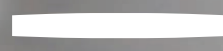


A hand is holding a metal tray containing several Euro coins and a 5 Euro banknote. In the background, there is a white coffee cup on a saucer. The scene is set against a dark, textured background, possibly a jacket.

# Hospitable entrepreneurship

Public management letter for the hospitality sector

September 2015

  
NBA

Royal Netherlands  
Institute of Chartered  
Accountants



# NBA

The NBA's membership comprises a broad, diverse occupational group of over 20,000 professionals working in public accountancy practice, at government agencies, as internal accountants or in organisational management. Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour are fundamental principles for every accountant. The NBA assists accountants in fulfilling their crucial role in society, now and in the future.

To entrepreneurs in the sector and other stakeholders

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Date  
15 December 2015

Dear Sir/Madam,

Circa 20 billion euros is spent in the hospitality sector each year and the sector employs approximately half a million people. The sector is actually very diverse, and ranges from small cafés to large international hotel chains. The sector has recently experienced major economic problems and is characterised by a relatively higher number of bankruptcies than other sectors. The hospitality sector seems to have bounced back a little in recent quarters, although net yields continue to be low. The sector is subject to rapid change as far as personnel and financing are concerned. Entrepreneurs are now having to think twice about their business strategies and earning models for the future.

This public management letter (PML) entitled Hospitable entrepreneurship focuses on the middle segment of the hospitality sector, which features SME's with a turnover between 300,000 and 3,000,000 euros. We have done this by identifying five signals and recommendations. They are intended for businesses, sector organisations, accountants and other stakeholders:

1. Professionalism requires entrepreneurship
2. Fraud remains an area of attention
3. Financing is increasingly being combined
4. Accommodation can become a stumbling block
5. Hospitality sector also requires accountants to think differently

Success in the sector is, for a great part, determined by the entrepreneurial skills of hospitality businesses, and professionalism alone is no longer sufficient. It is essential to have a clear strategy, which has been incorporated into a clear business plan. Fraud remains an area of attention in the hospitality sector. Despite far-reaching automation, a lot of cash still changes hands in some segments, which can tempt people to break the rules. There have been major changes in the financing landscape. Instead of traditional financing via banks, more and more combined forms of financing are being encountered. Accommodation represents a major cost item. And this can be problematic if turnover and results fail to meet expectations. And the zoning policies of municipalities can also be somewhat questionable. This last signal is intended for our members: be familiar with specific laws and regulations in the sector. Pay attention to the business's viability and financing. Accountants can also adopt an advisory role when it comes to the tax amnesty arrangement of the Dutch Tax Authority.

This PML is based on the knowledge of our members who work in the sector. Various stakeholders, including Koninklijke Horeca Nederland (hospitality sector organisation), Rabobank and Sligro BV, have also informed us of their opinions and we would like to thank them for their contributions.

Yours faithfully,

Diana Clement AA RA  
Deputy chairman NBA

Carel Verdiesen AA  
Member NBA Identification board

Royal Netherlands  
Institute of Chartered  
Accountants

The logo for the Royal Netherlands Institute of Chartered Accountants (NBA). It features a thick orange horizontal bar above the letters "NBA" in a bold, orange, sans-serif font.

# Hospitable entrepreneurship



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# A dynamic sector

The hospitality sector plays a very important role in the Netherlands. According to the CBS, total expenditure in the sector amounted to circa 20 billion euros<sup>1</sup> in 2013 and the sector employs approximately half a million people. The hospitality sector features five segments: Fast service (ranging from snack bars and train station sales outlets, to sandwich shops), Beverage suppliers (cafés and bars, also referred to as the 'wet led' segment), Restaurants, Lodgings (hotels and guest house) and Party/Catering. The Lodgings segment occupies an important position because its earnings model differs from that in other segments. This segment focuses on renting out space, while the earnings model in other segments is primarily based on supplying food and beverages. The Lodgings segment is also subject to structurally higher investments in real estate than other segments.

The hospitality sector is very popular for first-time entrepreneurs. This has been demonstrated by the expanding range in recent years. Many people in the Netherlands come into direct or indirect contact with the sector during their lifetimes, either as guests or employees. Increasing media attention for the hospitality sector is also playing a role. There has been a major increase in students and the number of hospitality-related learning courses.

The sector features businesses which vary greatly in size, from small cafés to large international hotel chains. But the number of companies differs per segment. For instance, beverage suppliers are most strongly represented with over 17,000 establishments, although they tend to have the lowest turnover. They are followed by restaurants, which account for 11,000 businesses. In terms of turnover (and costs), suppliers of lodgings can be found at the top end of the market.

