



Pie in the Sky: Sophisticated Cloud-Based F&B Control

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Using technology to help control casino operations and back-office functions is not a new thing. Software licenses are purchased from the developer and paid for up front. But due to the high cost and the lower priority associated with sophisticated food and beverage software, many casinos have settled for spreadsheets and recipe costing utilities instead. Cloud-based hosted systems are changing that, making these systems far more affordable and reducing the payback period substantially – even for smaller casinos. In many cases, cloud-based hosted systems can cut the initial investment by more than 50%.

The term “cloud” has many definitions, and while initially it meant the internet, it now has expanded to include large data processing centers accessed through the internet, as opposed to systems owned by and housed at the casino. One could say these datacenters and the software loaded on them reside in the cloud. Like timesharing of the past, software companies contract with cloud-based datacenters to host their software, and provide access to their clients (ex: casinos) through a rental program. Another common term for this approach is Software as a Service or SaaS. According to Walter Prichard, a top analyst at Citigroup, “More companies are taking a “cloud-first” approach, preferring SaaS over traditional software for new installations.”

From In-House to Cloud Based F&B Management

The move to the cloud is not just happening for new software installations. Microsoft has convinced numerous existing corporate users of their Office software to abandon the investment in their desktop and server software in favor of the cloud version. Some casinos who had already invested in a sophisticated, highly integrated F&B procurement and inventory management software made the decision to move their existing in-house F&B system to the cloud-based version of that same system. Pritchard refers to this as a “ripping point”, or the point at which legacy systems are ripped out in favor of cloud-based hosted systems. Based on recent trends, he feels that process is now accelerating rapidly.

For most casinos, the significant initial cost of licensing the F&B software makes the decision to acquire software of this type difficult. But in the case of casinos that already made the purchase and abandoned their in-house licenses for the cloud version of the same system, the move to the cloud was justified strictly based on costs associated with operating the software. And if the move to the cloud is justified for those who already made the investment in in-house software, it makes perfect sense that casinos considering acquiring F&B software for the first time would simply start there.

According to James R. Flowers, Director of Information Technology for Fort McDowell Casino near Phoenix, Arizona, “The internet is now reliable and fast. Using the hosted approach reduces hardware and IT costs.” With the hosted approach, the casino is free to focus on using the application without the need to worry about computers or networks – or managing them. All that is typically required on the casino’s end is high-speed internet access. All issues associated with software updates, maintenance, backups, servers, etc., become the responsibility of the software provider. For the service, the casino typically pays a periodic (monthly, quarterly, etc.) fee.

Of course, using software that resides outside the casino is sometimes considered a security risk. Even wireless handhelds are sometimes frowned upon by casino security staff. But Flowers was not concerned. “Firewalls reduce the risk,” he indicated.

F&B System Economics

Setting aside the cloud for a second, casino managers are sometimes surprised by the cost of these systems in the first place. What exactly makes them so expensive? Easily distinguished from packaged software which is built to handle simple aspects of the F&B operation like recipes or inventory, systems capable of the complex F&B environments typical of most casinos are professionally implemented and are heavily procurement-focused. These systems are capable of integrating with food distributors, catering, POS and accounting systems. They allow for multiple users, handle multiple profit centers and provide the user security, advanced bidding, procurement, inventory, warehousing and menu management needs of casinos. They also typically employ hand-held scanning technologies and web-based access.

While the costs to procure this type of system can be substantial, the benefits from such a system can be just as substantial, and in many cases on a par with POS and management systems already in place. For most casinos, implementing a strong F&B procurement and management system can save as much as 5-8% of total annual F&B revenue – or \$50-80,000 per million in annual sales. But sophisticated F&B software can easily cost \$50,000 or more to implement, almost all of which must be paid up front, making the decision to move ahead more difficult – which brings us back to the cloud.

Cloud Economics

Various pricing approaches are used by software developers who provide cloud-based systems, but they all must cover the same costs. With the in-house approach, casinos have equipment costs, bandwidth costs, software license fees and maintenance fees, as well as overhead costs for power, A/C, and IT-related labor. These costs don't go away – they just get covered by the datacenter and charged to the software developer. Developers must also charge fees for maintaining and supporting their software, and typically they charge a fee for licensing and upgrading their software. All these costs would also be borne by the casino if it brought the software in-house.

With the hosted approach, costs to the casino are lower because the datacenter portion of the fee charged by the developer is usually less than the cost of in-house systems and their management. Computers must be replaced every 3-5 years, electric bills keep increasing and labor for IT management doesn't come cheap either. Developers can spread out the fees of software licensing over years, as opposed to collecting it all up front. Most developers spread the cost over three years, meaning the user pays only 1/36th per month of what they would otherwise have paid in full the first month. And since licensing fees can be the most expensive part of these systems, the lower licensing fees combined with no IT-related costs make the use of cloud computing affordable to operations with much less available cash. The lower fees also mean much shorter payback periods. In the case of sophisticated F&B systems, the payback can be as short as a month or two as opposed to a year or more, which in these economic times is like found money.

So How Much is the Pie in the Sky?

The F&B systems used by the smaller to mid-sized casino typically start between \$25,000-\$35,000 for software and \$15,000 for implementation, and go up with casino size. The starting range would be typical for casinos with annual F&B sales under \$2 million. With a hosted approach, the implementation fees would be similar, but the licensing and maintenance fees for F&B systems of this size depending on contract length could be as low as \$500 per month. Given the typical payback for these systems at 5-8% of annual F&B revenue, the \$1 million casino would save approximately \$4500 - \$7000 per month. But 5% savings is not necessary. Just a 1% savings for the \$1 million casino would easily cover the cost of the system. Even the implementation fee would be covered the first year in most cases. The other obvious benefit is no need for capital budgeting. These costs typically come out of the operating budget and are expensed as incurred. So thanks to the cloud, even smaller casinos can tightly control their pie in the sky.

About the author: Bill Schwartz is the founder and CEO of System Concepts, Inc. (SCI), and has been a food and beverage management consultant since 1980. Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK Food and Beverage Management System, which is widely used by casinos throughout the country. Contact Bill at bills@foodtrak.com.