

Concepts of Profitability for Private Club Food and Beverage Operations

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Abstract

Boards of Directors, House Committee members, and managers have been discussing the issue of food and beverage (F&B) continually for decades, specifically the question of “Why can’t we make money in food and beverage?” This statement is generally followed by the theory that the local restaurants are highly profitable¹; therefore, the club should be as well. It’s very common that general managers (GM) and most involved with operations, will lament that clubs don’t make money in F&B, that it’s an amenity; but, some clubs do make money in F&B. This paper researches some distinct differences among clubs in which F&B is an amenity, clubs in which F&B is profitable, and profitable public restaurants.

Across the spectrum of clubs, about 27% break-even or better in F&B (Niven, Food and Beverage Survey 2.0, 2017). In a comparison of those clubs making money and those that do not, there appears to be a distinct pattern: F&B revenues may be higher by as much as a whopping 85% for profitable clubs; percentage of banquet revenue to total F&B revenue increases an average of Thirteen Percent (13%) for those profitable; food costs are less by an average of Eight Percent (8%) for those profitable; beverage costs are less by an average of Four Percent (4%) for those profitable; and cost of labor decreases on the average by as much as Twenty – Seven Percent (27%) for those profitable (CMAA, 2012). Using the results of a survey of club managers (Niven, Food and Beverage Survey 1.0, 2017) to compare the average club F&B to public restaurants, we find that Food Costs are lower in the public sector by Nine Percent (9%); Beverage Costs are lower by Fourteen Percent (14%); and Labor is lower by Thirty-Two Percent (32%) (Brenhardt, Droege, & Middleman, 2014). For the upper quartile of restaurants with an average check exceeding \$24, the Net Profit Margin is 6.8% (Deloitte & NRA, 2010). An average club with average costs for food, beverage, and labor has total variable costs of 102%. When variable costs exceed revenue, a normal business closes its doors, in the club environment, the difference is covered by dues.

In Table 1, we show the differences between profitable clubs (P) in F&B and clubs not profitable (NP) in F&B. The revenue mix between P and NP is significant, with Member Ala Carte (AC) being Seven Percent (7%) less of the revenue mix and Banquet (B) being Nine Percent more of the revenue mix for profitable clubs. The food cost (FC) differential between P and NP Member Club Events² (Niven, Food and Beverage Survey 2.0, 2017) is significant as well. However, other cost differentials are minimal. The large and significant difference is in the use of labor, where the difference is up to Twenty-Seven Percent (27%) (CMAA, 2012). The difference in total variable costs between P and NP is around 28%.

¹ Restaurant failure rate is 60% within the first three years of operation (Parsa, Self, Njite, & King, 2005)

² Member Ala Carte (AC) is defined in this paper as F&B revenues not to include banquets or events

Banquets (B) is defined as non-member events, individual member parties: birthdays, weddings, special occasions, etc.

Member Club Events (ME) are those revenues derived from events such as Member/Guest tournaments, Mother’s Day, Easter, etc.

Table 1: Comparison Between Clubs F&B Profitable and Clubs Not F&B Profitable

	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% ³	116%	28%

In Table 2, we show the comparison of an average club and a profitable public restaurant. The difference in total variable cost between the average club and the profitable public restaurants is around 42%, the significant factors being that all costs are lower for the public restaurant.

Table 2: Percent Cost Comparison Between Clubs and Public Restaurants

	Country Club	Public Restaurant ⁴	Difference
Food	40%	30%	10%
Beverage	33%	19%	14%
Labor	65% ⁵	33%	32%
Total Variable Costs	102%	60%	42%

The mission of a profit driven enterprise is simple: to produce as many or as much as the market demands, at the quantity to satisfy that demand and at the lowest possible cost of production, in an effort to sell at the highest price accepted by the market (Newman & Salmore, Private Clubs: To Be or Not To Be - A Business, 2012). It is widely accepted that club profitability refers to

³ Total Variable Cost assumes that 64% of the revenue is food and 36% is beverage. For example: $FC(.40)*.64+BC(.33)*.36=$ Total Variable Cost (.37) plus Labor at $51%*1 = 88%$.

⁴ (Brenhardt, Droege, & Middleman, 2014)

⁵ For this calculation, we took an average between P and NP reported labor (CMAA, 2012)

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Member Satisfaction and, in accounting terms, “Good Will.” Responses from our survey indicate that Five Percent (5%) of the responding club managers indicate that profitability is in their Mission or Vision Statements (Niven, Food and Beverage Survey 2.0, 2017) such as that described for the profit driven enterprise.

