THE RELATIONSHIP OF FINANCIAL PLANNING AND BUDGETING IN TURNOVER-ORIENTED ENTERPRISES

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ABSTRACT

The article is devoted to the problems of building an effective system of financial planning at turnover-oriented enterprises, a characteristic example of which is the hotel chain company operating under an international brand. As part of the study of approaches to financial planning, the authors identify and logically justify the special role of tactical planning in the form of building a group of operating budgets. The authors pay special attention to the budget of marketing expenses, as the most flexible and mobile in terms of the impact of factors of social and economic development, such as the global digitalization of the economy. The authors conducted a segment analysis revenue enterprise hotel chains and articles marketing expenses, and the interrelation between them, which allowed to develop a universal algorithm financial planning marketing expenses of the enterprise under a common system of financial planning and budgeting, and calculate the optimum percentage spent on marketing activities with the financial resources necessary to achieve the planned financial results.

Keywords: Marketing Budget, Formation of Economic Resources, International Hotel Chain.

INTRODUCTION

Annotation

Financial planning in international corporations is one of the leading management technologies designed for decision-making and evaluation by managers of the implementation of strategic plans in the form of specific financial indicators (Dmitrieva, 2008). Comparing budgets and current indicators helps to identify the interdependencies between activities, costs and results, to identify the processes that are costliest, and to reduce or eliminate unnecessary work, thereby improving the results of productive processes (Batrshin et al., 2016). In a hotel managed by an international network, the accuracy of financial planning is a criterion of successful cooperation between the owner and the management company, which in this situation acts as an expert in the field of financial forecasts for hotel activities.

In 2018, the segment of branded hotels in Russia added 5,669 rooms, and in 2019, according to the announcement, there will be another 3,780, most of which will be released under the brands Marriott, Azimut and IHG, according to JLL (in 2019..., 2019).

The increasing role of the marketing budget among other operating budgets entails significant changes in the planning of its expenditure side and the increasing impact of these changes on the revenue of the turnover-oriented enterprise. Promotion of marketing activities through the Internet and social networks gives impetus to the development of digital marketing and strengthen its impact on the final financial result, and also causes the need to trace the relationship between the implementation of the stages of financial planning in the enterprise and the construction of the marketing budget, and to identify the relationship between them (Christine, 2017).

In the conditions of formation of digital economy, the most important target parameter in the competitive environment becomes ensuring financial stability of the turnover-oriented enterprises

on the basis of optimization of formation and use of their financial resources. The financial well-being of enterprises and industries as a whole depends on how effectively and expediently they are transformed into fixed and current assets, as well as into means of stimulating the labor force.

LITERATURE REVIEW

Materials and methods

The material for this study is the data of the hotel in Ekaterinburg EKAT-Hotel LLC with a capacity of 160 rooms. This hotel is managed by an international hotel chain under an agreement with the owner company operating under international brands in the Sverdlovsk region. On January 01, 2019 in the city of Yekaterinburg there are 120 accommodation facilities for 5946 rooms, including hotels of five international operators with a total number of rooms 994 (Hospitality..., 2019).

EKAT-Hotel LLC regularly registers data on the results of its activities in the international statistical company STR, which represents the Analytics of the hotel services market. STR reports indicate that EKAT-Hotel LLC occupies about 18% of the market, that is, it demonstrates average performance, which is typical for all five hotels in the Sverdlovsk region market, so EKAT-Hotel LLC is taken here as a typical example in this period.

Hotel companies operating under international brands use all types of financial planning: strategic, tactical and operational. In this study, the authors consider the issues of tactical planning, namely the various stages of the operating budget of the hotel company for one calendar year. In the structure of calculations and models of tactical planning laid maximum information about the company's product, prices, costs, sales channels, manufacture, marketing, loans, revenues, in order to create a short-term future, to determine the point of effectiveness and initiate appropriate decisions. This article discusses only the financial planning of marketing activities of the hotel company, because it is in this area at the moment there are significant changes (Ivanovich, 2019).

The result of the analysis of the process of financial planning of marketing expenses in this article will be an algorithm that can be used for hotel enterprises of any type of management.