## Focus in this management letter

This management letter primarily focuses on SME's in the hospitality sector with turnover between 300,000 and 3,000,000 euros, irrespective of the segment. Accountants<sup>2</sup> dealing with this category are mainly required to issue compilation reports. This involves compiling annual accounts based on information supplied by entrepreneurs, without any assurance. In some cases, annual accounts are compiled by entrepreneurs and are then audited by the accountant. This focus has been adopted in light of the following considerations:

- Approximately 50 percent of the hospitality sector falls within this scope.
- Accountants are less likely to be used by businesses where turnover does not exceed 300,000 euros.
- Accountants are more likely to be used by legal entities because financial reporting tends to be more complicated. In the hospitality sector, this is normally encountered once turnover reaches and exceeds 1,000,000 euros.
- This section also features entrepreneurs with multiple outlets. Running several outlets creates greater distance between the entrepreneur and his business, which means he is more likely to need good information and advice from an accountant.
- Once turnover exceeds 3,000,000 euros, one encounters more professional organisations with different structures and problems.

Even though this management letter has adopted a particular focus, these signals could still be useful to hospitality businesses which fall outside the identified scope.

<sup>1</sup> CBS data hospitality sector 2013.

<sup>2</sup> Wherever 'he' is used in this publication, it can be taken to mean 'he/she'

## Economic difficulties

More bankruptcies tend to be encountered in the hospitality sector, partly because the sector is very popular and very easy to enter. Requirements imposed by the government are mainly behaviour related. Entrepreneurial skills are not required, even though they are essential to many new businesses. These days, you need more than just hospitality and product-related know-how. The era when professionalism alone was sufficient, is well and truly behind us.

Net yields in the hospitality sector are relatively low, although the sector appears to be finding its feet once again. For example, the fourth quarter of 2014 was the best quarter since 2010<sup>3</sup>. Profitability in the hospitality sector is mainly determined by three factors: turnover, procurement costs and personnel costs. Procurement costs and personnel costs account for between 60 and 70 percent of all costs. A net yield of under 10 percent of total turnover is normal in the sector. This means fixed accommodation costs can easily become a stumbling block. This can cause entrepreneurs to be less stringent in how they respect laws and regulations. Fraud thus remains an area of attention.

The Lodgings segment has been hardest hit in recent years. This led to falling guest numbers, while new hotels were still being built based on already approved plans. There has also been an increase in the number of bed & breakfast establishments. The final significant development involves the popularity of private rental via the internet, on sites like Airbnb.

## Changes at high tempo

Ownership of hospitality businesses tends to change hands relatively quickly. This is particularly the case for beverage suppliers and small restaurants. The barren period experienced by the hospitality sector has actually changed a few of the sector's characteristics. For instance, the overall shortage in the employment market is not so severe. However, it is still difficult for almost the whole sector to find good quality personnel. Suppliers of lodgings, like hotels, are an exception on this front. This can partly be attributed to the popularity of education courses in this particular segment.

The Work and Security Act is one development the hospitality sector needs to take into consideration, because this act is expected to have an impact on employee mobility. Personnel with long employment histories will probably change jobs more often; while personnel with shorter employment histories will probably be subject to reduced

mobility. The new law is also expected to encourage personnel training, so sanctions are avoided when employees depart.

The developments for 2015 and thereafter appear to be fairly positive. However, there are differences between the segments. For instance, these positive developments have not extended as far as beverage suppliers, while restaurants are expected to see a huge increase in turnover. One development the whole sector needs to bear in mind is the increasing popularity of special offer sites like Groupon. This will cause guests to become accustomed to discounts and lower prices, which will place greater pressure on margins.

Due to changes in the financing landscape, there also have been changes in how the value of businesses is determined. Whereas turnover was the benchmark in the past, the most important factor is now financial sustainability. The shelf-life of company structures and business concepts is becoming shorter. Businesses must continue to put reserves aside for future investments. The hospitality sector is now seen as a high risk sector by traditional financiers like banks. This means businesses are now more likely to seek alternative types of financing and combine several financing sources.

Entrepreneurs in the hospitality sector need to have access to effective management information. Accountants can play an important role on this front. Not only by compiling and presenting information, but also by interpreting it. Knowledge of the sector and applicable laws and regulations are very important in this case. Accountants can thus offer effective benchmarks.

# Signal 1 | Professionalism requires entrepreneurship

*The hospitality sector is very appealing to entrepreneurs. However, many new businesses miss the required competencies. This leads to disappointments, premature business closures and a negative image of the sector. A well thought out strategy, which has been incorporated into a business plan, can help to avoid many problems. This applies to new businesses as well as established ones.*

It is relatively easy to set up a business in the hospitality sector. In many cases, this can be done with limited starting capital and few qualifications. All too often, entrepreneurs start their businesses without a detailed plan and sufficient consideration. But banks want to see sound business plans, although very few new entrepreneurs know exactly what this entails. It is nice to have a distinctive concept or product, but it must result in actual turnover. Although advisers are more than willing to perform this task on behalf of entrepreneurs, this isn't the best solution because, before plans can be formulated, they must first identify their personal vision and assess the business's feasibility.

