



## Case Study

### Reducing F&B Costs Through Improved Procurement Practices

Featured in the July/August 2011 issue of Boardroom Magazine.

**With the exception of inventory adjustments, the club's food cost is equal to the club's food purchases.**

So the question becomes – just how strong is the F&B procurement function? Based on my work with club clients over the past 30 years, I'd have to say it was perhaps the weakest aspect of the entire operation. Considering its importance, those interested in controlling and lowering F&B costs need to deal with this issue first.

#### The Small Club Challenge

Whenever I discuss organizational structure or new processes, I invariably hear from smaller clubs that these things cannot be implemented due to lack of available labor or funding. Therefore, for this article, I have chosen the Summit Golf and Country Club in Richmond, Ontario Canada to use as a case study. The Summit is a private club with annual F&B sales under \$1 million.

With few exceptions, what they do is almost identical to what larger clubs like Boca West, Cherokee, Big Canyon and others do with regard to procurement. They have less people, but they also have less volume to deal with on the procurement side. One difference is the need for requisitions. In larger clubs, they are mandatory, but for smaller clubs, the requisition step can be skipped. However in all clubs, goods should still be compared against current vendor bids, and purchase orders must be created prior to ordering.

Smaller clubs typically do not have the advantage of a dedicated purchaser, so in many cases the chef or bar manager ends up doing this job. Regardless, however, of whom ends up doing the purchasing job, this point cannot be emphasized enough – purchase orders must be created prior to placing any order for the procurement process to have any chance of success in reducing and controlling food and beverage costs.


#### The Summit's Approach

Shawn Ganderton handles the Summit's F&B procurement and other administrative duties. According to Richard Creally, Summit's General Manager, "We don't have the budget for a separate purchaser, and we realize that for proper checks and balances, the purchasing function should be separate from the food and beverage department. Shawn, as a member of our accounting department can handle both functions and maintain the appropriate departmental separation." Creally's solution to maintaining low labor costs while maximizing food and beverage control is ideal for an organization this size.

Item Name	Item Code	Manufacturer	Manufacturer SPICE	Price	Quantity	Unit	Spec	Vendor Description	Vendor Notes
Juice Orange 1.0L 1.75L	2204			\$0.00	8.0L			Tropicana Premium Orange	
Water Spring	2114			\$0.00	24500			Naya Water	
Juice Apple 500 ML	2310			\$0.00	24500			Farms	
Juice Orange 500ML	2311			\$0.00	24.0L			Farms 500ml	
Juice Cranberry 500ml	2319			\$0.00	24500			Farms Cranberry Cranial	
Juice Raspberry 500 ML	2320			\$0.00	24500			Farms Raspberry Cranial	
Juice Cranberry 1.0L	2375			\$0.00	8.0L			Cranberry Cranial Cranial	
Juice Cranberry	2377			\$0.00	8.0L			Mulla Cranial	
Soda Orange Beer	2380			\$0.00	12.0L			Heads Orange Beer	

Larger clubs can create and staff a purchasing department, and should separate the purchaser from both the F&B department and the accounting department. This approach provides maximum checks and balances, since the accounting department can independently audit the purchaser. Since the higher risk is associated with collusion between F&B personnel and the vendors, as opposed to the risks associated with accounting personnel handling procurement and receiving duties, The Summit's approach is by far the lesser of the two evils.

Page 1 of 1



Summit Golf and Country Club  
11901 Yonge Street  
Richmond, ON L4E 3N9

### Purchase Order

MacGregors Meat & Seafood, LTD.  
265 Ganyray Drive  
Toronto, Ontario Canada, M9L 1P2

P.O. Number : 00000024  
Order Date : 4/20/2011  
Expected On : 4/22/2011  
Ordered For : F&B Department  
Ordered By : Shawn  
Ordered From : Ron Smith

Phone : 1-888-383-3663  
FAX : 1-888-584-3663

Contact : Dan Chambers

Comment :

Item Name	Item Code	Quantity	Unit	Price	Total	Notes
Prem Slice Bacon CC 16/18	64021	2.000	20#CS	\$39.00	\$78.00	
Beef Burger Macgregors	40002	3.000	cs24ct	\$33.00	\$99.00	
Beef Ground Chuck Chubb	6001	20.000	kg	\$7.53	\$150.58	
Beef Tenderloin	1151	50.000	lb	\$9.30	\$464.84	
Chicken Breast Sez	71091	100.000	lb	\$4.17	\$416.63	
Chicken Whole Roaster	73421	75.000	kg	\$6.10	\$457.49	
Cod Black		50.000	lb	\$24.94	\$1,247.13	
Cornish Hen 18-22oz	74792	30.000	each	\$8.95	\$268.50	
				Total:	\$3,182.17	

## Why Purchase Orders?

The National Restaurant Association estimates that error rates on F&B invoices typically exceed 3% of total purchases! Only through the use of purchase orders can these errors be immediately identified and corrected – before the check gets written.

