

# Boozhooz

## Are You Managing Margins or **MAKING MONEY?**

*It's better business to switch your focus from the obvious.*

BY MIKE SWAIN

**W**ould you rather invest \$10 to make \$100, or invest \$20 to make \$150?

Most managers would choose the first option, focusing on the best profit margins. A savvy owner would pick the latter, realizing that banking \$130 is better than only \$90.

The paradox is that driving sales revenues and profits can often hurt pour cost percentages and profit margins.

"Up-selling" is a good example of this. Assume a bartender up-sells a \$4 screwdriver from well vodka to Absolut vodka for \$5.50. If your focus is on making money, you should commend the bartender for making you an extra 83¢ on the transaction.

But that up-sell also hurt your pour costs: the well vodka runs at 7% while the Absolut was 17%. If your managers are bonused on hitting a pour cost target, as most are, then the manager's best interest is to discourage up-selling.

If the question were simply, "would you rather have a 7% pour cost or a 17% pour cost?" one would think that it would be an easy answer. But we are in business to make the



**POUR COST?**

highest profit, not to run the lowest possible pour cost.

In fact, by focusing on pour cost rather than profit, many managers will end up reducing your profitability. We saw that first-hand at a chain account that decided to use Bevinco. They were reluctant to employ us at one of their locations because the pour costs there were stellar. We quickly found that the bar manager was a little too focused on pour costs. He had instructed his bartenders to substitute well liquor whenever



**OR PROFIT?**

the customer ordered calls or premiums in a mixed drink – reasoning that the customer would never be able to tell and he would be praised for low pour costs! He also actively discouraged the bartenders from up-selling.

The restaurant was a lot less profitable than it should have been but the bar manager made his bonus every period.

The only way to manage margins effectively is to know what the margins SHOULD BE. The proper target is

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**“...by focusing on pour cost rather than profit, many managers will end up reducing your profitability.”**

the optimal pour cost, or ideal pour cost, which tells you what pour cost you should be hitting if you are able to eliminate over-pouring, mis-ringing and theft. Since you don't mark up all of the drinks you sell by the same percentage, and you have no way of controlling what your customers are going to order, that optimal pour cost will vary from day-to-day and month-to-month. So why would you use the same target percentage to measure the efficiency of all of the sales?

A 17% pour cost sounds great but should only be acceptable if the optimal pour cost is at least 16.5%. I remember a “gentlemen’s club” that was pretty proud of their 12% PC – until a Bevinco audit showed them that their optimal pour cost was only 10%. Their “shrinkage” problems of theft and over-pouring were effectively “hidden” by their focus on pour costs.

A Bevinco audit uncovers shrinkage that often goes undiscovered using management by pour cost. We do so by comparing the actual product used to what was sold in every drink. That way the focus is on Making More Money, not just Managing Margins. **BN**

*Mike Swain is the owner of Bevinco East Valley serving the Phoenix Metro area. A BEVINCO franchisee for 10 years and with 25 years in the Hospitality industry, he provides services for multi-million dollar operations, as well as small “mom and pop” bars and restaurants, and everything in between.*

# How does your restaurant operation measure up?

**A**re your costs in line? Where are you over-spending? Should you expect more in profits? The National Restaurant Association’s new Restaurant Industry Operations Report 2008 allows restaurateurs to compare their operations with other restaurants.

The new study, which was conducted jointly by the association and the accounting firm of Deloitte is based on information from over 700 restaurant operators. It found that, amongst restaurants with

average checks between \$15 and \$25, the median food cost was 34.5% and pour cost was 29.3% while labor costs ran at 33.5%.

The accompanying table shows the average costs per table and percentages for the average restaurant in this group.