Entrepreneurs don't make a great impression when financiers ask specific questions about the plans, and they are forced to point to their adviser for the answers. Entrepreneurs must know exactly how many customers can be expected, and how turnover can be realised bearing in mind the costs. Do they realise what running a business entails? Getting on well with guests, or cooking the best dishes around, is only a small part of the formula for success; dealing with personnel, and forming and motivating a team, is another important factor. And how do you determine your prices, how should you advertise and when should you change your menu? Which costs are inevitable, how do you formulate effective planning and what do you need to measure and register?

However, entrepreneurs do not need to act alone when creating and maintaining effective strategies and incorporating them into business plans. They can, for example, rely on third parties like the Chamber of Commerce, accountants or business advisers. This means plans will take into account potential set-backs or initial losses, and adjust financing accordingly. Plans will also show whether entrepreneurs are prepared to settle for the lowest possible personal remuneration. People wrongly assume that companies become more viable if they reduce personal remuneration and make sacrifices in their personal lives. People also sometimes underestimate how long it takes to establish a good reputation or fail to understand the impact of seasonal and weather-related factors. A good plan always takes set-backs into account.

It is also important for established businesses to formulate, and annually update, business plans. This should involve structurally examining the future of their business and their intended strategies. Part of this involves addressing the business concept, which can take time and money to modify. It is thus important to regularly assess the concept to see if it is still relevant.

All entrepreneurs in the hospitality sector will benefit by compiling a budget each year, whereby fixed costs are identified. It would be wise to formulate criteria to determine whether the year has been successful or unsuccessful. A business plan is not a one-off undertaking which can be partly drawn up at the very outset, and then quietly tucked away in a drawer somewhere. Entrepreneurs must keep the plan up-to-date in order to adapt to changing circumstances. Deviations from the original plan can serve as good lessons for the future.



## Negative example

### Not prepared for the future

Restaurant owner A has a restaurant in a reasonable location, which is well known and has been open for many years. A feels he is doing well: satisfied customers and a dedicated team. His bank balance is his biggest criteria for success. He then encounters a few rough years, his bank balance decreases and the number of outstanding invoices increases. Nonetheless, A feels he should still stick to his tried and tested formula. A has never paid close attention to the figures, otherwise he would have noticed the downward spiral a lot sooner. Due to outstanding debts with suppliers and the bank, A is eventually forced to sell his business to a competitor for significantly less than the market price.

## Positive example

### Intended successor given enough time

At restaurant X, which is doing well, assistant manager B is seen as the natural successor to the two elderly owners. The owners are impressed by B, and he is proud to be considered as the future owner. However, this arrangement is kept secret. The owners opt for a two-year process, where they will, step by step, involve B in all aspects of the business. The figures are gradually released and a general insight is provided into the acquisition price and the related approach. B was told to save funds, seek help from an advisor and look around for potential financiers. B was warned about the many pitfalls and made a good start after taking over.

## RECOMMENDATION 1: Also invest in entrepreneurship

### Entrepreneurs

- Effectively prepare for opening and subsequent business phases. A lot of information is available about what running a business entails, so take time to do the groundwork. Dare to postpone the opening if there are still major uncertainties.
- Continue to develop and do not rest on your laurels. Use good business information, provide extra training and guide employees. Administration duties can be outsourced, but know what is going on, establish clear objectives, perform evaluations and change course in good time. Compile an annual budget and update the business plan.
- Know the limits of your personal knowledge. Test your entrepreneurial skills and use a coach with practical experience for sparring purposes.

### Accountants

- Use sector-related knowledge to support entrepreneurs and establish a good benchmark. Help entrepreneurs to develop personally and acquire relevant skills. Minimise their reliance on advisers. Mainly act as coach and teacher, and not as expert in your ivory tower.

# Signal 2 | Fraud remains an area of attention

*Fraud continues to be an area of attention in the hospitality sector. Despite far-reaching automation, and measures implemented by suppliers, a lot of cash still changes hands in some segments, which makes fraud possible for people with bad intentions. Increasing operating costs and decreasing profits could also tempt people to be a bit more 'relaxed' when it comes to payment-related formalities.*

Fraud is quite a broad term. This chapter focuses on money laundering and black money. The former involves artificially increasing turnover so unregistered income can be legalised. The latter involves limiting displayed turnover, and then using concealed funds to make unregistered purchases, pay personnel costs or increase private expenditure.

