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Hospitality Financial Management by Agnes DeFranco and Thomas Lattin

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BOOK REVIEW

Hospitality Financial Management

Agnes DeFranco, Thomas Lattin, John Wiley & Sons, Inc., Hoboken, New Jersey, 2007. Hardcover, 368 pages, ISBN 0-471-69216-6.

One of the most important factors for students when studying finance is to be able to apply the study of hospitality financial management to the real world. Hospitality industry is an applied management field and teaching hospitality financial management is about presenting theories, concepts, and empirical material to students in a way that enables them to integrate this information into their careers and personal lives. The real world applications of the key concepts emphasize critical thinking and keep students interested in the subject. This book goes a long way doing just that. The textbook has 12 chapters including an introduction chapter that summarizes the topics covered in the book and a conclusion chapter that reviews all the chapters previously discussed.

This book is jointly authored by Agnes DeFranco and Thomas Lattin. Dr. DeFranco is a Professor of Finance and Accounting at the Conrad N. Hilton College of Hotel and Restaurant Management at the University of Houston. Her field of research includes hospitality finance, cost control, accounting, and cultural and diversity issues. She serves as the president of the Hospitality Financial and Technology Professionals. Thomas Lattin, who is a CAP, is the Sir Rocco Forte Executive in Residence at the Conrad N. Hilton College at the University of Houston and managing director of Lattin & Associates management consulting firm. He served as president of a national hotel management company and he partnered with three international hospitality accounting/consulting firms.

At first glance, each chapter begins with a feature story which is a real world example of a hospitality business. Most of these stories are related to well known hospitality industry leaders and their ability to achieve success by using various financial management skills. The feature story introduces the financial concept of the chapter to the readers and intends to catch readers' attention. Authors continue using other real world examples in the chapters. Each chapter also includes learning outcomes and preview of chapter in addition to a section which authors named "the real deal". This section includes fun facts that students can come across in the real world related to the financial concepts. For example, after authors introduce the "Use of Sensitivity Analysis", they explain where hospitality professionals can obtain reliable information about two key hotel ratios: occupancy percentage and average daily rate. They identify main sources as Ernst & Young, PricewaterhouseCoopers, Global Hospitality Consulting, PKF Hospitality Research and Smith Travel Research.

Finance in action segment is comprised of real world scenarios as it relates to the chapter-specific concept. This segment helps students to apply what they have learnt to a real world example. Where we are going, where we have been section sums up the topics covered in each chapter and summarizes what will be covered forward in the text. Key

points and key terms list the vital concepts related to the chapter. Key terms are also bolded when they appear in the chapter for the first time. Application exercises and concept checks are available at the end of the chapter to assist students with the key concepts presented and to enhance their comprehension. Authors note that instructor's manual and companion website are available to provide the instructors with the lecture outlines, quizzes, test questions, PowerPoint slides of each chapter, solutions to application exercises and concept checks.

In chapter 1, we find an explanation of the financial challenges hospitality industry faces along with the chapter topics covered in the book. This chapter gives an overall view of the key concepts introduced in each chapter.

Chapter 2 tackles financial reporting in the hospitality industry. The specific topics covered include accounting as the language of business, financial statements, management reports and accounting system. This chapter is a recap of basic accounting rules and financial statements analyzed in a typical managerial accounting class.

Chapter 3 follows up on Chapter 2 by introducing methods to analyze financial statements. Readers of financial analysis, types of financial analysis and use of financial information in management decision making are explored in this chapter. Authors also discuss financial tricks that others may use to make a company's financial information look more favorable than it actually is. These tricks include window dressing, off-balance-sheet financing, capitalize current operating expenses and improper revenue recognition.

Chapter 4 is devoted to managing working capital and controlling cash. Working capital covers definition of working capital, factors impacting the amount of working capital required by a business and ways to minimize the amount of working capital needed. Cash management section discusses cash controls, cash forecasts, managing bank balances and services provided by the banks and credit card processing and transaction fees.

The fifth chapter, entitled "Growing the Business" discusses the need for growth, shareholder value, benefits of growth and growth strategies. The relationship of risk and reward is also covered in this chapter which is a very extensive topic itself. Risk and reward relationship is explained briefly using hospitality industry related examples.

The sixth chapter covers financing growth. More specifically, authors discuss capital, basic debt terminology, types of loans, sources for loans, types of equity, sources of equity, hotel financing in the 1970s and 1980s and new hotel financing vehicles.

Chapter 7 explores the time value of money. The concept of time value of money, the market value concept and time value of money calculations are examined meticulously. Time value of money calculations are presented using factor tables, formulas, financial calculator and Excel via use of spreadsheets.

Investment analysis makes up the eighth chapter. The application of time value of money and market value concepts and skills to investment analysis, weighted average cost of capital, discount rate, the capitalization method of valuation as they apply to investment analysis, investment analysis tools, investment calculations using a business calculator and an Excel spreadsheet, and factors impacting investment analysis calculations are explored in this chapter.

The ninth chapter, entitled “Hospitality Industry Applications of Time Value of Money Concepts and Skills” explains questions to consider when securing a loan, questions to consider when raising equity, sensitivity analysis to meet lenders’ and equity investors’ financial tests and standards, finance in action case studies. Finance in action case studies include loan amortization schedule, a hotel appraisal using the income approach to value, the lease versus purchase decision, and the analysis of multiple investment opportunities using return on investment, net present value and internal rate of return.

The tenth chapter delves into the need for an investment package. The authors discuss how a professional investment package is prepared to gain approval for funding. The components of an investment package and evaluation of investment package in explained in detail.

Chapter 11 tackles crafting and negotiating the deal where authors elucidate how to finance a new business venture. The topics covered in this chapter include the new business venture, the business entity, the debt-equity mix, negotiating loans, negotiating equity investment and negotiating skills.

The last chapter presents an overview of all chapters covered in the book along with a recap of the most important subjects included in the chapters. Authors wrap up the all the fundamental financial concepts and name this chapter “Tying It All Together”. An index is included following the last chapter.

Overall, the authors explained the basic financial concepts using very simple terms which makes this textbook very suitable for an undergraduate hospitality student without financial management background. This text book is relatively easy to read, has very good examples and laid out in an attractive manner. However, conciseness of the chapters covered in the book might be conceived as a disadvantage when it comes to understanding difficult and significant financial concepts. In this respect, it would have been better if some of the most important principles of finance were explained more in detail. For example, risk and return relationship is discussed very briefly although it is a very important topic that lays the groundwork for investing in financial markets, diversification of portfolio risk and security market line.

The textbook is most user-friendly of its kind with feature stories, finance in action and the real deal sections included in each chapter. This is a very good book for learning the “bigger” picture of finance as it relates to hospitality management. Even

without accounting background and without any financial acumen, hospitality management students can easily grasp the concepts presented in this book.

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