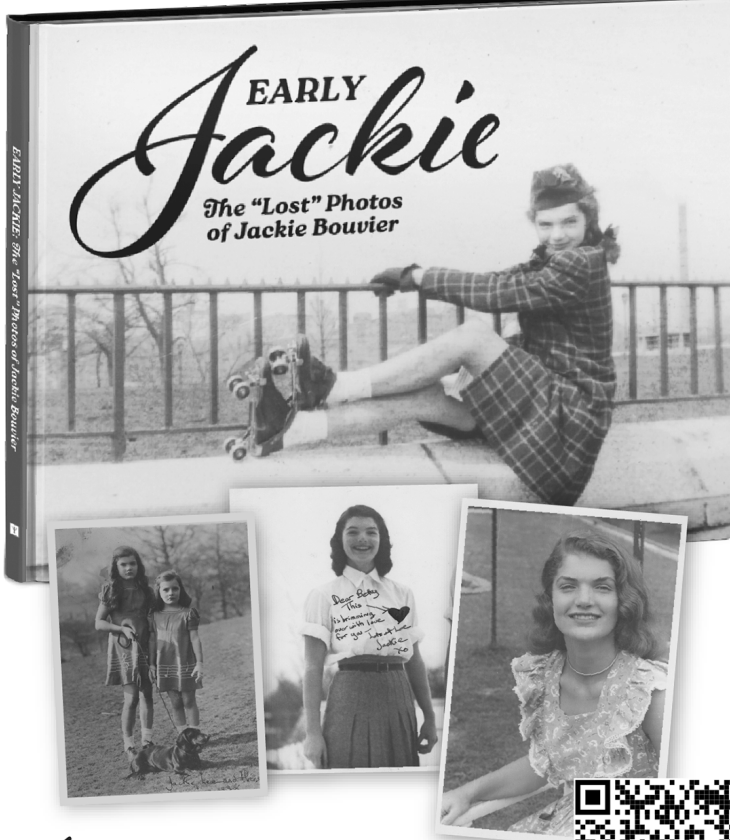
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