People who possess money earned via criminal means can do very little with it. That is why they prefer to legalise it. Various segments in the hospitality sector can offer opportunities on this front because quite a lot of cash still changes hands, e.g. in smaller hospitality establishments and seaside hospitality businesses. Criminals attempt to increase turnover without drawing attention, or serve as financiers, preferably from abroad. The government is aware of the risks and has introduced the Public Administration (Probity in Decision-making) Act. This Act makes it possible for e.g. municipalities to identify the source of invested capital.

The most tempting form of fraud involves skimming cash turnover. However, possibilities to do so are now decreasing because of far-reaching automation and more payments via a bank/credit card. In addition, more and more suppliers are now refusing to accept cash payments. If turnover is skimmed, this means less tax is paid in the form of turnover tax, salary tax, corporation tax and income tax. This unfairly increases the profits of involved entrepreneurs. Fraud is not only socially unacceptable, but is also very stressful and labour-intensive. Entrepreneurs have to go to great

lengths in order to conceal turnover; people in the company could blow the whistle and turnover figures will not be a true reflection of the business. There is also a risk of major penalties, which could cancel out any earlier tax benefits. Finally, people who behave fraudulently will get their comeuppance when they try to sell their businesses, because skimmed turnover cannot be reflected in the selling price. It is thus wiser for entrepreneurs to use this time and energy to successfully manage their businesses.

Accountants occupy a very trusted position in society, also when SME's are involved. All accountants must thus challenge entrepreneurs if they encounter signs of fraud, or if a casual approach is adopted towards black money. There is only one solution if fraud is encountered: complete openness between entrepreneur and accountant. The rules are very clear if the entrepreneur fails to act: accountants must terminate their relationship and report the matter under the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). But what if the entrepreneur wants to reform? This leads to certain dilemmas: what should you do if the client says it was a one-off occurrence and agrees to reform? How deep and how far back should you dig? Should everything be corrected, possibly leading to bankruptcy, or is it only about the future? Can you improve the client's awareness and accept that it sometimes takes time before everything complies with the rules? Such considerations create conflict between the accountant's professional standards and his wish to help clients improve their practices. How should accountants respond in such cases? Many accountants stay clear of smaller hospitality businesses because they are more likely to encounter fraud. Although fraud-related laws and regulations is crystal clear, it would help accountants if the grey zone could be used to help entrepreneurs to see the error of their ways.

## Negative example

### Fraud leads to business closures

Café C was subject to an audit by the Dutch Tax Authority. So many irregularities were encountered that the FIOD was involved. The FIOD took the owner of C into custody, which meant spending eight days in prison. The problems were eventually resolved with the help of a new adviser. However, the owner was so traumatised that he started to increasingly neglect his café and was forced to sell it.

## Positive example

### Repairs for the future

An audit showed that the owner of bar D had failed to correctly disclose his turnover. Mistakes from the past were corrected and all kinds of measures were taken to simplify book-keeping. For instance, a new checkout system was introduced, featuring electronic payments only, and turnover was immediately processed into the books. This also gave the owner a better insight into the figures. A year and a half later, he was approached by one of his competitors and decided to sell his bar, for an amount he would never had received if he had failed to properly register his turnover.

## RECOMMENDATION 2: Remain honest, critical and alert

### Entrepreneurs

- Never pay employees cash-in-hand, even if they are working temporarily. Fraud is socially unacceptable; exposes business-owners to blackmail; there is a major risk of being caught and penalties are severe. Try implementing an effective personnel policy and maximise the use of arrangements and subsidies which help to reduce costs. Invest in people: do not see them as cost items, but as generators of turnover.
- Implement a fraud-proof registration system. For instance, consider tap and checkout systems, immediately register orders in the computer and introduce camera surveillance.
- If irregularities have been encountered in the past: clear the decks, reach settlement with the tax authority and focus on running the business in a healthy manner.
- Critically evaluate private suppliers of financial capital. In case of doubt, say 'no' and look for alternative sources of financing.

### Accountants

- Always be alert to signs of fraud. For instance, negative checkout balances, different gross margins, understaffing or inexplicable private expenditure. Also visit the business to make observations.
- Try to teach entrepreneurs by highlighting the disadvantages of fraud. If fraud is encountered, let entrepreneurs take the initiative but always be prepared to assist. Naturally, this should be done within laws and regulations.
- As the NBA, play a leading role in the debate about fraud. For example, by organising a seminar about fraud or by issuing a practical guide on the matter.

### Dutch Tax Authority

- Implement the tax amnesty arrangement so major corrections do not automatically cause businesses to go bankrupt. Establish a national helpdesk and provide more information about the arrangement. Consult the sector and the NBA when doing so.