Food Cost⁶

The differential in FC between private clubs and the public restaurant can be found in several areas: Menu stability; venue efficiency; and possible purchasing power from higher volume.

Menu stability refers to the fact that most restaurants will have a set menu that has little variation and is created specifically for the target market. For example: Ruth’s Chris (RC), a restaurant often used in comparison to club dining, has a narrow selection of items. The specials offered generally use an existing protein with some added feature, allowing the price to be more generous, giving it a better profit margin. Patrons who frequent RC know the general menu and decide to participate because of the menu selection. Patrons do not frequent RC expecting to order a taco salad, they patronize RC expecting to order expensive beef or fish entrees. RC can then become far more efficient because their menu is relatively fixed.

While RC is a very high-end chain restaurant it is also considered a “manufacturing kitchen.” A manufacturing kitchen (MK) is referred to as such because, once the menu is established, there is little creativity and flexibility, items are produced quickly and efficiently making this sort of kitchen very cost effective in both food cost and labor. (Patterson, Why Can't You Make a Profit Like They Do Every Day at MacDonal'd's?) In the San Francisco Bay area, even Michelin Three star rated Manresa or The French Laundry can be considered MKs. While the menus are exceptional, they are set in virtual concrete each day and the chefs prepare them the same for each patron, with little or no “substitutions.” The experiences are exceptional as are the prices. The average price for dinner at Manresa is \$303 and The French Laundry is \$337⁷. Neither of these prices would be acceptable at most clubs for a single person dining experience. In fact, it was reported that 73% of club managers feel pressure to price club products at or below the local restaurants (Niven, Food and Beverage Survey 2.0, 2017).

Additionally, of the three above examples none will serve the far lower margin day parts of breakfast or lunch. Each is able to focus in the high margin, high dollar dinner traffic, a further example of focus and efficiency.

One area where a club has the opportunity to become a manufacturing kitchen is in the banquet area. While planning for a banquet allows for efficiency, in the club arena, it also requires differing cost structures. According to our survey the average FC associated with a member events (ME) (Easter, Invitationals, etc.) and member ala carte (AC) come in above the FC of banquets (B) by a whopping Eleven Percent (11%) (Niven, Food and Beverage Survey 2.0, 2017)! Understanding the elements of sales and associated costs is important to assess the end – of – the – month results. For example, using the average club FC of Forty – Four Percent (44%) for AC and the average

⁶ Appendix I Food Cost and Margin Discussion

⁷ SFEater.com

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club FC of Thirty-Three Percent (33%) for B, there can be a considerable difference in profitability. On \$1M in food sales, Eleven Percent amounts to \$110,000!

While restaurants can be somewhat accommodating to their clients, Eighty-Eight Percent (88%) of the club representatives in our survey responded that they would accommodate a member request for items from a menu not currently being served, thereby, not only expanding the menu, but requiring specific effort to make the accommodation. One Hundred Percent (100%) of the responding clubs reported that they accept walk-ins and the average rate reported is Twenty-Two Percent (22%) of the seats for the dining period. Ninety-Four Percent (94%) of the respondents' service multiple outlets during the same dining period and only Fifty-Four Percent (54%) served these outlets from one kitchen. What these data represent is a further distancing of clubs from efficiency and, thereby, profitability.

Survey respondents expect their members to dine at their clubs just under once per week and nearly three times per month. Whereas, it is estimated that Forty Percent (40%) of fine dining patrons are first-time customers (Newman, *The circle of truth: A club is not a restaurant*, 2015). The expectation of constant repeat business by club members means that menus must change on a regular basis, thereby making it nearly impossible to gain the efficiencies of the manufacturing kitchen.

The cost for which a club purchases its products has a direct impact on the price and percentage of each item. Most food product vendors have tiered pricing according to volume level: Restaurants with higher purchases will gain better pricing as compared to the lower volume purchasers. Large national chain restaurants have a significant advantage in this area as compared to the local restaurant and club. Clubs may participate in club purchasing programs, which may allow them better pricing. We estimate that the product purchasing cost differential for the average club versus a chain restaurant of similar caliber to be as much as Six Percent (6%), according to one national food purveyor.

Beverage

Beverage costs remained stable across all clubs with the largest differential being between the average club and public restaurant where there is a Fourteen Percent (14%) lower cost in the restaurant.