Marketing costs in hotels are often planned by calculating the standard for a particular company percentage of these costs to revenue. However, already in 2019, the growing every year opportunity to calculate separately the profitability of each channel to attract or retain customers leads to the fact that first of all plan the amount of revenue, and only then calculate how much money will have to spend on marketing funds to achieve this revenue (Marketing ROI..., 2019).

Before starting to calculate how much a hotel company can or should spend on marketing expenses, it is necessary to clarify some conditions. The three questions listed below will be the basis of the algorithm for compiling the marketing budget of the hotel enterprise "*EKAT-Hotel*".

The first question to be answered is what goals does the company set in relation to revenue in different market segments? In other words, marketers should systematically approach the allocation of the budget and localize different amounts of funds depending on the expected dynamics of sales and the availability of opportunities to increase market share in each of the segments.

The second question in what part of the life cycle is the hotel company? Newly opened or rebranded hotels focus less on the return on investment from their marketing investments, as their primary goal is to achieve brand recognition in the local market. For hotels, such as EKAT-Hotel LLC existing on the market for 3 years or more, the volume of marketing costs in the amount of 8-15% of annual revenue is usually able to provide a balance between recognition and profitability of the hotel company.

The third question concerns whether the responsibility for the sales of an enterprise is placed directly on the marketing in that particular company. A 2017 survey of marketing Directors found that marketing was responsible for sales growth in 38.4% of the companies surveyed. In these companies, a larger budget is allocated for marketing expenses, namely, an average of 14.5% of

annual revenue compared to 10.8% in other companies. Of course, different industries see the strategic impact of marketing initiatives on sales differently (Spector, 2018).

METHODOLOGY

The marketing budget of the enterprise is a reporting document that provides information about all the expenses necessary for this type of activity. Companies wishing to improve the results of marketing activities need to take a strategic approach to planning this type of expenditure. The main difficulty of planning a marketing budget is that the amount of funds allocated depends on a large number of variables, the impact of which can hardly be accurately accounted for, which makes the marketing budget purely predictive (Reibstein, 2017). The influence of these variables is generally nonlinear and empirically determined. That is why in most companies in determining the amount of marketing budget play an important role tradition, experience of senior executives and analysis of marketing costs of competitors (Budget marketing..., 2009; Nikulin, 2009).

There are several basic approaches to financial planning of marketing expenses:

1. Strategic planning depending on the cost of planned marketing events, conferences, advertising, etc.

2. Forecast marketing expenses as a percentage of the estimated sales of the enterprise.

3. Budgeting of marketing expenses in the same volume as that of the main competitors.

The difficulty in choosing a method of financial planning is complemented by the fact that in a period of economic instability in an effort to optimize the maximum possible number of items of expenditure, one of the first items that fall under the reduction, as a rule, becomes "*Marketing and advertising*", despite the risk that the refusal of marketing activities can have a negative impact on the entire business in the long term. However, the adoption of a course to reduce costs is considered to be one of the easiest decisions that the company's management can take, since this process will concern the funds that the company actually owns, in contrast to strategic, marketing, innovative decisions, the adoption of which in a period of growing uncertainty, become even more complex.

In contrast to this strategy, some sources argue that, according to one statistical study in the United States, companies that did not reduce the marketing budget in times of crisis became leaders of their industries, and those that reduced investment in marketing, lost both their market share and significantly weakened their competitiveness (Cheremisina et al., 2017).

Another commonly used strategy for planning marketing expenses is based on Bob Fifer's research "*Costs-down, sales-up*", where he recommends to surpass its competitors in the level of strategic spending, which includes marketing costs, providing these costs in both good and bad times (Zinkevich, 2016).

The specifics of the approach to marketing directly in the hotel industry is currently undergoing evolution: back in 2016, according to the General practice for the international hotel chain, it was enough to use marketing materials provided by the brand, which, of course, greatly simplified the process of budgeting marketing costs.

By 2019, the need to present their image in social networks on a daily basis and be in close contact with the local community has reached hotels operating under international brands, first in the capitals, then in the regions, which, of course, could not but affect the approach to budgeting marketing costs. (How Much Should..., 2019; da Cunha, 2018). There is a need to understand the effectiveness of advertising channels, in particular in the Internet format in order to distribute the costs of each of them in a balanced way. According to the study, Skift "*Digital Advertising Trends in Travel 2019*" already in 2018, companies' spending on digital marketing accounted for 59% of all advertising media, while the costs of marketing in magazines 13%, outdoor advertising 7.5%, Newspapers and TV 8.5% and radio 4.2%. In addition, 56% of respondents planned to increase spending on digital marketing in 2019 compared to 2018. Among digital formats, paid search and social networks are the leaders, each of which is responsible for an average of 28% of all spending

on digital, video 8.4%, search engine optimizations 18% and online banners 17.4% (Digital advertising..., 2019).