# Signal 3 |

## Financing is increasingly being combined

*Financing via banks and suppliers is becoming increasingly difficult for new and existing SME's. This is particularly the case in the small and medium-sized segment. The economic crisis has placed profits under pressure and it has become difficult for businesses to honour their payment obligations. Entrepreneurs have been forced to find alternative financing from several financiers at the same time.*

Financing in the hospitality sector has traditionally taken place via banks, suppliers (e.g. breweries) and own resources. However, this has changed drastically in recent years because the sector is subject to decreasing turnover, rising costs and disappointing results. This has made it increasingly difficult to comply with financing-related obligations. There are more bankruptcies and struggling SME's in this sector than other sectors. This means banks have generally become more reticent when financing businesses in the hospitality sector. Surcharges are often charged for extra risk and stricter requirements are being implemented in terms of solvency. Financing is still possible, but entrepreneurs need to possess the required competencies, a good business plan and sufficient own resources. First-time businesses, with few own resources and limited experience, are finding it particularly difficult to obtain small-scale financing. This trend can now also be witnessed among hospitality suppliers: they are becoming increasingly reluctant and are implementing stricter financing conditions.

Existing companies are also noticing the impact of falling margins. All kinds of clauses are being implemented, contracts are being modified and extra costs are being charged. More so than other SME sectors, entrepreneurs in the hospitality sector are more likely to come into contact with the Special Management department at their banks. Very few entrepreneurs believe that such departments are aimed at keeping their businesses alive, or at identifying new opportunities. According to them, banks are mainly interested

in cutting their losses. This perception among entrepreneurs is somewhat surprising because recent research by the AFM shows that banks are generally taking appropriate measures, although they could be communicated a lot better<sup>4</sup>.

Entrepreneurs (mainly first-timers) in the hospitality sector often seek alternative sources to meet their financing needs. For example, crowd funding, where entrepreneurs can acquire the required finances via a particular network. Depending on the conditions, this financing could involve own capital or borrowed capital. Other increasingly popular types of financing include private initiatives like Qredits, credit unions or private investors (former hospitality entrepreneurs). Some suppliers are even prepared to help businesses to get the required funding by helping them to write their business plans. Finally, entrepreneurs can call upon the seller, family or acquaintances for assistance. The downside of this is that it makes financing arrangements more complicated. All financiers will probably have their own specific conditions.

In order to spread risks, and still realise identified plans, more and more combined forms of financing are being encountered. In this case, several parties become responsible for financing.

For example, subordinated capital is provided by family, the seller finances (part of) the purchase price and suppliers offer longer (or staggered) payment periods. This means bank-based financing is still an option for any remaining credit needs. However, the whole financing process must be managed effectively. Entrepreneurs must keep a close eye on the impact of various types of financing on results, liquidity and financial ratios. They must also make sure the various financing conditions are effectively coordinated.

<sup>4</sup> The AFM report entitled 'Calculated research into the methods of Special Management departments at banks for SME credit', dated 26 March 2015

## Negative example

### Insufficient coordination with the bank

Hospitality business E sees opportunities for better exploiting its concept at another location. In recent years, turnover has been decreasing at the current location, while costs continue to increase. E shares its plans with the bank. After performing a thorough analysis, the bank is not so enthusiastic considering falling profits over the past few years. E decides to proceed anyway and is able to use crowd funding to attract money needed for the relocation and new interior. But the bank is not informed about this approach. Contrary to expectations, turnover at the new location is rather disappointing. Due to an increase in debt and higher financial risks, the bank is unwilling to offer additional credit. Business E eventually ends up under special management.

## Positive example

### Financing via micro credit

Couple F has no experience in the hospitality sector, but does have a good business plan and a healthy dose of enthusiasm. The plans are rejected by the banks because: no experience, first-time business and no own resources. However, the plan features a unique concept: deploying people who are experiencing difficulties in the labour market. This could lead to subsidies and generate sympathy among the general public. After discussing with several alternative financiers, where plans became more detailed each time, it was possible to arrange financing via micro credit.

## RECOMMENDATION 3: Carefully monitor financing

### Entrepreneurs

- Future prospects must be realistic. Not only so financiers can be given reliable information, but also so self-inspection can take place. Bear in mind that banks generally implement three conditions as far as financing is concerned: sufficient confidence in the entrepreneur, an effective business plan and enough own resources.
- Make sure interim reports are always up-to-date. Nothing is more frustrating to financiers than interim reports which are late and/or incomplete.
- Gain sufficient knowledge about the various types of financing. Obtain advice from a financing specialist in advance. Experience and sector-related knowledge will be essential if plans are to be translated into specific figures.

### Accountants

- Proactively help entrepreneurs to obtain financing. Do not only evaluate plans based in financial viability, but also be familiar with possibilities offered by the various types of financing, and establish contacts with other parties in the market.