Considering several statements on beverage service, respondents had the option to reply on a continuum of Strongly Disagree to Strongly Agree on a Likert scale of One (Strongly Disagree) to Five (Strongly Agree). The highest rated Strongly Agree (4.28) response was to the statement "Our members expect a 'generous' club pour of alcohol in their drinks (more than the standard amount)." The second highest rated Strongly Agree (3.15) was to the statement "Our bar tenders will "top off" members' drink at no extra charge (an extra splash of liquor – no set amount)." The statement yielding the highest Strongly Disagree (1.98) response was "We have a strict policy requiring our bar tenders to use measuring devices when pouring alcohol and management strictly enforces this policy" (Niven, *Food and Beverage Survey 2.0*, 2017). From these responses, it is clear that club staff are inclined to offer generous beverage pours with less control on precise amounts, thereby making members happy (the top priority!), but at the distinct disadvantage of efficiency and cost control.

Labor

The largest driver of F&B costs is unquestionably labor (L). Not only is this cost more significant as a percentage, but the figure is a ratio of *total* revenue, where food is a ratio of food cost to food revenue, and beverage is a ratio of beverage cost to beverage revenue. We found that clubs, on average, have Sixty – Four Percent (64%) of their F&B revenue from food and Thirty-Six Percent (36%) from beverages (Niven, Food and Beverage Survey 2.0, 2017). If for example, we have \$1M in total F&B revenue, food revenue will be \$640K and beverage revenue will be \$360K. Taking the average food cost for a club as Forty Percent (40%) the cost would be \$256K ($\$640K \times .4$). If the beverage cost is 33%, then the cost is as \$119K ($\$360K \times .33$). Labor, at 65% is \$650K ($\$1M \times .65$). Labor is higher both as a percentage and as a cost.

Service (Labor) is what separates a club from the public restaurant. Members clearly expect excellent, personal service at their club. Staff are expected to know not only member names, but each member's specific information, such as: favorite drink and menu item, preferred seating, children's names and their interests; any other defining knowledge that will make that member feel more comfortable and "at home."

From our surveys (Niven, Food and Beverage Survey 1.0, 2017) (Niven, Food and Beverage Survey 2.0, 2017), we learned that Ninety Percent (90%) of the respondents base their schedules on expected number of seats per period for both AC and B. Our labor information on public restaurants is anecdotal, but is logical that the restaurant bases labor scheduling on dollar volume. It is not uncommon for a club member to visit the 19th Hole or other casual venue after a round of golf and order only water. The service staff requirements are the same whether water is ordered or a full meal. In a restaurant, however, it is very uncommon for a patron to be seated, remain in the restaurant, and order nothing from the menu.

According to our survey respondents, One-Hundred Percent (100%) of the clubs accept walk-ins with the average number of walk-ins to be Twenty-Two Percent (22%) of the seats. Considering that Ninety-Four Percent (94%) of respondents report multiple outlets serving simultaneously, Twenty-Two Percent (22%) of the business is walk-in, Eighty-Eight Percent (88%) accommodate ordering from other menus, and that member satisfaction hinges on great service, it is no surprise that labor can run very high. This gets further complex when considering that Sixteen Percent (16%) of clubs are seasonal (Niven, Food and Beverage Survey 2.0, 2017), where year-round members expect all venues to maintain operations for their convenience.

Conclusion

It is clear that, under the right circumstances, clubs can make money. The issue is whether the club should be driven by the business of food and beverage or the business of member service – or, find that balance between outstanding member value and accommodating outside banquet business. The key differential in making money is the attitude toward member services and staff efficiency.

Critical to a club's success is the understanding amongst the Directors, members, and management of the club's mission. Food and beverage operations stand out because of the level of member participation – everyone eats! At odds are managers and Directors when there is no clarity as to the direction. The number one reason that Directors give for dismissing the GM is incompetence

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(Niven, *Fostering Strong Working Relationships Between the GM/COO and Club Directors*, 2016). Perhaps, however, perceived incompetence might be the result of misunderstanding the food and beverage operation coupled with un-achievable expectations. Hopefully, this paper will help Directors and managers understand the complex food, beverage, and service operations of clubs.

