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Financial Management: The Case of a Wedding

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Abstract

Financial management helps an event planning operation to achieve a profitable future in the competitive business environment. Astute financial management involves securing, allocating and controlling financial resources held by the operation. Good budgeting practices ensure a successful outcome of an event that meets financial objectives. A real-life case study is provided for students to apply financial management principles.

Key Topics

Financial management, ratio analysis, budgeting, financial statements, wedding events

Target Audiences

Students enrolled in an event management, hospitality management, or a financial course.

Pedagogy

This case study has been designed for use in an active learning pedagogy, such as team-based learning, case studies, peer teaching, debates, just-in-time teaching, and other active learning pedagogies.

Learning Objectives

1. Understand the purpose of financial management for events.
2. Describe key financial terms and understand the use of those terms in event management.
3. Create a budget for a wedding event.
4. Perform simulated budgeting.

Teaching Plan

	Element	Suggested Time
1	Event Financial Management Framework	30-40 minutes
2	Wedding Event for Cy’s Catering	30-40 minutes
3	Application Questions	30-40 minutes
4	Debriefing	30-40 minutes

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Disclaimer

This case study is to be solely used for educational purposes and is based on both factual and fictional information.

Event Financial Management Framework

Financial Management

In the context of event management, financial management refers to a set of related activities undertaken by the event organizer to manage the financial aspects of an event: securing, allocating (control), and monitoring financial resources. The scope of the activities involves forecasting and projecting the costs and benefits of running an event while evaluating past performances and market trends. Financial analysis involves a review of financial statements. If conducted correctly, the analysis aids the event organizer in assessing the estimated profits of the event, its potential financial resources, and areas of financial needs. Other considerations in the process of the analysis involve the identification of financial risks, legal issues, and sponsorships. The complete analysis provides the event organizer with a realistic sense of how to deliver a successful and profitable event.

Acquisition of Funding Sources

The sources for financing events vary depending on the type of event. For example, sales of lottery tickets and government bonds are sources of funds for a major international event like the 2020 Tokyo Olympics (Enatsu, 2014). A private and relatively small-scale event like a wedding can be partly funded by individual contributions or sponsors in the form of free goods or services (Daniels & Loveless, 2007). Funds for an event can be raised through ticket sales, corporate sponsorship, or a contract signed between the organizer and participating venders. Other revenue streams include temporary set-ups on site for merchandising sales or pop-up food and beverage sales. A recent trend for funding is to use social crowdsourcing via online fundraising platforms, like GoFundMe. No matter how an event is funded, it is prudent to prepare a cost-benefit analysis report.

Cost-benefit analysis (CBA) considers costs and benefits related to hosting an event. CBA is broad, yet comprehensive in its extent of assessment including the social impact on local communities (Taks, et al., 2011). For public events and festivals involving multiple stakeholders and community organizers, the inputs for a CBA include current and future benefits and costs for the community or public at large. For example, congestion or a newly constructed sport venue are incorporated in a CBA and their implications taken into account. Thus, through the analysis, the event organizer can determine whether there are any net gains for the local community should the event be hosted (Dwyer et al., 2016). The organizer can also gauge how much money must be raised to finance the event. With a CBA report, the event organizer can create a sponsorship proposal describing the tangible and intangible value(s) that the event can bring to prospective sponsors.

Resource Allocation

An efficient allocation of financial resources should be a key consideration of financial event management. The allocation is mainly based on consideration of prioritized funding needs. Central to the process is a series of decisions made by the event organizer who evaluates reports of financial needs from event staff. Resources are then distributed according to the operational elements of the event. The allocation of resources should be communicated to the relevant personnel. The strategic allocation process of resources ensures that limited resources remain optimally utilized across event tasks. Regular monitoring of the inventory of resources steers the event toward meeting financial objectives.

Resources Management

Resource management focuses on the effective and efficient use of financial resources for an event. Financial monitoring is an important part of resource management. The event organizer tracks the pattern of resource spending so that corrective action can be swiftly taken when the need arises. The establishment of a line of authority, channels of communication, and accountability between the organizer and frontline staff facilitates the effective monitoring of the resources. Any action that requires modification in resource deployment must be communicated and documented. An evaluation of financial outcomes in the post-event stage should be conducted so as to identify areas of improvement, and institute these in future performances. The positive and negative aspects of the financial performances are discussed based on financial goals.

