Loyal Order of Moose

Fraternal Education

SOCIAL QUARTERS MANAGEMENT

Managing Profits

Training Module

for

Administrators,
Social Quarters Managers
and
House Committee Members

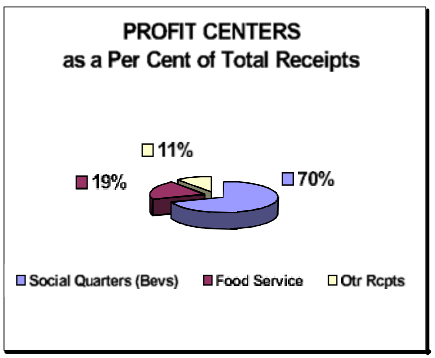
Take notes on this page.

Social Quarters Management
Managing Profits

Identify Social Quarters Profit Centers

Do you know what per cent each ***profit center*** contributes to you sales each month?

Use the example formulas below to calculate each profit center's contribution to sales in your Lodge Social Quarters each month. Divide the sales of each of the three profit centers by the total sales to figure its per cent of total sales.



Beverage operations are the largest profit center in the average Moose Lodge Social Quarters.

Merchandise Sales (Social Quarters)	$6,875
+ Merchandise Sales (Food Service)	$1,905
+ Other Receipts	$1,035
= Total Sales (“Receipts”)	$9,815

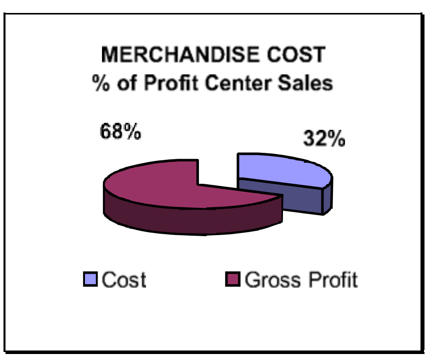
Social Quarters Sales ($6,875) / Total Sales ($9,815) = Social Quarters Profit Center per cent of Sales = 70%

There are no “right” numbers for this calculation. Knowing what percentage each profit center contributes to sales helps to decide what proportion of your efforts at controlling costs and improving profitability you should spend in each area. Start where your efforts can make the most impact.

Calculate the Cost of Merchandise Sold

Do you know the ***merchandise cost***, as a ***per cent*** of sales, for your two main profit centers?

The cost of merchandise, whether food or beverages, is usually the greatest single portion of expenses related to selling. Every month you should calculate the cost of the raw products used as a percentage of the sales they generate.



*The combined cost of product sold for food and bar operations should not exceed **32%** of combined sales.*

How to calculate the cost of merchandise sold:

Inventory value at beginning of month (at cost)	$ 765
+ Dollar cost of purchases during the period	+ $ 2,087
– Inventory value at end of month (at cost)	– $ 631
= Cost of Merchandise Sold	= $ 2,221

How to calculate the Cost of Merchandise percentage:

Cost of Merchandise Sold / Merchandise Sales (Receipts) = $ 2,221 / $ 6,875 = 32.3%

Cost of Merchandise Sold *(cont'd.)*

These calculations should be done individually for both bar sales and kitchen operations. In the restaurant and tavern industry, these are called "pouring cost" and "food cost" percentages. One source shows industry Pouring Costs range from 20% to 30%; while Food Cost percentages fall between 30% and 40%. The combined cost of merchandise as a percentage of combined profit center sales should also be calculated. The combined cost should not exceed 32%.

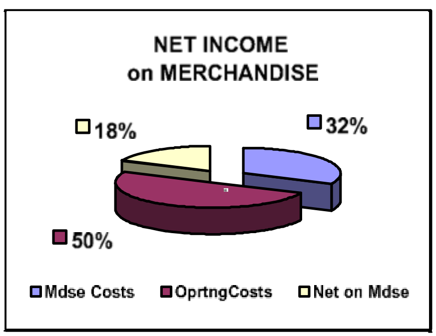
Again, prices paid for goods, and the retail prices you set, have the most influence on the cost of sales percentage. If combined cost-of-goods-sold runs consistently near or above 32**%,** you may not be "marking-up" products sufficiently in your pricing.

Yet, there are dozens of other factors that effect the actual cost of goods sold. Controlling these costs is a part of everyday management in any food and beverage establishment.

