

Improving the F&B Procurement Process Leads to Lower Costs

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Every dollar of a casino's food and beverage cost is a result of procurement. Unfortunately, more than any other type of inventory requiring ongoing purchasing, food and beverage procurement is the toughest and most complex. The vast majority of casinos, regardless of size, suffer from procurement problems associated with food and beverage. This is partially due to the fact they are not primarily in the F&B business, and therefore attempt to apply generic procurement practices and systems to food and beverage procurement.

Rapidly changing prices, vastly different pack sizes and specifications for similar items, the inability to fix pricing for much more than a week at a time, split cases, substitutions, tare weights and differences between order unit and price unit are just a few of the reasons F&B procurement must be specialized. Distribution to warehouses or various locations throughout the facility, as opposed to the single delivery location typical of most other types of goods is another added complexity requiring specialization.

Specialized F&B Procurement Systems are a Requirement

In many larger casinos, the F&B procurement process is handled by someone familiar with the food operation, as opposed to the casino's primary purchasing folks. Smaller casinos may use an F&B director or chef to place orders. In both cases, either no automated system exists to support F&B procurement properly, or a generic materials management system (MMS) is used to handle all procurement. In the case of a generic MMS product, F&B procurement is forced to run through a system not optimally designed to handle it. It is because of these weaknesses, either in systems or structure that procurement becomes a place where more money and labor is spent than needed.

Close vendor relationships, lack of competitive bidding and sporadic use of purchase orders can easily cost casinos up to 5 percentage points on their F&B costs. In other words, casinos running a 45% food cost could run a 40% food cost through proper procurement practices. To the casino doing \$1 million in F&B sales, the savings would represent \$50,000 in additional profit. Assuming a 5% profit margin, the increase in profitability would have the same impact as doubling sales – and who wouldn't want that!

Using specialized F&B procurement systems, labor required to manually combine requisitions, break down banquet event orders, compare pricing, complete order guides, make phone calls to vendors, complete purchase orders, code invoices to accounts, cost out transfers and many other tasks could be substantially eliminated. The labor savings from specialized F&B procurement systems can easily add up to thousands of man-hours.

Using the Proper Tools - Competitive Bidding is Key!

Regardless of who does the purchasing, the system used to do it is critical. As mentioned above, F&B procurement is quite unlike generic procurement, and therefore systems that support it must be specialized. Since different people handle F&B procurement than general procurement for the casino, there should be no issue in using two systems for procurement. As long as both integrate with the accounting system, the best of both worlds is possible.

According to Jeff Wentworth, the food and beverage purchaser for Soaring Eagle Casino in Mt. Pleasant, Michigan, "Most generic procurement software, even from the largest companies cannot handle the type of specialized bidding needed for food and beverage. The key is to be able to compare and award packages while considering multiple unit pack sizes. Providing vendors with customized, system-generated bid sheets that can be imported puts the labor burden on the vendor, and is typically not available through standard procurement systems, and certainly not with the required pack size and unit flexibility."

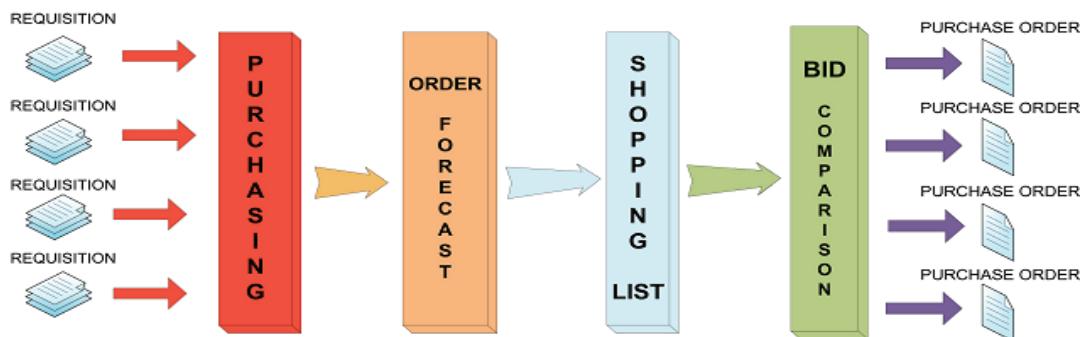
F&B procurement systems are highly specialized. They must be able to keep multiple vendor item codes and pack sizes for the same item, they must be able to handle catch weights and split cases, and they must be able to break requisitions containing recipes down to raw materials. They also need to provide a means to collect and import bids electronically from even the smallest vendors and they should integrate with large distributor ordering systems and the casino's accounts payable system. These are actually only a few of the specialized requirements, and the reason generic procurement systems cannot be used effectively for F&B.

Collecting bids from multiple vendors for all inventory items is a key to keeping F&B costs as low as possible. This is especially true when it comes to commodities like produce, meats and other perishables. Prices can change daily on these items. Soaring Eagle Casino makes extensive use of their F&B system's bidding capabilities. "Bidding food out to multiple vendors can reduce cost substantially over standard prime vendor programs," advises Wentworth. "In addition to lower vendor margins, cost is further reduced as the competitive atmosphere gives vendors incentive to use more creative means to garner additional deviations not traditionally offered. Savings are immediate as all deals are 'off-invoice' so there is no need for rebate tracking or invoice auditing. Putting small volume items in winner-take-all packages garners the most competitive quotes. Risk falls on the vendors and manufacturers instead of the casino." The use of specialized F&B procurement capabilities allows casinos to easily bid the entire F&B inventory through multiple vendors without additional labor.

Systems accomplish some of this vendor-supplied bid environment through direct business-to-business interfaces for large vendors. Smaller vendors can complete bid spreadsheets that are exported from, and then imported into the procurement system once completed. Some systems even offer a web-based interface where vendors can log into the procurement system and place their bids directly.

Automation Saves Time

Today's high-end F&B inventory and procurement systems are capable of substantially reducing the time required for procurement, regardless of casino size. As a result, the decision to implement an effective procurement approach is much easier to make. The only significant time spent in the procurement process is the time spent creating the requisition, which is done by the department manager (chef, bar manager, etc.) and should take them less time with a system than it currently takes to do manually. Once the requisition is completed, the rest of the process is mostly automated, requiring very little time of the purchaser.



With an automated system, most of the manual processes are eliminated. The purchaser (who has yet to enter any data at all), selects the requisitions to consider, the system compiles them, forecasts the needs and creates the shopping list from the forecast. The purchaser then reviews the shopping list and makes any needed changes. Once satisfied, the purchaser runs another automated process that goes through the shopping lists, compares bids, decides who to buy each item from and creates corresponding purchase orders. The POs are then reviewed by the purchaser and adjusted if necessary.

In the end, the key concept here is the importance of the procurement process in controlling food and beverage costs. Whether manual or automated, lack of focus in this area is costly. Application of checks and balances, good procurement processes, and strong receiving practices can generate significant and immediate savings – far in excess of the cost of the processes and automation tools themselves.

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