Cash is king

Mismanaging cash can be unforgiving. In recent weeks some huge organisations have crashed to the ground. No doubt out of the glare of publicity, many smaller ones have too.

The cause? A lack of confidence – but, underlying that, a mismatch of cash obligations to cash in hand. Cash is the life-blood of any business - small or large, growing or declining, start-up or mature.

For many years, the hotel industry has had a fixation on revenue (RevPAR) and profitability. Witness the continued reliance by most owners of branded hotels and most hotel brands on profit and loss reporting advocated by the Uniform System of Accounts for the Lodging Industry.

I, for one, expect progressive hotel groups to augment this now as a result of recent support by the British Association of Hospitality Accountants to a piece of research authored by our friends at Oxford Brookes University which proposes to add to or revise the focus of profitability from departments to customers.

However, even with this improved reporting focus, as an industry we pay little formal attention to cash and cash flow management. This, despite the fact that many of the OpCo / PropCo structures put in place in recent years, as well as other joint venture structures, has resulted in forcing major operators to focus on cash flow at an entity level in ways for which many hotel managers and controllers have been ill-trained.

Perhaps this is because at a working capital level, most hotels operate with negative working capital. At start-up, a hotel requires an investment in working capital – cash balances, inventories, prepayments and deposits. But as the business gets going, normally such a requirement is reversed as cash inflow from customers and guests comes in advance of cash outflows to employees, the state and suppliers.

Why is this? In an urban business hotel, cash paid by the credit card companies is typically received several days after check out and the relatively small number of customers with authorised credit normally pays within 30 – 60 days. Obligations to employees are typically paid in arrears at the end of the month, to the tax authorities in arrears at least monthly and sometimes quarterly, and to suppliers several weeks after receipt of the goods and services. Even in a resort hotel, deposits typically form an important ‘quasi’ equity easing the ability of the business to trade. It is our experience that most well-run hotels operate with greater current liabilities than current assets – effectively with negative working capital.

Remember three golden rules.

1. **Cash is not a given** - rather it is an outcome. It is not inevitable. It needs to be worked for. Chased and hunted, captured and banked. Are your processes as robust as they can be?

2. **Cash management is a core process** - it’s as important as sales, customer service. Your hotel needs to be excellent in cash management just as it is in the creation of the core experiences that you sell to guests and customers. It can’t be outsourced or probably downsized. It can’t be reduced to a non-core process.

3. **Cash management requires information** - to proactively manage all aspects of every process that impacts the use of and generation of cash. In the supplier focused

‘Purchase to Pay’ process, the customer-focused ‘Acquire to Sell’ processes, in the employee-focused ‘Hire to Retire’ process, there needs to be excellence built in around the sourcing and application of cash.

Only if your hotel or your hotel company excels in all three rules will the company’s survival be assured.

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