These and other changes are globally reshaping business practices and directly affecting how a company presents and will present itself in the marketplace, which should obviously entail a new look at how hotel marketing costs are distributed (World, Transformed..., 2019). These changes and processes determine the relevance of the topic of planning marketing expenses of hotel enterprises.

For example, a study conducted by Deloitte revealed the average figures of marketing expenses from average annual revenues in various industries, as shown in the Figure 1 below (The CMO survey..., 2018).
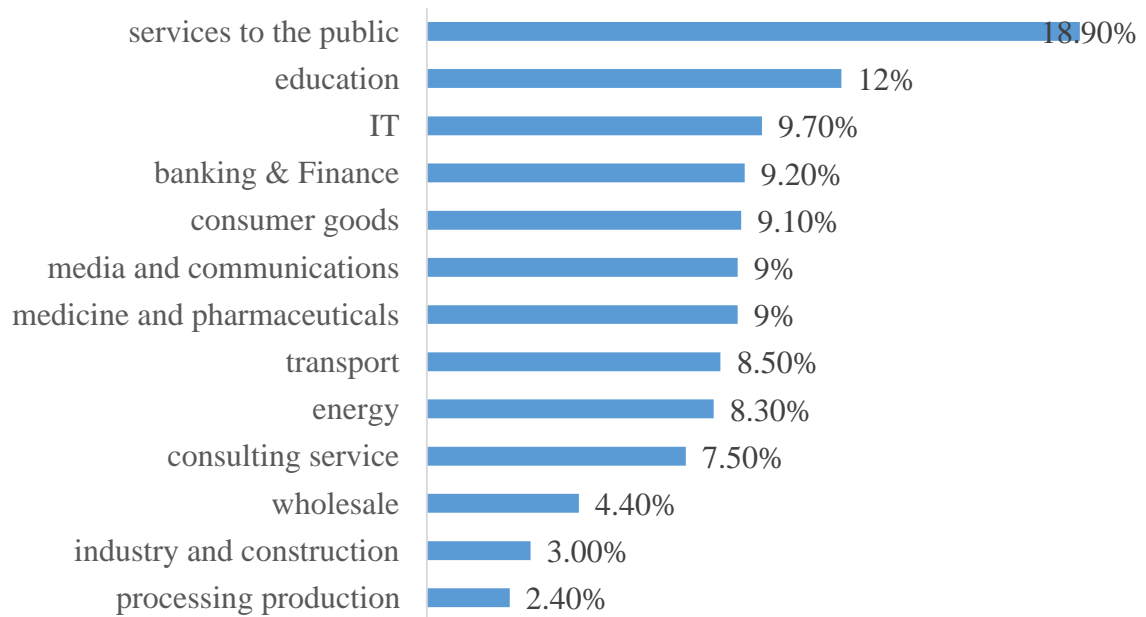

FIGURE 1
MARKETING EXPENSES IN VARIOUS INDUSTRIES, 2018

As follows from Figure 1, hotel services are classified as having the highest level of marketing costs, i.e. hotel businesses spend an average of 18.9% on marketing of annual revenue. Expenses attributable to marketing also vary from company to company. For example, not all companies include the cost of a marketer's salary in marketing expenses. Some hotel businesses include online travel Agency commissions in marketing expenses, understood as the cost of attracting new customers. Other hotels, carry the Commission to the cost of rooms.