Know Your Net Income

Are your Social Quarters and Food Service returning a reasonable ***Net Income*** percentage?

Do you know what the net income per cent of sales is for your Social Quarters? Compute the profit percentage for combined Social Quarters Net on Merchandise each month.



Costs are subtracted from the sales dollars they generate. The two main expense categories are Cost of Merchandise and Operating Costs. The latter includes the labor costs (payroll and payroll taxes), maintenance and other incidentals.

$$\frac{\text{Gross on Merchandise} - \text{Operating Expenses}}{\text{Combined Sales}} = \text{Net Income \%}$$

When the expenses are subtracted, the remainder is Net Income, or Profit. If expenses are more than the sales they created, the business has a Loss. The desired Net Income is 18% or better.

There are only two things you can do to increase net income to the desired level; raise the prices you charge, and/or improve cost controls.

Product pricing has a lot to do with the dollar and percentage profit potential of every food and beverage operation. It should be done using an appropriate method that will assure that you will cover all of your operating expenses and have a fair profit remaining.

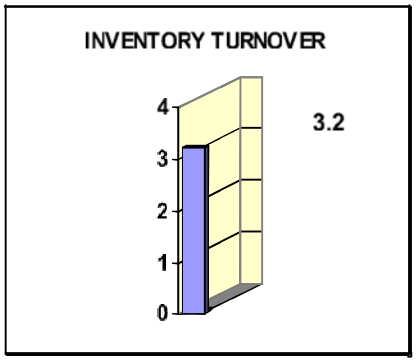
However, before you decide you must raise prices, recognize that almost every business can raise profits by examining its cost controls and implementing or reinforcing standard operating practices.

Monitor Inventory Levels

Do you know the monthly ***inventory turnover*** rate for your two main profit centers?

Follow the steps below to calculate the rate of turnover for your product inventories each month.

Product turnover is defined as the Cost of Merchandise Sold divided by the Average Inventory value for the period. *(See previous example to compute Cost of Merchandise Sold.)*



*Product inventory should turnover at least **2.0** times, and usually less than **4.0** times per month with weekly deliveries.*

How to compute the Average Inventory value:

Beginning Merchandise Inventory		$ 765
+ Ending Merchandise Inventory	+	$ 631
= Sub-total		$ 1,396
Divide by **2** = Average Inventory	$ 1,396 ÷ 2 =	$ 698

How to compute the Inventory Turnover Rate:

Cost of Merchandise Sold	$ 2,221	=	3.18
Average Inventory value	$ 698		

The example inventory "turned over" 3.2 times last month, or about once every 10 days.

Carrying more product inventory than needed to maintain operations is one of the most common problems in many businesses. First, because excess inventory represents cash you paid out that could be put to work somewhere else, even if only in an interest bearing account. Also, unneeded inventory can be an invitation to theft, lead to unnecessary spoilage and breakage, and make it just that much harder to count and control.

The usual standard, assuming weekly deliveries, is that a 1½ week supply (no more than two weeks) should be sufficient to handle surges in sales volume between deliveries.

Manage the P. E. P. System

Are you regulating the ***3 elements*** of the Social Quarters operating system?

P. E. P.

- ***Products***
- ***Equipment***
- ***People***

A food and beverage operation is really two kinds of business combined into one. You take in raw goods to manufacture products, and you retail them to the end consumer. There are three elements in this production/retail sales outlet that make up an interdependent system.

Managing your dual-purpose business means coordinating the three elements so they work together smoothly as a single system. You do this by establishing procedures, practices and policies that must be applied consistently and supervised constantly.

Manage P.E.P. *(Cont'd.)*

To manage the profitability of your Social Quarters business, you must first analyze the outcomes and outputs of the system through tools like those presented here. Actual operations should also be observed. Then, you must implement and follow through on proven practices and procedures.

Standardized practices have been used successfully in the food and beverage industry that, when well implemented and monitored, will make the system work to produce optimum customer satisfaction and profits.

Checklist

The checklist on the following pages can help you to identify control practices that don't exist, or frequently break down, in food and beverage establishments, causing some of their profits to "leak" away. Correcting these profit leaks can add 2% or <u>more</u> to Net Income.

