



The Cloud Brings High-End F&B Software Down to Earth

Featured in the January/February 2016 issue of The Boardroom Magazine.

Until recently, club operators looking to implement food and beverage procurement, inventory and culinary control systems needed to purchase systems that would run on their in-house computers. Software options ran the gamut from spreadsheets and recipe systems to professionally implemented comprehensive systems. Costs could range from free (spreadsheets) to tens of thousands for high-end systems. While larger clubs could afford the bigger systems, most clubs had to go with lower cost, less capable software. Unfortunately, given the complexity of club F&B operations – multiple outlets, multiple users, catering, etc., simple or low-end F&B software cannot provide comprehensive coverage. Use of these products results in the poorly-implemented piecemeal, labor-intensive approaches and associated inaccurate reporting avoided by the use of professionally implemented sophisticated systems. The cloud has changed all that.

Self-Hosted Too Rich for Our Blood?

Between the software license costs and the required professional fees for proper implementation, clubs with F&B revenues under \$3 million have been hard-pressed to justify the expense of self-hosting high-end F&B systems. These systems are expensive because they handle multiple profit and cost centers (outlets and warehouses), they allow for multiple users, granular security settings and electronic integration with vendors, POS systems, accounting and catering systems. They typically provide mobile computing capability as well, freeing management and staff from desktops and paper forms.

With the typical on-site (self-hosted) software model, the entire investment in software, hardware and implementation fees are up front. Clubs require servers and IT staff to host and manage the system, and need to pay the associated costs of electricity and cooling, not to mention the labor associated with updating, backing up and maintaining the software. Hardware obsolescence makes server replacement every three years an additional cost. And of course operating system and database software updating and maintenance could add thousands in additional license and maintenance fees.

All told, the initial investment could be well over \$25,000 in licenses, \$5,000 in equipment, along with annual fees of \$5,000 in maintenance and untold hours of fairly expensive IT labor. Assuming upfront costs of \$35-50 thousand for equipment, licensing fees and implementation, and ongoing annual costs of \$10,000 for maintenance, utilities and labor, the decision to automate this critical aspect of the club business becomes difficult for clubs with more typical F&B revenues.

Cloud Economics

Using the cloud, clubs of all sizes can now afford the high-end, sophisticated software enjoyed by the larger club operations. Craig Lopes, General Manager of the Moorings Yacht and Country Club in Vero Beach Florida points out the advantages and savings associated with a cloud solution to a smaller club that is expanding. "We were willing to go to a cloud-based system because we were confident that the software was already thoroughly developed and, therefore, they could be responsive to our specific needs without compromising functionality of the system. We have not been disappointed in either the software or the impact to our cost of sales – a reduction of at least 5% when compared to historical results. With the recent addition of a second clubhouse 10 miles from our primary location, the cloud-based option has now proven to be an even better decision."

Cloud system pricing is typically based on three components – software license fees, software maintenance fees and hosting costs (equipment, bandwidth, updates and backups). Because the pricing is typically done on a monthly or annual basis, costs are spread over longer time frames. As a result, high-end systems could end up costing as little as \$300-\$500 per month. Comparing that to the self-hosted model, **annual costs for sophisticated system could end up \$6000 lower per year** – assuming \$4,000 per year for cloud as opposed to \$10,000 for self-hosted – and that savings does not include the labor, utility and hardware replacement costs associated with self-hosting.

Assuming that a properly implemented high-end club system can save clubs between 2-4% of annual F&B revenue (pessimistic compared to Moorings' results), **the clubs with \$1 million in annual F&B revenue save \$20-40 thousand per year**, providing, at the low end, an annual ROI on the F&B system of over \$16,000 after costs. More typical savings based on over 30 years of implementing high-end club F&B systems are closer to Moorings' 5% estimate or \$50,000 per \$1 million in F&B revenue resulting in \$46,000 in annual savings. Given these numbers, it is hard to imagine why clubs of any size would hesitate to fill the gap in their accounting system and implement these systems.

On the financial management side, it is also worth considering the ability to expense this cost, as opposed to capitalizing it. Another financial strategy is to purchase and capitalize the licenses in advance, and simply expense the hosting and maintenance component. Since the licensing component would no longer be part of the hosting fee in this case, annual hosting costs would be even lower.

Floating the Cloud Approach

Considering the advantages and much lower costs associated with cloud computing, smaller clubs can finally fill the gap in their accounting system and implement a truly comprehensive F&B management system. According to Ted Thie, CCM, CCE, CEO of Minnehaha Country Club in Sioux Falls, "For those of us that do not have a full -time IT person, the cloud is the great technology equalizer. Self-hosting creates more problems than it solves. When our self-hosted systems go down we are at the mercy of our IT company to get us back up and running. Our cloud provider has the expertise and the technology to get back up and running in a short period of time. In our business we cannot afford to wait!"

About the author: Bill Schwartz is the founder and CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is a food and beverage procurement and inventory management consulting firm and the developer of the FOOD-TRAK System, which is widely used in club operations around the country. Bill can be reached at 480-951-8011 or bills@foodtrak.com.