“We find errors on invoices regularly,” states Ganderton. “Using the purchase order to reconcile the deliveries and invoices has saved us substantial amounts of money and reduced the need to request credits from vendors. It has also eliminated disagreements based on verbal orders and reduced the time required by our accounting department to correct mistakes. End of month statements can be produced much more quickly if we don’t have to wait for corrections from vendors. We just correct the invoices on the spot and pay exactly what we owe.”

Turning to the labor issue, most clubs have no interest in expanding their payroll. Use of an automated F&B system to handle the procurement process solves this problem. “Each department puts their requisitions into the system, which aggregates them and produces a shopping list,” explains Ganderton. “I review the shopping list, make adjustments and tell the system to create purchase orders. The system uses bids from our vendors, along with our preferences and contracts to determine who to buy from. I modify the purchase orders if need be, and then deliver them to the vendors. The purchase orders are downloaded to our handheld scanners and used for receiving the goods. I get a report showing all the discrepancies between my purchase orders and the invoices every day. I spend less time now managing a complete procurement approach than I did with our old approach where everyone ordered and nobody received. The difference to our work flow and control is amazing.”

## The Price is Right... Right?

Keeping in mind the purchase order defines both the quantity AND the agreed upon price, we will need to acquire that price in advance. This is accomplished through the bidding process.

Bidding in and of itself can reduce food costs dramatically, but an equally important aspect of bidding from a procurement standpoint is getting prices quoted in advance so they can be used for ordering. Again, the objective is the creation of purchase orders, and we must know the price the vendor has agreed to charge us (his bid) if we wish to hold him to it.

To get vendor compliance, clubs can simply send a policy letter to vendors indicating they will not place orders unless they have pricing in advance. Even in the case of contract vendors operating on cost-plus agreements, the vendor can commit to a fixed price for some period of time. It may be a week, a month or even a year for some goods, but it can be done, and should be a requirement.

Eliminate labor costs by getting the vendors to fill in the bid sheets as opposed to having a chef or other staff member calling vendors to chase down pricing. If the vendors want the business, they will complete the bids sheets as you require. One way you can help them with that is to provide bid sheet templates listing the items you are interested in purchasing from each vendor. If these templates are designed to follow a consistent order, it will be easier to compare the prices across vendors to determine who to order which goods from.

Additional labor required for manual price comparison can be addressed through automation. “We use our system to produce bid sheets for our vendors which are automatically converted to Excel spreadsheets and e-mailed to the vendors,” Ganderton points out. “They complete the spreadsheet, indicate the active dates for their bid, and e-mail them back to us. We import the bid sheets into our system, and it compares the bids automatically during the purchase order creation process. We actually spend very little time dealing with bids, but have the ability to bid our entire inventory out.”

# Perfecting Procurement

Regardless of the size of the organization, strong procurement practices result in significant and consistent savings over the typical, less formal practices. Perhaps Richard Creally from the Summit says it best. “The difference between the old way we handled purchasing, and the approach we use today is a quantum shift. By simply separating duties, requiring purchase orders and getting our vendors to work for us by supplying prices in advance, everything became simpler. With the addition of the automated system to support it, we feel like a weight has been lifted and the club’s food and beverage procurement operation became more of a science and less of an art. And the good news is that not only is it paying off now, but we keep getting better at it!”

4/21/2011 4:35:13 PM

Page 1 of 1

Summit Golf and Country Club  
Invoice Reconciliation Report  
April 01, 2011 12:00 AM - April 21, 2011 11:59 PM

Invoice					Receiver					Purchase Order					
Item Name	Item Code	Qty	Unit	Price	Date	Number	Item Code	Qty	Unit	Date	Number	Item Code	Qty	Unit	Price
MacGregors Meat & Seafood, LTD.															
Invoice #:	9185726				Invoice Date:	4/21/2011 4:27:48 PM									
Beef Tenderloin	1151	48.73	lb	\$9.30						4/20/2011	O0000024	1151	50.00	lb	\$9.30
Chicken Breast 5oz	71091	102.56	lb	\$4.17						4/20/2011	O0000024	71091	100.00	lb	\$4.17
Chicken Whole Roaster	73421	77.75	kg	\$6.14						4/20/2011	O0000024	73421	75.00	kg	\$6.10
Cod Black		49.61	lb	\$24.94						4/20/2011	O0000024		50.00	lb	\$24.94

FOOD-TRAK® System for Windows \* Copyright 1997,2011, System Concepts, Inc. All Rights Reserved \* FOOD-TRAK is a Registered Trademark

About the author: Bill Schwartz, is CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI specializes in F&B procurement and inventory management, and is the developer of the FOOD-TRAK Food and Beverage Management System, which is widely used in foodservice operations around the country. Bill can be reached at 480-951-8011 or bills@foodtrak.com.