PRODUCTS

1. Overbuying; stocking too much inventory for the projected sales cycle, thereby restricting the use of monies for other expenditures or investments.
2. Not using vendor discounts and promotions to reduce product costs, in effect, overpaying for merchandise.
3. Not purchasing one standard bottle size, either 750ml or 1 liter, which results in using improper values when computing inventory. (Also, oversized bottles can slow down a bartender's production and/or lead to excessive waste.)
4. Overpaying invoices through failure to verify prices and delivery records showing goods damaged, shorted, or backordered. Not assuring credit is received for backordered merchandise or damaged goods returned.
5. Not maintaining accurate perpetual inventory numbers by taking complete inventories regularly. (weekly)
6. Not monitoring inventory through random checks of bar stock to make sure the count of full, open, and empty bottles is appropriate.
7. Product waste due to incorrect storage; allowing exposure to improper temperatures (too hot or too cold), air, moisture or light for too long. Uncovered, un-refrigerated garnishes spoiling overnight.
8. Not forcing the use of "dead" stock or using "sales" and promotions to reduce inventory of items moving slowly.
9. Not pricing drinks (or meals) correctly to produce the desired pouring (or food) cost percentage.

EQUIPMENT

10. Failure to lock storeroom and other preventive measures to minimize or eliminate theft and misappropriation of products.
11. Not organizing equipment and work layouts for efficiency causing slower service, spillage and breakage.
12. Bartenders not using pre-set glass sizes for standard drinks. (portion control)
13. Bartenders not having, or not using, standardized measuring or dispensing devices. (portion control)
14. Not maintaining equipment temperature, calibration and/or cleanliness to avoid spoilage and waste, ensure good quality and provide consistent profit.

PEOPLE

15. Failure to control storeroom keys to only those personnel who must have access to the merchandise inventory.
16. Pilferage and theft of merchandise by employees and vendors.
17. Not recording, or inaccurate entries of products received or used in a perpetual inventory, or on tracking sheets or cards.
18. Failure to take regular inventories, or to audit the accuracy of the inventory numbers.
19. Not computing the pouring or food cost percentages to determine product costs and yields.
20. House Committee not setting standard policies and communicating them to all employees and volunteers.
21. Not providing adequate orientation and training to new employees and volunteers.
22. Failure to limit responsibility for the merchandise inventory to the control of one supervisory person.
23. Overstaffing with more paid bartenders and servers than needed. Open hours of operation that fall below minimum sales required to be profitable.
24. Over pouring and not using prescribed drink recipes by bartenders.
25. Employees or volunteers consuming products or giving away drinks and/or food to other employees or friends.
26. Disorganized staff too slow to take advantage of peak sales volume potential.
27. Unnecessary waste through employee carelessness in kitchen or bar causing spills, breakage, or ruined product.

(*more on next page*)

PEOPLE

(Continued)

28. Suspiciously high breakage because a supervisory person is not verifying breakage and discards when mishandling of products occurs.
29. Employees not ringing up each sale as customers are served, then receiving wrong amounts for the "mental tabs."
30. Not comparing daily record of drinks or meals sold to the amount of inventory used each day. (or weekly)
31. Not reacting quickly to correct the cause of a problems once identified.
32. Confusing customers with food and drink menus too complicated so they discourage sales.
33. Not tracking sales sufficiently to identify buying trends of customers.
34. Poor or no advertising for special events and promotions (within the Laws of the Order and local ordinances).
35. Ignoring customers' requests for drink or menu selections.
36. Not recognizing the importance of customer feedback to evaluate how satisfied they are with products, service, and ambiance of the Social Quarters.

- (Checklist adapted from *The Upstart Guide to Owning and Managing a Bar or Tavern*, © Roy S. Alonzo, Upstart Publishing Company, Inc., Chicago, IL.)

Take Action

Do you need / want to ***optimize profits*** in your Social Quarters food & beverage business?

We suggest you take the following steps, as an assignment from this training, to review your current performance and begin to manage greater profitability from your Social Quarters.

Action Steps:

1. Review your last one or two monthly Profit and Loss statements. Check or perform the calculations shown here.
2. After re-reading the checklist, take a tour of your Social Quarters. Also spend an hour or two observing the operation, especially during a peak period.
3. Choose **three** to five practices that you think need to be implemented or reinforced.
4. Follow through for a full month or two to establish consistent practices.
5. Measure the progress and change in your P & L statements.
6. Choose three more practices and continuously improve.