



Reducing F&B Subsidies Through Procurement and Culinary Control

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Each year, private clubs pay 3-5% more than they should for every food item they purchase and lose approximately 5% of their total food and beverage (F&B) revenue to kitchen-related overuse of that food. For the average club doing \$1.5 million in annual F&B revenues, that loss easily exceeds \$90,000 per year! For many clubs, recovering this loss could significantly reduce or even eliminate subsidies!

Given today's difficult economic environment, coupled with the drought-related increase in food prices, club boards would do well to focus on trimming the fat in the F&B operation (excuse the pun). In my previous Boardroom article, I discussed ways to reduce subsidies by improving catering margins, and the need for accurate recipe costing, correct ordering and event pricing to accomplish this. This article looks at functions on either side of the catering department – the front side of getting purchase prices down to lowest possible levels and then using the most current pricing for recipe costing, and the back side – monitoring the way food gets used by the kitchen once it has been purchased to insure it is not overused. I refer to these areas as procurement and culinary control.

Perfecting Procurement

All F&B costs start with procurement. Club F&B costs are equal to club F&B purchases, assuming inventory levels are consistent. Using competitive bidding, issuing purchase orders and reconciling invoices to purchase orders lays the foundation for improved procurement control. It is also the basis for accurate recipe costing and menu and event pricing based on current costs and budget objectives.

The manual approaches with multiple spreadsheets and non-integrated specialized systems (vendor ordering portals, recipe costing software, etc.) found in most clubs are onerous enough on their own. Asking club personnel to competitively bid item purchases among multiple vendors, create purchase orders, use invoice pricing to update ingredient costs and frequently recalculate recipe costs would be nearly impossible without hiring additional help. As a result, clubs do limited bidding, rarely use purchase orders and only occasionally update recipe costs. And even though they collect invoices for accounting, little or none of the information from the invoices is used for culinary controls such as calculation of ideal food cost, outlet profitability, transfer costs or menu engineering – all of which could help reduce subsidies.

Full-featured F&B management systems reduce the labor currently required for the ordering process, facilitate automated competitive bidding, reconcile invoices and then utilize the data to produce an array of actionable reports. These systems vastly improve control capability while simultaneously reducing existing labor costs. The restaurant industry abandoned the spreadsheets, order guides and manual approaches common to clubs years ago. The reason F&B systems can do all this with less labor than currently used is based on the way they store and use data.

Like all other systems, automated F&B systems rely on a database. In addition to many other types of data, the F&B database contains all the raw materials purchased by the club, as well as the recipes in which these ingredients are found. Other data types include vendor lists, ingredient yields and menus. In the previous discussion dealing with catering, the recipes sold by the catering department needed to have accurate, current costs in order to calculate correct pricing. Automated systems get these costs from F&B invoices, meaning they are updated each time an invoice is received. These updated costs are also used for inventory

extension, menu costing and margin analysis, further illustrating the connection between the procurement and culinary aspects of these systems.

Culinary Automation

Have you ever attended a board meeting where the question “Why is our food cost so high?” has been asked? The answers usually involve a list of non-specific reasons such as price increases, volume decreases, weather problems, etc. This inability to define the problems is directly related to the inability to solve them or keep them from happening. Inadequate tools are to blame. The primary tool clubs use for controlling F&B costs is the Profit and Loss Statement. They typically set budgets for F&B costs as a percentage of sales, and ask F&B managers to meet or exceed the budget.

	P&L Food Cost	Budget Food Cost	Variance	Best Possible Food Cost	Variance
Club A	45%	45%	0%	40%	5%
Club B	50%	45%	5%	48%	2%

Consider the information above. At first glance, it would appear Club A is running very well, since their food cost came in right on budget. Club B on the other hand was over budget by 5%. But if we ignore the budget and focus on the best food cost they could have run, which is determined by what the club needed to use to meet the demands of all the diners in all the venues, we see a different story. Club B actually made fewer mistakes than Club A, and therefore is better managed. While we might not be pleased with the outcome of a higher food cost percentage, we can't blame the staff for causing it. On the other hand, Club A, could have run a food cost 5% lower than the budget, and lost a lot of food instead.

This loss comes from waste, over-portioning, spoilage and even theft. Using information from POS systems combined with recipe, purchases and inventory data in the F&B management system, it is possible to identify specific problems as they happen. It is also possible to monitor waste, yield loss from fabrication and over-production as well as specific variances in key items such as beef or fish. In the end, these systems provide the answer to the questions plaguing the board when it comes to food cost, and in many cases point to solutions.

Changing the Board's Mindset

So why have clubs been slow to adopt more modern methods for controlling food and beverage costs? F&B management systems can be fairly expensive, and require experts to build the databases and train the staff. Using the cloud has reduced the initial costs, but many board members feel comfortable with the status quo and would rather spend money on the golf course than the F&B operation.

Richard Creally, General Manager for the Summit Country Club in Toronto believes the automated approach has saved the club both money and time. Creally, whose club does slightly less than \$1 million in annual F&B revenue, estimates savings from moving to the automated system are more than 3% of annual F&B revenues, not including labor savings. “It's difficult to put an exact value on the savings,” says Creally. “But our ability to take fast, accurate inventories at will, tightly control procurement, have automatically updated current recipe costs, catch invoice errors as goods are received, integrate with vendors and club systems and to know where we stand every day as opposed to after the end of the month is invaluable. Nobody wants to go back to the old spreadsheet days at this club!”

Of course, buying an F&B management system is not the solution by itself. These systems require well-built databases, new approaches to data collection and staff training. Professional implementation is critical to success, and raises the cost. But even in Creally's case at the lower-volume Summit, payback can happen in less than a year. The board simply has to adopt the mindset that having the information and putting standards and business processes in place for the F&B operation are just as valuable as improving the golf course. Perhaps more so, if subsidies can be reduced as a result.

Just like the manual bookkeeping system, the crank-style cash register and mimeographed newsletter, clubs have moved to newer technologies and accompanying processes. While doing so is not always easy and cheap, it would be hard to find anyone willing to go back to the old ways. The same is true for F&B management. The question becomes when – not if – your organization will be making the move.

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