# FEATURED ARTICLE

## To Reduce F&B Subsidies -
## Focus on Loss Prevention – Not Volume

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BY BILL SCHWARTZ

**Cost Reduction Falls Directly to the Bottom Line – Increased Revenue Doesn't**

What if, instead of trying to increase top line F&B revenue to reduce subsidies, the focus was shifted to reducing losses instead? Sorry about the math to follow, but it is required to make the point. Consider a club doing $1 million in F&B revenue with a 50% food cost that requires a $50,000 annual subsidy. That club loses a nickel on every dollar of revenue. Since $.50 of every dollar goes to food cost, another $.55 goes to labor and overhead. Assuming food at 50% and labor at 35% of revenue, only $.20 per dollar of sales contributes to subsidy reduction with any volume increase. Under those circumstances, it would take an increase of $250,000 in revenue (25%) to clear the subsidy.

On the other hand, reducing unnecessary food costs by one percentage point (for example, reducing food cost from 50% to 49% of sales), would save 1% of revenues – or in our example $10,000. Reducing the food cost from 50% to 45% eliminates the subsidy entirely without the need to increase revenues at all. What if it was possible to take actions that have the exact same impact on subsidies as significant increases in volume would have, but without the need to increase staff, buy or prepare more food, add storage or production capacity or add space to the dining areas to accommodate the new traffic? *And what if it was possible to get this to happen immediately – say within 90 days?*

**Making It Happen**

Interestingly, most clubs can easily reduce food costs by 5 points simply by implementing procedures, checks and balances and systems to reduce unnecessary food and beverage misuse. Start by imagining food and liquor as piles of cash. Imagine the kitchen and storage areas are full of cash lying around. Is it secure? Could it end up in pockets or stomachs? Could it be used carelessly and end up in trash cans or drains? Could too much of it end up on a guest's plate? Could the vendor be delivering a different amount than on the invoice every now and then?  If this was cash, there would be checks and balances up the wazoo!  But since it's just food – little or no attention is paid. And that's where the 5% goes. Imagine what the losses would be if cash in the club was treated like food?

Still not convinced? Dump the trash on the floor and assign a value to it.  Try to determine how much of the "cash in the trash" didn't need to be there. Like things that didn't need to be trimmed as much, and things that were burnt or overcooked or over-prepped. How about things that didn't belong in there at all, like flatware and china and ramekins? Then take the amount of unnecessary cash in the trash and extend it out over the entire operation for a year. By itself, the cash in the trash could add up to 5 points.

**It's Time For Action!**

It doesn't cost much to shift the focus to F&B control. Instituting a purchase order requirement, better receiving practices, focusing on
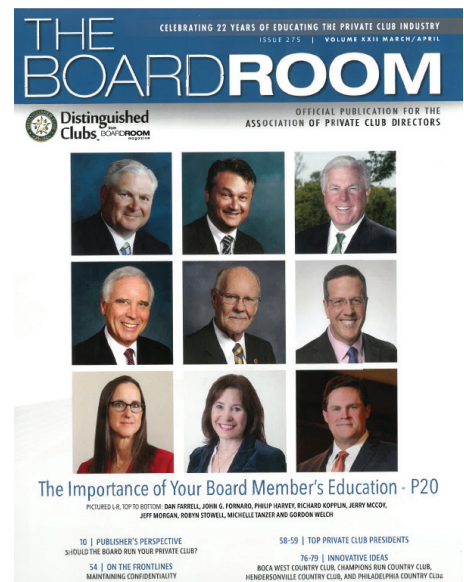
yield as opposed to speed for prep, monitoring inventory levels and taking frequent inventories to reduce spoilage and improve ordering are all things clubs can implement at virtually no cost – and with significant upsides.

Along with these disciplines, F&B management systems complete the picture. It is important to note that systems focusing primarily on inventory, recipes and procurement do not help reduce food costs associated with misuse. Only systems that handle complex F&B procurement AND incorporate extremely strong, integrated culinary controls can help deliver these savings. Of course, proper implementation is the key to success with these systems, which typically involves some up-front professional services fees. However, with today's cloud-based hosted solutions, operators can forgo the need to purchase software licenses and related computer equipment.

Finally, getting the staff to participate with any new approach can be a challenge. Introducing a system that offers mobility is a game changer in this regard. The ability to use scanners, iPads and smartphone apps to take inventory, receive goods, do transfers and requisitions and even view recipes from the line, not only reduces the time and increases the accuracy associated with data collection or food production, but it encourages a team effort and can actually be fun.

*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.*