Appendix I

Food Cost and Margin Discussion

Food Cost (FC) is literally, the cost of the food to produce the item, for example the cost of a prepared and served hot dog would be the hot dog (\$1.00) and the bun (\$.50) for a total FC of \$1.50 (for this example, we will leave out the ketchup, mustard, onions, relish, sauerkraut, chili and all the other necessary items to compliment the hot dog experience). It is very common, and easy, to think of FC as the ratio of FC to the selling price, which is actually the FC Percent (FCP). In this example, if we sold the hot dog for \$3.50, the percentage of FC would be $\$1.50/\$3.50 = .4286$ or 42.9%. If our target FCP is 39%, we alter the equation: $\$1.5/ .39 = \3.85 . If we sold every hot dog at the price of \$3.85 our FCP would then be 39%. If, however, we over-produced the number of hot dogs that we actually sold, our FCP would be higher due to the extra cost and non-sales. One of the reasons that the hot dog is a staple item for golfers is the ability to grab-and-go. At the Golfers Turn (the place where food is served quickly), in order to have the hot dogs ready, we have several cooked and prepared to be taken, along with the buns being steamed. At the end of the day, because we want to be prepared, we may have several hot dogs pre-cooked, but not used. Let's say that we sold ten hot dogs at \$3.85 each and that at the end of the day we had three hot dogs and buns prepared, but not sold and we disposed of them (we don't save cooked hot dogs for tomorrow! and very few clubs serve Sheldon's favorite cut hot dogs in spaghetti, so there is no re-use for a cooked hot dog). Our FC would be $13 * \$1.50 = \19.50 . With our sales of $10 * \$3.85 = \38.50 we find that our FCP = $\$19.5/\$38.5 = .5065$ or 50.7%! In the club environment, while we strive for that perfect alignment of product and sales, we almost always prefer to serve the member as our top priority and will accept a loss in order to ensure excellent service. If, for example, we actually sold 100 hot dogs and our rotation was such that we only disposed of three at the end of the day, our FCP would be $(103 * \$1.50)/ (100 * \$3.85) = .4013$ for a 40% FCP, much closer to our target of 39%. The opposite is also true. Let's say we have four hot dogs prepared and only sell one: $(4 * \$1.50)/ (1 * \$3.85) = 1.558$ or 156%!! Volume matters.

Margin (M) is another term used. M is generally in reference to Gross Margin (GM) which is the amount of sales less the variable cost, in this case FC, using dollars as the unit of measure and is considered Contribution (C) to cover other expenses. Using the above example our Gross Margin when selling ten hot dogs is $\$38.50 - \$19.50 = \$19.00$. Our perfect M would be $\$38.50 - \$15.00 = \$23.50$, so we "lost" \$4.50. Our GM Percent (GMP) is calculated as $GM/Revenue = .4935$ or 49.4%.

While FCP appears to be a topic for Directors and committee members, there is a big difference between holding the line of FCP and M. For example, let's say that we sell a hot dog as described above and a Kobi beef steak sandwich which consists of Kobi beef and a bun, the total cost being \$9.00. If we priced the steak sandwich according to our target FCP of 39%, the price will be a whopping \$23.08! and, we won't sell one. So, we decide that a good price is \$13.95 and the corresponding FCP is 64.5%, well over our target. If we sell one hot dog, with no waste, our M is \$2.35 and maintain our 39% FCP. If we sell one steak sandwich, with no waste, our M is \$4.95 with a 64.5% FCP. But, we had *double* the M.

We tend to focus on FCP, when in reality it's the M that makes or breaks the operation. FCP is very complex within the club industry because we have the menu mix for ala carte, which, as

described above, has bearing on the FCP. We also have the other outlets with their own menu mixes, and then we add in the banquets, which have their own mixes. While FCP is an easy number for the shout-out, it can be less useful than Margin. FCP is a great goal, but the Margin made is the number needed to contribute to the other expense coverage. As any successful restaurateur will tell us, "I'll take higher margin over lower FC percentage any day."

In order to truly find FCP useful, we need to drill down into the exact mix of items sold and used, match this against the target FCP and derive our "loss." This is an excruciatingly detailed calculation and, for almost all clubs, one that has less value than cost to derive. However, knowing your target FCP is clearly an easy and quick look at performance, just not perfect.

As you can see from above, there are many opportunities for FC to increase without sales: waste, missed delivery, theft, improper preparation, member return of product, and others. Waste is probably the biggest factor because it has several sub-factors: over-production resulting in product being thrown out; mishandling of the product; incorrect orders; improper cooking; poor quality product in delivery; mishandling of storage; and, others. The point is that to get FCP exact is difficult, it's easier to miss than to get it right. To establish the appropriate FCP, each item needs to have a recipe card with all the ingredients used, with current prices, and the exact amount of each. Using our hot dog example, the recipe card would include: hot dog, bun, ketchup, mustard, pickles, relish, onions, sauerkraut, salt and pepper. Each of these ingredients would have costs associated with the expected amount used per hot dog sold. The good news is that the accompaniments are very low in cost and can be averaged. But, as you can see by the example, one miss in the ingredients and the FCP gets driven higher. The only way that the FCP is lower than predicted is if the buyer only consumes the hot dog and bun with no other accompaniments. Of course, since the accompaniments are so small in price, one slip by staff and the FCP escalates significantly, whereas a person only consuming the hot dog and bun makes virtually no difference. Point being: precisely controlling FCP in the club environment is very difficult.

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