Mismanagement of finances can cause legal problems for the event organizer. For example, if the organizer fails to fulfill his/her/their end of the financial agreement with contractors, the latter may pursue legal avenues for breach of contract. Potential sponsors may be interested in vetting the financial performance history of past events the organizer has managed when weighing sponsorship decisions. A good track record of financial management accomplishments communicates to the sponsors a greater likelihood of a successful conduct of an event. Given the importance of financial management for event management, event management personnel must possess adequate knowledge and competence in event financial management.

Budgeting

Event budgeting is a critical component of event financial management. Budgeting provides detailed information of how funds should be allocated for the elements of an event. The practice involves forecasting income and expenses associated with holding an event. A budget plan is made based on current and historic information. The event's budget is broken into specific areas/suppliers: for example, a budget for event florists or A/V system contractors. The budgeting process should precede the event, as contracts are negotiated with contractors or stakeholders in the preparation stage. Because the budget must be constructed prior to the event, the event organizer should create realistic financial and resource allocation plans for the event. The budgeting process directs the planning of an event so that it is aligned with its financial goals.

Key budgeting terms:

***Revenue* –** Total amount of money generated from holding an event.

***Break-even* –** The point at which total costs and total sales revenues are equal or "even." At the break-even point, neither net loss nor gain occurs.

***Fixed costs* –** Recurring costs or expenses, such as rent or staff salaries.

Fixed costs do not change regardless of the number of events staged. Office staff are needed to handle calls from prospective clients. However, fixed costs can be reduced if a family member works the phone for free.

Variable costs **–** Costs that vary with the number of events staged. For example, the number of servers needed to be hired for an event is a variable cost item.

Income **–** Net profit or what remains after all the costs/expenses and taxes are subtracted. In other words, income = revenue − (costs/expenses + taxes).

Net profit margin – Percentage of profit an event generated from total revenues. To find the net profit margin, take the net profit (net income) divided by the event's total revenue (Net profit margin = net profit÷ total revenue). The number is expressed as a percentage.

Example: A medieval-themed wedding event for Client A charges $150 per guest as a flat fee for all services. A total of 60 guests is expected to attend the event. The planner works out a total cost of $6,000 for the event. To find the net profit margin:

The total revenue for the event: $9,000 ($150 per guest × 60 attendees)
The total cost: $6,000
The net income: $3,000 = ($9,000 − $6,000)
The net profit margin: 33% = ($3,000 [net income]÷ $9,000 [total revenue]) × 100
For every $1 the event produces, $0.33 is kept as net profit.

From this example, the cost of the event as a percentage is calculated as follows:
The event cost as a percentage: the cost of event ÷ the event revenue = 67% ($6,000 ÷ $9,000)
Per every $1 of the event revenue, $0.67 is spent as costs for staging the event.

Should the event planner be concerned about the number? One way to assess the number in a proper context is to compare the cost to previous similar events and investigate whether the difference is significant.

Contribution margin (CM) **–** The difference between total revenue and variable costs incurred by staging an event.

Contribution margin per unit is a dollar contribution per unit. CM is useful in deciding how much a specific product or service contributes to the profit before the fixed expenses of delivering the event are considered (Gallo, 2017).

Example: An Italian buffet meal option for a wedding event charges $30 per guest. The variable costs of the meal are $16 per guest. The contribution margin per meal (unit) equals $14 per guest: $14 = $30 − $16.

The CM ratio is calculated as the following:
Given that the variable costs for the buffet meal are $16.00 per guest, CM ratio is CM per unit or per meal ($14) divided by the charge per guest ($30): CM ratio: .467 or 47% = ($30 − $16) ÷ $30.

The CM ratio of 47% indicates how much money is available for the event planner to cover the fixed costs of the event after the variable costs are covered.

If the fixed costs are given, using the CM ratio of 47%, the break-even point for holding the wedding event can be calculated. For example, if the wedding event has total fixed costs of $15,000, then the breakeven in sales is $31,914.89 = $15,000 ÷ 47%.
To get an accurate contribution margin, all the costs are first identified and categorized into fixed or variable items.