# Signal 4 | Accommodation can become a stumbling block

*Many entrepreneurs in the hospitality sector do not own the premises where their businesses are located. These premises are often rented, at a fixed price and for a long period. Besides long-term certainty, there are also disadvantages: price cannot be reduced if difficulties are encountered. This can also be disadvantageous to the lessor: if the entrepreneur fails to pay the rent, the premises will become vacant and decrease in value*

It is standard practice to establish rental agreements which last for a few years. This can involve renting empty premises, although furnishings and inventory are sometimes also rented. Accommodation costs tend to be fixed because the rental price does not change, and both parties know where they stand. If a suitable rental price is agreed, this can help to create a stable, long-term relationship between tenant and lessor. This rental price tends to be between 8 and 12 percent of turnover in the hospitality sector.

The turnover of many hospitality businesses is determined by passing trade. Thus location and immediate surroundings have a major impact on this front. Municipalities often fail to realise that effective shopping areas can only be realised if hospitality establishments are evenly spread within vibrant core areas.

It is important for municipalities to have a long-term vision towards urban development, as well as carefully defined zoning plans. This can then be taken into consideration when entrepreneurs in the hospitality sector identify their strategies. However, this long-term vision is sometimes absent, certainly among smaller municipalities. Ad-hoc decisions are then made to issue hospitality licences simply to avoid further vacancy in the area, but little consideration is given to the surroundings and the size of the catchment area. This can reduce the passing trade of existing hospitality establishments. Turnover then decreases, whereby

accommodation-related costs become a major burden. This can lead to financial problems in new and existing businesses, and eventually result in closure. Such developments are not only problematic for entrepreneurs, but also for lessors because, besides lost rental income, the value of their property also decreases.

However, flexible price arrangements can be made if rental price is linked to turnover. This means rental costs will fall should there be a decrease in turnover. Naturally, the lessor will receive less rental income, but this will be accompanied by lower risk of capital destruction and vacancy. In addition, any lost income could still be recuperated in the future should turnover increase again. Other versions of this approach are also possible. For instance, arrangements could be made about the range of the rental price, which means it cannot be lower or higher than a particular sum.

If turnover is registered correctly, then a certain degree of objectivity can be achieved when determining a variable rental price. Parties can agree to use the turnover mentioned on the tax return (for corporation tax) submitted to the Dutch Tax Authority. Rental agreements based on net results are less favourable, because the outcome could be influenced by many factors which cannot be influenced or verified by the lessor.

## Negative example

### High rent, low turnover

Restaurant owner G runs a private restaurant in premises near the port. His cooking skills are held in very high regard. A fixed price is adopted as far as rent is concerned, and is relatively high. A similar restaurant then opens nearby, although it had not been foreseen in municipal planning. There is promise of high turnover during the summer months because a lot of activities are scheduled in the port area. However, such activities do not take place when the weather deteriorates. Turnover is disappointing and it is difficult to pay the rent. The lessor insists on terminating the rental contract. And G agrees to this request because he sees no other possibilities.

## Positive example

### Flexible rent helps business to overcome a barren period

Hospitality entrepreneur H is no longer able to pay the fixed monthly rental price and opens discussions with lessor V. The latter is actually satisfied with H and does not want him to leave. In addition, V thinks it will be difficult for him to rent the premises to someone else. The parties agree that outstanding rental payments will be partly settled, and that future rent will be determined based on turnover. Turnover on the tax return submitted to the Dutch Tax Authority will be used as a benchmark. V will be entitled to perform any necessary checks. After a year and a half, H's turnover returns to its former level and is expected to continue this positive evolution. This extra income can now be used to easily pay the increase in rental price.

## RECOMMENDATION 4: Try to make accommodation flexible

### Entrepreneurs

- Try to make arrangements with the lessor about adopting a flexible rental price based on turnover. This could be very useful if the business starts to experience difficulties. It would be wise to implement an upper and lower limit as far as rental price is concerned. Also consider possibilities for temporarily postponing rental payments or arranging payment in instalments.
- Set aside enough buffers if a flexible rental price cannot be agreed, particularly if very high rent is being paid.
- Always have new rental contracts examined by a legal advisor. Pay particular attention to clauses concerning temporary failure to meet payment obligations.

### Accountants

- Periodically examine the entrepreneur's rental contract and request specialised legal expertise if necessary. Do not think rental contracts are set in stone, and advise entrepreneurs to explore possibilities for implementing flexible rent should difficulties be encountered.

### Municipalities

- As municipality, make sure there is a long-term vision, with accompanying zoning plans, as far as the hospitality sector is concerned. Avoid short-term thinking when attempting to combat vacancy. Try to create the very best surroundings for hospitality establishments; surroundings which are compatible with the vision of the municipality.

### Sector organisations

- Offer members standard rental contracts, which feature an option for flexible rent. This could be completely flexible or be restricted between a particular minimum and maximum amount.

