



Size Doesn't Matter

Featured in the Summer 2011 issue of Golf Business Canada Magazine.

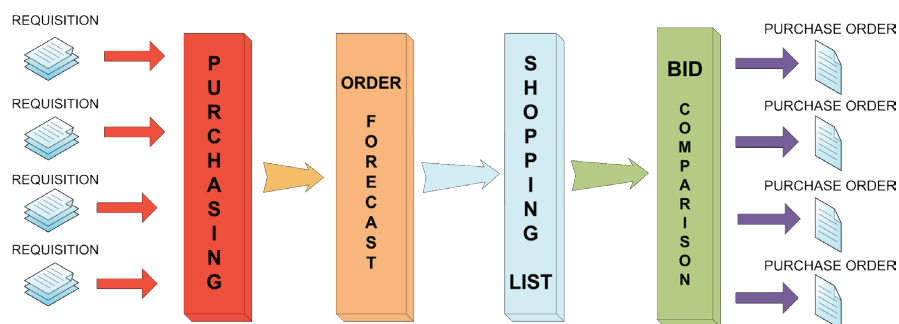
My article, "Taking Club Food and Beverage Operations to the Next Level" in the Spring 2011 issue of Golf Business Canada focused on two primary areas that can lead to lower food costs; procurement and the ability to identify usage variances. In this issue, we will delve deeper into the procurement function.

When people reference food costs, they are really talking about procurement. Other than the adjustment for beginning and ending inventory levels, the organization's food and beverage cost is equal to its total food and beverage purchases. So the question becomes – just how strong is that purchasing function? Based on my work with courses 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.

Size Doesn't Matter – Purchase Orders Should Be Mandatory

Proper procurement is a process. It begins with identifying the needs of the club. Once the list of required items has been compiled, the next step is to compare bids from the available vendors for those items. Once the vendor selections have been made, purchase orders are created and delivered to the vendors. When the goods arrive, the purchase orders are compared against the goods received and the invoice associated with those goods for reconciliation. This process should occur regardless of the size of the club.

In the example, notice that requisitions are the starting point of the process. The requisitions are sent to the purchaser, who aggregates them, considers existing par levels and other events or factors that may affect the quantity needed and prepares a shopping list of all required items. The items on the shopping list are then matched against bids to determine the proper vendor for ordering, at which point items are added to the appropriate purchase order. Golf course operators should consider the purchase order a mandatory document that must be prepared prior to placing any order with a vendor.



Procurement Flow Chart: From requisitions to purchase orders

For smaller courses, the requisition step can be skipped, but required 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 who 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. Without purchase orders, the club has no control over the procurement process.

The Summit Golf & Country Club, a relatively small club in regards to food and beverage volume (under \$1 million), uses Shawn Ganderton, a member of the accounting department to handle its F&B procurement. 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.

Larger clubs have the luxury of being able to staff the purchaser position separately, and in that event, 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. In fact, the receiving function should be performed by the accounting department staff. Receiving is a key procurement auditing function, making sure the invoices properly reflect the correct quantities and prices of goods ordered. Separating purchasing from accounting helps eliminates the potential for chefs to select favorite vendors who may charge higher prices, and also reduces the potential for collusion between the chef and the vendors.

Separating the receivers from the purchasers as well as the food and beverage department creates an even stronger control by reducing the chances the purchaser could be involved in collusive activities with vendors. 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.

Why Purchase Orders?

The most critical document in the procurement process is the purchase order. This single document is the glue that holds the entire process together. It identifies the exact quantity the club wishes to order and the exact price the club has agreed to pay for each item purchased. It is the club’s contract with its vendors. Many clubs use invoices to check in the goods, if they check in at all. But the invoice is the vendor’s document and may not accurately reflect the club’s order. It could include different quantities than requested, different prices than quote and even totally different items than those ordered. The National Restaurant Association (United States) 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 cheque 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.”

The two key issues associated with the successful introduction of purchase orders in the procurement process are compliance and labour. For purchase orders to be effective, they must be the only way goods can be ordered through the club. Allowing individuals to place verbal orders with vendors defeats the process. A club policy stating that orders can only be placed using purchase orders, and a further policy letter going to vendors indicating the club will not authorize payment for deliveries without associated purchase orders should get things headed in the right direction.

Turning to the labour issue, most clubs have no interest in expanding their payroll. The procurement approach done manually can take extra time, which is why many golf course operators take shortcuts. Use of automation to handle the procurement process

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

MacGregors Meat & Seafood, LTD.
285 Gairway Drive
Toronto, Ontario Canada, M9L 1P2

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

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


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 5oz	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	

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.”

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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

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The true benefit of automation has always been time savings. Automated systems don't control anything, but they provide the answers and they reinforce the disciplines and processes required to gain a far better control than otherwise possible – all without adding labour cost. Few golf courses would consider operating without accounting software, which does essentially the same thing – reduces labour. But specialized F&B systems are not cheap, and usually involve on-site implementers and trainers to get the organization up and running. Not all golf courses are willing to shell out \$20,000 - \$30,000 or more for a complete F&B procurement and inventory system, but for those with average annual F&B revenue of even \$500,000, the savings may pay for the system the first year.

The Price is Right... Right?

Now that we have examined the critical nature of purchase orders for F&B procurement, let's take a look at how the price got onto the purchase order in the first place. 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. There are a few different schools of thought with regard to bidding. Some operators simply find the vendors they are most comfortable with and use them almost exclusively. Some operators use group purchasing organizations to help them secure the best prices and quality (NGCOA has an exclusive arrangement with Ontrak Procurement Services). And some operators use competitive bidding approaches to get the best price.

Actually, while bidding can be extremely important from a profitability standpoint, the most important aspect of this from a procurement standpoint is not the approach to bidding, but the act of getting prices quoted in advance so they can be used for ordering. Again, the objective is the creation of purchase orders. Once you have them, many options for control become available. Without them, little control is possible. So once again it comes down to two familiar issues – compliance and labour.

On the compliance side, it is once again a matter of policy. As somewhat of an adjunct to the purchase order requirement policy, golf course operators can add a section to their policy letter for vendors indicating they will not place orders with vendors unless they have pricing in advance. This way, the vendors understand they must continue to provide updated price lists for all goods they plan to provide to the course. Gone are the days of pricing it on the fly – when invoices can show up without any previous confirmation or agreement on price. 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.

On the labour side, it is important to get 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. This comparison process is where additional labour becomes involved in the procurement process.

Once again, this can be addressed through automation. Back to the Summit. "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. And while automation may not be in the current budget, it almost certainly will be a part of the picture before long. Start the process by requiring bids and producing purchase orders, and you are well on your way. 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!"

About the author: Bill Schwartz, CHTP 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 clubs around the country. Bill can be reached at 480-951-8011 or bills@foodtrak.com.