



Cost is Boss

Use the “Cash in the Trash” method to focus on F&B profits, not sales.

Featured in the March/April 2011 issue of Hotel F&B Magazine.

What's like doubling sales, only better? What if, instead of trying to increase sales, the focus shifted to significantly increasing profits? Consider that the hotel with a five percent F&B profit margin keeps only a nickel in profit for every dollar in sales. To make \$100,000 in profit, it takes \$2 million in sales.

Reducing unnecessary costs by one percentage point (for example, reducing food cost from 35 to 34 percent), would cause profits to go up by one percentage point (in this case from 5 to 6 percent). Profit would go from \$100,000 to \$120,000. Without reducing costs by that percentage point, the hotel would have to increase sales by \$400,000 to get this same \$20,000 increase in profits. If it were able to reduce food costs by five points, the effect would be the same as doubling sales to \$4 million.

Looking at it another way, a five-point decrease in food costs would create a five-point increase in profits. In the example, profit would go from \$100,000 to \$200,000. Since it took \$2 million to get the \$100,000 profit, it would take \$4 million to double it. No magic—just math.

What if it were possible to take actions that have the exact same impact on profits as doubling sales 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—within 90 days? 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 wind up in trash cans or drains? Could too much of it go onto a guest's plate? Could the vendor be delivering a different amount than on the invoice every now and then? If this were 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 five percent goes. Imagine what the losses would be if cash in the hotel were 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, such as things that didn't need to be trimmed as much and things that didn't need to be burned or overcooked or overprepped. 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 five points.

Food and beverage procurement and control systems are the long-term solution. It is important to note that systems focusing primarily on procurement do not help reduce food costs associated with misuse. Only systems that both handle complex F&B procurement and incorporate strong, integrated culinary controls can help deliver these savings. In subsequent articles, we'll explore some of these systems.

About the author: Bill Schwartz, CHTP is CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI specializes in helping clients control F&B costs, 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 bills@foodtrak.com.