



Pie in the Sky Sophisticated Cloud-Based F&B Control for Smaller Clubs?

Featured in the January/February 2012 issue of The Boardroom Magazine.

Using technology to help control club front and back-office functions is not a new thing. It would probably be difficult to find a club that has not adopted a computerized point of sale system and a variety of other accounting and management systems. But for the most part, only the largest clubs, averaging \$3-4 million in food and beverage revenue, have ventured beyond spreadsheets to control their F&B functions. While some smaller clubs have purchased inexpensive recipe costing or inventory systems, the F&B systems these top clubs utilize are just as sophisticated as their club management systems, and typically just as expensive – which has previously placed them beyond the reach of lower volume clubs.

Easily distinguished from software purchased over the internet to handle simplified aspects of the F&B operation, systems capable of the complex F&B environments typical of most clubs are professionally implemented and are capable of integrating with food distributors, catering, POS and club systems. They allow multiple users, handle multiple profit centers, user security and the advanced bidding and procurement needs of most clubs. They also typically employ hand-held scanning technologies and web-based access.

While the costs to procure this type of system is substantial, the benefits from such a system can be just as substantial, and in many cases more so than the club management systems already in place. For most clubs, implementing a strong F&B management system can save as much as 3-5% of total annual F&B revenue – or \$30-50,000 per million in annual sales. But sophisticated F&B systems can easily cost \$35,000 or more to implement, almost all of which must be paid up front. Even when economic conditions were fine, many smaller clubs could not get authorization to spend this kind of money for something they did not obviously need. And over the last few years with club industry economic conditions in the tank – available funds for anything but necessities have dried up.

Back to the Future

That's where the cloud comes in. The term "cloud" has many definitions, but basically refers to large data processing centers accessed through the internet, as opposed to systems owned by and housed at the club. One could say these datacenters and software loaded on them reside in the cloud. Like timesharing of the past, software companies contract with cloud-based datacenters to host their software, and provide access to their clients (ex: clubs) through a rental program.

The club actually rents the right to use the software, as opposed to buying licenses to run the software on their own equipment. This frees up the club to focus on using the application without the need to worry about computers or networks – or managing them. All that is typically required on the club's end is high-speed internet access. All issues associated with software updates, maintenance, backups, servers, etc., become the responsibility of the software provider. The club typically pays a periodic (monthly, quarterly, etc.) fee for the use of the software.

From the 1960's until the release of the IBM PC in the early 1980's, the only way anyone could afford to use a computer was to rent time on a mainframe – hence the term "timesharing". The cost of computers in those days started at \$100,000 and went quickly up into the millions. But the widespread proliferation of high-speed internet access and web-based software in general, has caused a

return to that concept. And once again, using the cloud can actually be more economical than purchasing computers and software for in-house use, not to mention the labor to manage them.

Cloud Economics

Various pricing approaches are used by software developers who provide cloud-based systems, but they all must cover the same costs. First, they have to pay the datacenter provider for the use of their computers. The datacenter charges include power, bandwidth, uptime and backup services. In addition, software developers must charge fees for maintaining and supporting their software, and typically they charge a fee for licensing and upgrading their software. All these costs would be borne by the club if it brought the software in-house. With the in-house approach, clubs have equipment costs, bandwidth costs, software license fees and maintenance fees, as well as overhead costs for power, A/C, and IT-related labor.

Cloud-based approaches are cheaper because of lower maintenance costs and economies of scale. While the software developer must pick up costs associated with the hardware they wouldn't have if they simply licensed software for in-house use, they save money on maintenance because they don't have to deal with their user's hardware and network environments. In many cases, as much as 50% of the time spent supporting sophisticated systems is hardware, network and system software related – all of which is eliminated using a datacenter where they can control the environment.

Developers pass along the datacenter fees to their users, and count on lower costs per user as they add more users to their hosted system. As they add more users, they make more money on that side, since they generally can add significant numbers of users before they need to expand the amount of hardware required. This margin would have been unavailable if the systems were licensed for in-house use.

Costs to end users are lower because the datacenter portion of the fee charged by the developer is usually less than the cost of in-house systems and their management. Computers must be replaced every 3-5 years, electric bills keep increasing and labor for IT management doesn't come cheap either. Developers can spread out the fees of software licensing over years, as opposed to collecting it all up front. Most developers spread the cost over three years, meaning the user pays only 1/36th per month of what they would otherwise have paid in full the first month. And since licensing fees can be the most expensive part of these systems, the lower licensing fees combined with no IT-related costs make the use of cloud computing affordable to operations with much less available cash. The lower fees also mean much shorter payback periods. In the case of sophisticated F&B systems, the payback can be as short as a month or two as opposed to a year or more, which in these economic times is like found money.

So How Much is the Pie in the Sky?

The F&B systems used by the larger clubs typically start at \$25,000 for software and \$10,000 for implementation, and go up with club size. The starting range would be typical for clubs with annual F&B sales under \$2 million. With a hosted approach, the implementation fees would be similar, but the licensing and maintenance fees for F&B systems of this size depending on contract length could be as low as \$500 per month. Given the typical payback for these systems at 3-5% of annual F&B revenue, the \$1 million club would save approximately \$2500 - \$4000 per month. Even at 1% savings the \$1 million club would easily cover the cost of the system. Even the implementation fee would be covered the first year in most cases. The other obvious benefit is no need for capital budgeting. These costs typically come out of the operating budget and are expensed as incurred. So thanks to the cloud, even smaller clubs can take advantage of the pie in the sky.

About the author: Bill Schwartz is the founder and CEO of System Concepts, Inc. (SCI), and has been a food and beverage management consultant since 1980. Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK Food and Beverage Management System. Contact Bill at bills@foodtrak.com.