

Why We Don't Make Money in F&B!

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“Chris, why can't we make money in F&B? We need to bring in more business, let's get the Members into their club. Increase your outside parties. Bring in some business and offset our dues!”

The statement above is generally heard around the country on an annual basis. Members believe that the club food and beverage operation should be flush with profits – there is virtually no over-head, most often utilities are charged to G&A, there's not normally a rent factor, lots of expenses are absorbed by other departments. So why doesn't the club make any money?

From extensive research and a survey conducted with over 200 managers, we find that about 27% of clubs actually break-even or better. As you might expect, clubs with revenues that exceed expenses in food and beverage have several consistently different traits as compared to clubs which have revenues less than expenses: revenues tend to be higher, as a percentage, in banquet and lower in Ala Carte; direct food, beverage, and labor costs tend to be a bit lower. The following table shows the differences.

	Profitable Club	Not Profitable Club	Difference
Percent of Food and Beverage Revenue			
Member Ala Carte	47%	54%	7%
Banquet	39%	30%	-9%
Member Club Events	19%	17.5%	-2%
Food Cost			
Member Ala Carte	43%	45%	2%
Banquet	32%	33%	1%
Member Club Events	40%	45%	5%
Average Food Cost	40%	42%	2%
Beverage Costs			
Member Ala Carte	34%	35%	1%
Banquet	27%	27%	0%
Member Club Events	33%	35%	2%
Average Beverage Cost	33%	33%	0%
Labor	51%	78%	27%
Total Variable Costs	88%	116%	28%

Most clubs will have different costs of food and beverage according to the type of service. For example, as seen above, the cost of food for Member Club Events can differ by 5% when

comparing profitable to not-profitable clubs. Since we assume the ingredient costs are the same whether we serve it for Member Dining, banquets, or the Member/Guest, the percentage cost will vary according to the price charged. We tend to charge less for our Member Club Events than we charge for Ala Carte Dining or banquets, therefore the associated percentage cost will be higher for the Event.

Members and committees tend to want to highlight “food cost” as the critical piece of making money. In considering average food and beverage costs, we can see clearly that the difference between profitable and not-profitable is a scant 2% on food cost and zero on beverage cost. Also, it must be known that the calculation for each is on the direct cost of the item on the revenue of the item: food cost only pertains to food sales and beverage cost only pertains to beverage sales.

It becomes clear that the culprit in the difference between profitable and not-profitable is in the use of labor, where the difference is significant in percentage and absolute value. Labor is calculated on *total sales*, a much larger number. There is a whopping 27% differential in labor cost between the profitable and not-profitable club – and that’s on total food and beverage sales.

Many Directors and Members feel that clubs should be as profitable as public restaurants. We compared the average club with successful restaurants (we consider a restaurant successful if it has been operating for over three years).

	Country Club	Public Restaurant	Difference
Food	40%	30%	10%
Beverage	33%	19%	14%
Labor	65%	33%	32%
Total Variable Costs	102%	60%	42%

Here we see that the differences are significant in all areas. Often the product cost to the restaurant is less than the cost to the club because of the buying power of a restaurant, couple lower direct cost with the general higher pricing and the differences can be significant, with labor still garnering the largest differential.

Why is labor so different among public restaurants, F&B profitable clubs, and the average not-profitable club? There appear to be two major factors that affect labor cost: 1. Determining the necessary labor and 2. Staff longevity.

From a survey of over 200 managers we find that 90% of the respondents base their service level on the number of expected Members being seated/participating rather than dollar volume. The average number of Members served per waitstaff person is 14 per hour. Service levels must remain constant regardless of what the Member purchases. For example, we could have a group of four golfers come into the 19th Hole after a round, two of whom order one beer each and the other two drink water and eat free pretzels – all four must receive the same level of service and the kitchen needs to be prepared for any order (100% of the survey respondents will accommodate Member “off menu” requests). Rarely would any person expect a restaurant to tolerate someone sitting at a table drinking water and eating crackers for an hour! Concerning

club, profitable clubs tend to have more banquet business which allows a far more efficient staff level planning, thereby limiting the service cost.

Anecdotally, it's very common for Members to like having consistent staff. It is a badge of honor for Members to introduce the maître 'd, "John would give me candy when I was a child, he's part of the family." John would have been with the club for 40 years. In order to keep a person for 40 years, they most likely need to be full-time with benefits, and there's the constant salary increases, which will probably barely keep up with the cost of living, but will still be far more than the cost of a less experienced maître 'd. There is no question that the technical aspects of service can be learned in short order, but the familiarity required by Members takes time and a certain type of service personality, both of which will be costly.

Clubs are focused on service, and service is expensive, as shown by the results of both the surveys and individual club financial statements. For a more complete explanation, please go to www.niven.cc and under the Research Papers tab you will find the original paper *Concepts of Profitability for Private Club Food and Beverage Operations*.

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