# Signal 5 |

## Hospitality sector also requires accountants to think differently

*When accountants talk about the customer base of their hospitality clients, do they mean customers or guests? This simple question shows whether they speak the language of entrepreneurs, because the hospitality sector only features guests. In addition, accountants must be familiar with the sector if they are to be of service to their clients.*

All audit firms in the SME segment are capable of record-keeping, compiling annual accounts and submitting tax returns. This is not where accountants distinguish themselves from their competitors. They can do this by gaining specific sector-related knowledge, which goes beyond standard knowledge about laws and regulations. This kind of specialisation allows them to be more specific when attracting clients. Entrepreneurs primarily need a sparring partner that speaks their language and knows what is of importance to them. And also someone who is able to guarantee quality.

Within hospitality businesses, the main cost items are procurement costs, personnel costs and accommodation costs. Whilst accommodation costs tend to be fixed, entrepreneurs can have greater impact on product purchases and personnel timetables. However, certain choices need to be made. What is an appropriate split between permanent and temporary personnel? When should part-timers start and finish work? How many products must be purchased in advance? What are the normal figures? Suitable decisions can only be made if effective information is available. And this information can be supplied if accompanying record-keeping is up-to-date. But entrepreneurs rarely have the time or knowledge needed on this front. Accountants can play a role by sharing information about figures, cost price analyses or similar sector-specific information. They can also take a critical look at the business plan or offer advice about work times, salary scales and remuneration conditions.

The sector is actually subject to specific legislation, CEA's and municipal licences. In order to effectively understand,

support and possibly audit entrepreneurs, accountants must do what is necessary to acquire this specific knowledge. Greater sector-related knowledge and specialisation can help to create a more uniform client portfolio. Accountants can thus increase their knowledge and be more effective in their activities. Specialisation helps to create a database of information, which can be used to the benefit of new and existing clients. One of the possibilities involves offering advice about supplier discounts. Such advice can prepare entrepreneurs for starting negotiations with suppliers. Certain improvements can still be made in this area as far as the hospitality sector is concerned. It may also benefit hospitality businesses if accountants collaborate with a specialised hospitality adviser, e.g. when formulating business plans. The success of hospitality businesses can be improved if all such knowledge is bundled.

Other areas accountants must focus on include the financial sustainability and viability of the business. Accountants must dare to speak openly if entrepreneurs are, for example, working for less than the minimum wage or social welfare benefits. Remuneration of 35,000 euros per person is the norm, though specific personal obligations must also be taken into consideration. In terms of financing, entrepreneurs mainly need information about how to combine financing.

Finally, fraud is also an area of attention for accountants. It would be wise for them to assess fraud-related risks for each specific hospitality business, and to then discuss these risks with the entrepreneur in question. Accountants can help hospitality businesses to prevent fraud and, if necessary, take measures to correct fraud-related consequences. For instance, by offering advice about the tax amnesty arrangement. Accountants must dare to accept this role, even though the dilemmas referred to in chapter 2 could be encountered.



## Negative example

### Day-to-day affairs

Hospitality entrepreneur L is visiting accountant Y, who primarily focuses on compiling the annual account and only speaks to L once a year. L has been involved in the day-to-day affairs of his business for many years, offers a lot of support on the work floor and is very busy each day. The opportunity to play a role in daily successes has actually become a threat, because the owner no longer sees the wood for the trees. L is not working on his business, but in his business. He is not managing based on figures, nor is he being coached on this front by Y. This means a lot of work is carried out each year for a rather modest income, without building anything of substance.

## Positive example

### Opt for a sector specialist

For many years, owner J has worked with an adviser who does not actually specialise in the hospitality sector. Business is going well, but J feels he is not being offered the best support. When looking for a new adviser, he hears several parties mention the name of audit firm Z. This firm is renowned as a specialist in the sector. Banks and intermediaries respond positively when J mentions the firm's name. Because it is known as a sector specialist, Z has managed to grow in recent years while others have struggled. Owner J feels Z is the perfect partner for offering advice about further expanding his business.

## RECOMMENDATION 5: Speak the entrepreneur's language

- Ask sector-specific questions during the intake interview. Why is the entrepreneur changing his accountant? Gain an effective insight into the business of the potential client. For example, pop into the business for a bite to eat.
- Help the entrepreneur to perform efficient record-keeping. Is his checkout system appropriate or can it be more efficient? Make sure the invoicing schedule is sector-specific. Provide interim figures, per quarter, per month or even per week. Create sector-specific reports; do not use standard templates in the report generator.
- Discuss critical figures with the entrepreneur. Does he know how much of his daily turnover goes towards costs? Does he know the average spend of his guests or tables, and how this can be improved? Also offer advice about, for example, accommodation, marketing and new developments in the sector. Use external experts if necessary.
- Allow the entrepreneur to negotiate with suppliers about discounts. Does the entrepreneur receive enough discounts with bulk purchases? Use all available information and follow all relevant media to remain up-to-date with the latest developments. Share this information with the entrepreneur via benchmarking for example.