Event assets turnover – A measurement of how efficient fixed assets such as the office rent are utilized in generating event revenue.

Example: For the past two months of business, the average fixed assets are as follows:
Cost of fixed assets for April = $3,000
Cost of fixed assets for May = $3,100

Average of fixed assets for the months of April and May:
$3,050 = ($3,000 in April + $3,100 in May) ÷ 2 (number of months)

The total event revenue for both April and May combined is $10,000.
To find an asset turnover ratio for those two months, divide the total revenue ($10,000) by the average of fixed assets ($3,050)
Assets turnover is 3.28 (times) = $10,000 ÷ $3,050.

What does this 3.28 (times) mean for the event operation? The higher the turnover rate, the more effective the fixed assets are utilized in generating revenue, as the fixed assets are costs over which the operation has less control, relative to the variable costs. So, in this case, for the past two months, the fixed assets have been turned over 3.28 times in generating revenues. One way to increase asset turnover ratio is to replace an inefficient fixed asset item with a more efficient (less costly) one.

Wedding Event for Cy's Catering

Background

Upon graduation, Jenny landed a junior marketing director position in the Cy's Catering department of a university in a midwestern state. As a division of the larger dining operation, Cy's Catering provides catering services for intermural events on campus and wedding events for off-campus clients (E. Laska, personal communication, August 14, 2018). Most off-campus clients are from the state's capital. Within a couple of months on the job, Jenny was asked to develop an income statement template for three new buffet menu themes developed for millennial clients. Jenny thought that this project would be a great opportunity for her to apply the concept of design thinking that she had learned from her event management class. The cost structure for each menu option will be first built based on the consultation with the catering and main kitchen managers. With the cost items laid out, she will incorporate them into an income statement template on a spreadsheet she will create. Then multiple simulations will be test-run by changing fixed costs and revenues for each menu item. The simulation results will be shared with the direct supervisors and kitchen management.

Design Thinking

Still a nascent idea in service management, design thinking is an effective iterative process for generating a new idea that focuses on customers (Liedtka, 2018). Today's customer demands change quickly, stemming from their constant exposure to trends through social media. Customers are increasingly looking for personalized and memorable wedding experiences. To stay current with changing customer preferences, agility in service offering is the key if an event business is to step ahead of its competition. Event organizers are keenly aware of the need to adapt rapidly to changes in the marketplace. Design thinking emphasizes the customer-centric management of service innovation. Customer needs remain central to designing service offerings. An innovative approach to meeting customer needs is achieved through the iterative process of design thinking that involves defining problems, determining needs, brainstorming, prototyping, and testing.

Following the basics of design thinking that she had learned, Jenny laid out the process map with the design thinking steps that must be taken when developing an income statement for the new buffet themes:

1. Define the problem – Create a new set of buffet menus that appeal to the growing segment of millennial wedding clients.
2. Determine needs – Millennial clients are more open to international tastes and prefer room for personalization.
3. Brainstorming – Consult with the dining managers and executive chefs from the main kitchen.
4. Prototyping – Build a prototype income statement template for three different menu options.
5. Testing – Test the prototypes and adjust if needed.

Once all the items are incorporated into her prototype income statement, Jenny decided to test the prototype with one of the new menu options: East Meets West buffet. After a series of discussions with her two dining managers, she ran a simulation with an $80 per meal option for 100 wedding guests. The total sales revenue from the event equals $8,000 ($80 per meal × 100 guests). The simulation also generated an estimated dollar amount for each of the line items of the income statement, expressed as a percentage value of the event revenue.

Based on the estimated event revenue given, fill in the blanks in the income statement below and answer the following key questions.

1. What is the contribution margin (CM)?
2. What is the contribution margin per guest for this buffet meal option?
3. What is the net profit for this simulation and the break-even point with regard to the number of guests required?