Below is a graph that shows which categories of expenses are typically included in marketing expenses in service businesses that work directly with the consumer (Hotel Marketing Budgets..., 2018) (Shows in Figure 2).
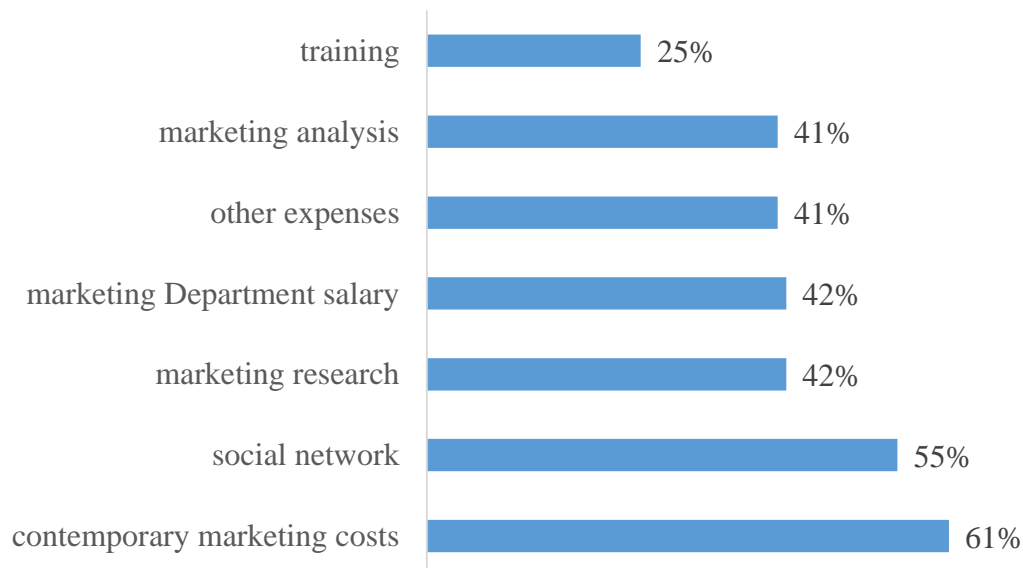
FIGURE 2
BUSINESS TO CONSUMER: SERVICES

Marketing costs broadly fall into two categories: customer acquisition costs and customer retention costs. Attraction tools include digital marketing, media marketing and PR, outdoor advertising, Internet newsletters and promotions. A loyalty program, a customer satisfaction questionnaire, Internet newsletters and promotions work to retain customers.

According to the Skift report, in 2019, most companies are going to spend almost equal amounts of marketing budget on both attracting (55%) and retaining customers (45%). As customer acquisition costs continue to rise in the hotel industry, it is important to understand the profitability of each of the channels of attraction (Digital advertising..., 2019).

According to experts of the research Bureau Kalibri Labs, in the US hotels spend 16-18% to attract new customers, and those who include Commission costs in marketing spend 25-35% of the annual revenue of the hotel to attract (Hoisington, 2017). The same is happening in the Russian market. The reason for such high costs of attracting customers are the growing commissions that require online travel agencies for each reservation. However, as stated by Deloitte, without online travel agencies, the strategy of attracting business would rely primarily on paid search, which would make the attraction even more expensive. Online travel agencies are committed to attracting large volumes of price-sensitive customers to hotels, giving brands the opportunity to focus on higher-yielding customers in the business and tourism segments (2018 Travel..., 2018).

At the company EKAT-Hotel LLC expenses on the Commission of online travel agencies are included in the cost of the room and relate to the costs of the room Fund. The list of marketing expenses in the current year is shown in Table 1.

Table 1 SHARE OF MARKETING EXPENSES FROM HOTEL REVENUE			
	2019, mln rubles.	Share (%) of marketing expenses	Share (%) of hotel revenue
Revenue license Fund	164.7		
Marketing expenses:	18.1	100.0%	11.0%
Branding costs	5.7	31.4%	3.5%
Sales and marketing payroll	5.6	30.9%	3.4%
Loyalty program	4.1	22.6%	2.5%
Special offer	0.7	3.7%	0.4%
The cost of tuition	0.6	3.3%	0.4%
Representation expenses	0.5	2.6%	0.3%

Local marketing expenses	0.4	2.2%	0.2%
Media costs	0.3	1.5%	0.2%
Office expenses	0.2	1.1%	0.1%
Printed material	0.1	0.7%	0.1%

In order to make a budget of marketing expenses for the next year, it is necessary to answer the question what goals the company sets in relation to revenue in different market segments (Marketing Plan..., 2019).