# Summary of stakeholders' responses

## **Koninklijke Horeca Nederland**

Koninklijke Horeca Nederland (KHN) agrees with the NBA when it says accountants must speak the language of hospitality businesses. However, it feels the signal that fraud remains an area of attention for the management letter's target group, is unnecessary and has been negatively formulated. It is more important to possess faster and more effective financial reports, as well as (approved) checkout systems and cash-free methods of payment. This offers an insight, leads to prevention and provides the required signals. Accountants must also offer encouragement and support on this front. They must quickly share relevant signals in order to help entrepreneurs. Fast and effective financial reports, which are linked to budgets, can help to realise effective financial management, also where business financing is concerned. Accountants can offer the infrastructure needed to achieve this. The management letter has rightly paid attention to accommodation costs. However, the idea of making rent flexible is too general. It can be useful under certain circumstances, but is not needed as a general rule and could cause hospitality entrepreneurs will become too reliant on other parties. That is why the KHN does not support the general recommendation concerning flexible rental prices.

## **Rabobank**

Rabobank supports the recommendations and agrees with most of the management letter. The hospitality sector is currently subject to unprecedented change. Consumer spending is increasing and the business sector is evolving positively. Furthermore, the range in all sectors is expanding, some of the demand is shifting to new suppliers and new concepts like Airbnb are becoming increasingly popular. This is creating greater competition and putting margins under pressure. Consumers are looking for products which offer a special experience, positive emotions and a competitive price. Location and business concept are becoming increasingly important. Price is becoming a major factor, which means effective business models must be developed. This is demanding more from entrepreneurs, including the capacity to continue innovating. Rabobank partly agrees with the described investment climate. Financing will always be available for good business plans. However, due to changes in the sector, banks are adopting a more critical view to the potential of plans, the competencies of entrepreneurs and access to resources, because resilience is essential in order to deal with set-backs and exploit new opportunities. This could involve own resources, as well as resources available via family, investors or crowd funding.

## **Sligro BV**

Sligro feels the signals in the management letter clearly identify potential issues and improvements within the sector. These themes are very familiar to Sligro. Entrepreneurs in today's hospitality sector need to be multi-talented in order to survive in this tumultuous environment. Besides professionalism, they also need to invest in entrepreneurship. The life cycle of business concepts is becoming ever shorter, greater investment is needed more often, and the roles of financiers, suppliers and the government are continuously changing. Specialisation, added value and distinctiveness are very important principles for entrepreneurs as well as accountants in the sector, suppliers and financiers. That is why Sligro uses specific initiatives to adopt a more segment-based approach to the sector. Improved cooperation and knowledge exchange between entrepreneurs, banks, suppliers, accountants, the Tax Authority, lessors, municipalities and Koninklijke Horeca Nederland should make it possible to address the signals identified in this management letter.

# Colofon

## Sharing Knowledge

In the NBA Sharing Knowledge policy programme the expertise of accountants is collectively applied to signal risks early in social sectors or relevant themes. In doing so the emphasis is on governance, operations, reporting and audit.

In this public management letter (PML) the NBA is presenting five recommendations for the hospitality sector. This sector is the fifteenth topic to be selected by the Identification Board of the NBA. A working group of public accountants and advisers in the sector gathered and discussed anonymised findings. This was then discussed at a sector meeting with stakeholders. The Identification Board then gauged the signals from a social perspective and applied a social assessment to the signals. Stakeholders in the sector were willing to respond in writing to the PML. Coordination and final editing was provided by the Sharing Knowledge programme team.

## Further information

A public management letter is one of the publications issued by the Sharing Knowledge policy programme. Open letters and discussion reports are also released. The NBA has released the following publications:

- 2015: Curative healthcare
- 2014: Life Sciences and Banks
- 2013: VET colleges, Risk management and Transport & Logistics
- 2012: Municipalities, Tone at the Top and Charities
- 2011: Commercial Property, Pensions and Greenhouse Horticulture
- 2010: Insurance and Long-term Care

All publications are public and are intended for a wide audience.

## Identification Board

prof. dr. mr. Frans van der Wel RA (chairman)  
Johan van Hall RA RE  
Mr. Charlotte Insinger MBA  
Leon van den Nieuwenhuijzen RA  
Carel Verdiesen AA

## Expert group Hospitality sector

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Hans Kersten AA (Mazars)  
Frank Kolijn AA (Zwaartekracht Accountancy)  
Peter Luken RA (Confias, Finance & Control)  
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