INCOME STATEMENT

Total Sales Revenue (R)	**$8,000.00**	$80 (per guest)	
Variable Costs			
Catering Costs	$______	27.5%	of V
Facilities Costs	$______	22.5%	of V
Labor (Payroll)	$______	35.0%	of V
Overhead (Linen and tablecloth cleaning)	$______	15.0%	of V
Total Variable Costs (V)	**$______**	**50%**	**of revenue**
Contribution Margin (CM = R – V)	**$______**		
CM per guest	**50%**		
Fixed Costs			
Advertising/Promotion	$______	5.0%	of F
Payroll (Office personnel)	$______	15.0%	of F
Rent	$______	30.0%	of F
Supplies (Audio/Visual)	$______	25.0%	of F
Taxes	$______	7.5%	of F
Insurance	$______	7.5%	of F
Utilities (Water, Electric etc.)	$______	10.0%	of F
Total Fixed Cost (F)	**$______**	**25.0%**	**of revenue**
Profit (CM – F)	**$______**		
Break-even	______	**as number of guests served**	

Specific Questions/Choices

1) Which of the following is NOT an activity of event financial management?
   a) Securing financial resources
   b) Monitoring financial resources
   c) Allocating financial resources
   d) Forecasting costs and benefits
   e) Minimizing the recurring natural events

2) As a wedding planner, your recent wedding event had 120 guests in attendance and charged $30 per guest.

Revenue:___________Costs: $2,500 Profit: $1,100

Based on your calculation, what is the percentage of the profit made on the wedding event?
   a) 30.5%
   b) 84%
   c) 58%
   d) 85%

The next two questions are related to the following information:

Emory gathered the following information from her recent wedding event that she had managed:

Flat fee per guest: $200
Variable cost per guest: 50% of the fee
A total of 250 guests attended the wedding
The sales amounted to $50,000
Variable cost: $25,000
Net income: $3,000

3) Calculate the contribution margin ratio.
   a) 30%
   b) 50%
   c) 80%
   d) 45%

4) Calculate the fixed expenses.
   a) $14,000
   b) $15,000
   c) $16,000
   d) $22,000

5) The average fixed assets were $68,000 for Swartz's event planning company last year. The year's total revenues were $330,000. What is the fixed asset turnover ratio for the last year?
   a) 5
   b) 3
   c) 6.5
   d) 4.85
   e) 32.5

Teaching Notes/Answers

Question 1. Answer: e	Students identify the elements of financial management.
Question 2. Answer: a Revenue: \$3,600 =120 (guests) × \$30 (charge per guest) Costs: \$2,500 Profit: \$1,100 30.5% = (\$1,100 (profit)/\$3,600 (revenue)) × 100	Students demonstrate how to compute the percentage of profit in percentage.
Question 3. Answer: b 50% (\$25,000) = \$50,000 (sales) −25,000 (variable costs)	Students demonstrate how to compute contribution margin ratio.
Question 4. Answer: d \$3,000 (net income) = \$25,000 (variable cost) − $\mathcal{X}$ (fixed expenses) Fixed expenses = \$22,000	Students demonstrate an understanding of the structure of an income statement and compute the value of a missing item in the statement.
Question 5. Answer: d	Students demonstrate an understanding of fixed asset turnover ratio and compute the ratio.

Case Study

Total Sales Revenue (R)	**$8,000.00**	$80 (per guest)	
Variable Costs			
Catering Costs	$1,100	27.5%	of V
Facilities Costs	$900	22.5%	of V
Labor (Payroll)	$1,400	35.0%	of V
Overhead (Linen and tablecloth cleaning)	$600	15.0%	of V
Total Variable Costs (V)	**$4,000**	**50%**	**of revenue**
Contribution Margin (CM = R – V)	**$4,000**		
CM per guest	**50%**		
Fixed Costs			
Advertising/Promotion	$100	5.0%	of F
Payroll (Office personnel)	$300	15.0%	of F
Rent	$600	30.0%	of F
Supplies (Audio/Visual)	$500	25.0%	of F
Taxes	$500	7.5%	of F
Insurance	$150	7.5%	of F
Utilities (Water, Electric etc.)	$200	10.0%	of F
Total Fixed Cost (F)	**$2,000**	**25.0%**	**of revenue**
Profit (CM – F)	**$2,000**		
Break-even	**50**	**as number of guests served**	
	50 = $2,000 (fixed cost) ÷ 50% (CM per guest)		
	$4,000 = 50 guests× $80 per guest to cover $2,000 for fixed costs and $2,000 for variables costs of 50 guests served ($40 × 50)		

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