70% of the hotel's revenue comes from the accommodation of so-called individual customers, while 22% of the visitors are groups. However, to allocate marketing costs, it is necessary to allocate smaller segments within the "*Group*" and "*Individual*" (Shows in Figure 3).
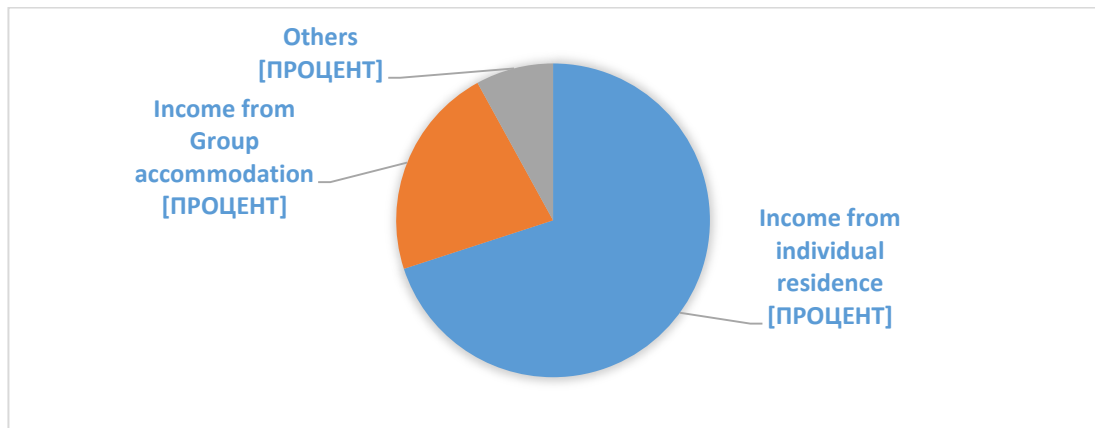

FIGURE 3
SHARE OF REVENUE LICENSE PLATE FUND EKAT-HOTEL LLC

Thus, there are smaller markets or segments, each of which has its own tariff system, booking model, and channel of attraction and, of course, different financial potential. Table 2 shows the revenue budget in each of the significant segments in the current year and how sales in the same segments are expected to change next year.

Table 2 SEGMENT SHARE OF TOTAL HOTEL REVENUE			
Private accommodation	**Revenue**		
Segment:	Current year	Next year	Difference
Retail	14.325.576	16.992.239	18.6%
Discountinuance	25.426.187	29.648.638	16.6%
Treaty	87.053.422	87.477.373	0.5%
Qualified	205.016	217.412	6.0%
Wholesale	2.772.640	2.748.170	-0.9%
Subtotal:	129.782.840	137.083.830	5.6%
Group accommodation	**Revenue**		
Segment:	**Current year**	**Next year**	**Difference**
Corporate	16.052.560	20.019.010	24.7%
Association/Convention	2.245.070	1.611.746	-28.2%
Governmental	3.468.149	2.859.960	-17.5%
Tourist	5.487.824	6.401.928	16.7%
SMERF	7.463.541	7.463.541	0.0%
Subtotal:	34.717.142	38.356.184	10.5%

This Table uses Uniform billing terms for the hotel industry, where the retail segment is all rooms sold at standard seasonal prices.

Discounted rates (discounts) are rates for rooms sold on special offer, for example, "*Early booking discount*". This type of tariffs is lower than retail, these tariffs are available to the General public.

Contractual tariffs–special conditions offered to enterprises.

Associations/agreements-tariffs available to members of various groups and associations, e.g. tariffs for company employees, tariffs for government members.

Wholesale rates–discounted rates that are combined with other services as part of the offer from the travel Agency.

Groups are mainly divided by areas of activity (corporate, associations and conventions, government, tourism, social, educational, sports, etc. (SMERF)) (Uniform system..., 2018).

Table 2 shows that EKAT-Hotel LLC succeeds in providing individual accommodation more than group, and, according to forecasts, the group segment of the market will grow next year by 10.5%, and the individual by 5.6%. In addition, it is possible to attract groups, more precisely the corporate, Association and SMERF segments, through direct sales by organizing business meetings and business trips, as well as through global marketing, the costs of which are included in the branding costs.

Attracting customers through local marketing is possible in terms of providing individual accommodation in the segments of retail sales, discounted, contractual, as well as wholesale, which are included in the diagram of EKAT-Hotel LLC in the other segments (Marketing ROI..., 2019). It is planned to focus on attracting customers in these segments next year, as they largely represent the local community that receives information about the hotel through social networks and the media, so it is necessary to increase marketing costs in terms of local marketing and media.

Answering the second question influencing formation of the marketing budget: in what part of a cycle there is an enterprise, it is worth noting that for the purposes of this article the hotel existing in the market more than ten years and not planning rebranding or renovation in the current or next year is taken, therefore marketing expenses will be formed only according to requirements of achievement of the planned sales volume of the current year.

With regard to the third question, whether marketing is responsible for the level of sales in EKAT-Hotel LLC, it is necessary to state that at this stage, a direct and unambiguous relationship between marketing activities and the revenue of the hotel can be traced only in some individual and not the most voluminous segments of the market, so we have to admit that marketing is mainly not responsible for the revenue of the enterprise, and therefore the amount of funds allocated for marketing will not exceed the industry standard indicators of 10% -15% of the annual revenue. Thus, the Table 3 of marketing expenses for the next year will change as follows.

Table 3 CHANGE OF MARKETING EXPENSES BUDGET					
	Current year, mln rubles	Next year, mln rubles	Cost changes, %	Share (%) of marketing expenses	Share (%) of hotel revenue
Revenue license Fund	164.7	175.4	6.5%		
Marketing expenses:	18.1	19.4	7.2%	100.0%	11.08%
Branding costs	5.7	5.7	0%	29.3%	3.5%
Sales and marketing payroll	5.6	5.9	5%	30.4%	3.4%
Loyalty program	4.1	4.5	10%	23.2%	2.5%
Special offer	0.7	0.7	4%	3.6%	0.4%
The cost of tuition	0.6	0.6	0%	3.1%	0.4%
Representation expenses	0.5	0.5	4%	2.6%	0.3%
Local marketing expenses	0.4	0.6	54%	3.1%	0.2%
Media costs	0.3	0.6	126%	3.1%	0.2%
Office expenses	0.2	0.2	3%	1.0%	0.1%
Printed material	0.1	0.1	0%	0.6%	0.1%

In this Table 3 branding costs are maintained at the same level, as they are formed on the basis of a fixed amount for the total number of hotel rooms. The cost of the payroll in this case increased by a percentage equal to the official forecast of inflation for the next year. The cost of a loyalty program the main tool for retaining customers depends directly on the number of customers who subscribe to it and enjoy discounts under this program (O'neil et al., 2008). With the increase in the number of hotels under the brand of an international network, which controls EKAT-Hotel LLC, the market has increased the effectiveness of the program as a marketing tool, so the growing number of users proportionally increases the cost of the hotel for next year by 10%. Expenses for special offers, training, hospitality, as well as office and printing costs are planned for the next year without changes. The company decided to significantly increase both the costs of marketing at the local level and the costs of promoting EKAT-Hotel LLC in various media, in order to achieve the budget in the segments of retail sales, discounted, contractual, and wholesale, in other words, in all segments that cover customers from the Ural Federal district and neighboring regions.

Thus, marketing spending next year is planned to increase by 7.2%. In total, they will amount to 11.8% of the annual revenue of "*EKAT-Hotel*" and should lead to an increase of 6.5% compared to the current year.

CONCLUSION

In the future, the proposed algorithm for planning marketing expenditures in this article will continue to improve and will increasingly rely on current market statistics and forecasts rather than historical figures, since annual technological innovations will oblige companies to invest dynamically in marketing analytical tools and actively use them in budgeting. Advanced technologies of monetization of various promotion channels and attributive models will allow to convey information about the product to the markets more accurately and to attract customers with greater efficiency (The U.S. Hotel..., 2014).

The topic of marketing responsibility for the revenue of enterprises raised at the beginning of the article may require a separate study for service enterprises, since at present the strategy of attracting hotel customers is mainly based on direct sales, that is, on direct contacts of hotel staff with potential customers.

In this study, the algorithm of financial planning of marketing expenses of a hotel operating under an international brand was considered in detail and the optimal percentage of funds spent on marketing activities necessary to achieve the planned level of sales was calculated. However, this article did not compare the marketing costs of competitors in the market and revealed the relationship between this type of expenditure and the share of the rank occupied by each of the enterprises, which can also be the material for the next study.

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