Data on restaurants with check average below \$15 or above \$25 is also available, in addition to a wealth of other statistical data, at [www.restaurant.org/research/operations/report.cfm](http://www.restaurant.org/research/operations/report.cfm)

## Median Restaurant Income Statement

Average Check Per Person \$15 to \$25

|                                   | <u>\$ per Seat</u> | <u>% of Sales</u> |
|-----------------------------------|--------------------|-------------------|
| <b>SALES</b>                      |                    |                   |
| Food                              | \$6530             | 75%               |
| Beverage                          | \$2336             | 25%               |
| <b>Total Sales</b>                | <b>\$9018</b>      | <b>100%</b>       |
| <b>COST OF SALES</b>              |                    |                   |
| Food                              | \$2305             | 34.5%             |
| Beverage                          | \$600              | 29.3%             |
| <b>Total Cost of Sales</b>        | <b>\$3244</b>      | <b>33.1%</b>      |
| <b>GROSS PROFIT</b>               | <b>\$5,864</b>     | <b>66.9%</b>      |
| <b>OPERATING EXPENSES</b>         |                    |                   |
| Wages/Benefits                    | \$3300             | 33.5%             |
| Direct Operating Expenses         | \$602              | 5.9%              |
| Music and Entertainment           | \$43               | .5%               |
| Marketing                         | \$156              | 1.8%              |
| Utility Services                  | \$311              | 3.4%              |
| Restaurant Occupancy Costs        | \$549              | 6.0%              |
| Repairs and Maintenance           | \$156              | 1.8%              |
| Depreciation                      | \$188              | 2.1%              |
| Other Expense                     | \$154              | 1.5%              |
| General & Administrative Expenses | \$350              | 3.1%              |
| Corporate Overhead                | \$420              | 5.0%              |
| Interest Expense                  | \$103              | 1.2%              |
| Other Expenses                    | \$96               | 1.0%              |
| <b>Total Expenses</b>             | <b>\$5802</b>      | <b>63.4%</b>      |
| <b>INCOME BEFORE INCOME TAXES</b> | <b>\$331</b>       | <b>3.6%</b>       |

# Cutting Off Intoxicated Customers

*It's a necessary skill that requires tact and diplomacy.*

BY ROBERT PLOTKIN

**O**ne of the most difficult bartending tasks is cutting off intoxicated customers. In today's litigious society, it is a necessary evil but very difficult to pull off without alienating the customer; or, even worse, offending the customer so that an ugly confrontation develops that disturbs other guests.

Robert Plotkin, one of the industry's best consultants, tells a great story about how he learned that the key to cutting off service is to anticipate the problem ahead of time and the importance of quiet diplomacy:

"At my first bartending job in college I worked with a journeyman



bartender so old that he had no name. He was a threadbare, old-

school guy who had little patience for rookies. He delighted in pointing out how little I knew about bartending. While surly with me, he worked the crowd like a maestro. I recall greatly admiring his complete awareness of everything happening at his bar.

One night he took a drink order from a couple seated at the bar and called me over. "See that woman, she's starting to get lit. Now learn something." Lit was his term for becoming giddy, or animated.

He brought the drinks over to the couple, leaned in to the woman, and quietly said, "Here you are... drink this one slowly because it's the last one I can safely serve you tonight."

**BEVINCO**

**newOFFICES**

**Redondo Beach, CA:** Scott & Heather Blume, [blume@bevinco.com](mailto:blume@bevinco.com)

**Kansas City, MO:** Janos Glynn  
[j.glynn@bevinco.com](mailto:j.glynn@bevinco.com)

**Strathmore, AB:** Dave Schultz  
[d.schultz@bevinco.com](mailto:d.schultz@bevinco.com)

**Spokane, WA:** Don Merriman  
[spokane@bevinco.com](mailto:spokane@bevinco.com)

**Muscatine, IA:** Gary Wagner  
[g.wagner@bevinco.com](mailto:g.wagner@bevinco.com)

**Waco, TX:** Russell Meyer  
[r.meyer@bevinco.com](mailto:r.meyer@bevinco.com)

**Willamette Valley, OR:**  
Mark Rosenfeld,  
[m.rosenfeld@bevinco.com](mailto:m.rosenfeld@bevinco.com)

**Denver, CO:** Rick Varner  
[r.varner@bevinco.com](mailto:r.varner@bevinco.com)

**Bay and Saginaw, MI:**  
Rondell Merrow,  
[r.merrow@bevinco.com](mailto:r.merrow@bevinco.com)

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## INSIDE:

# MANAGING MARGINS OR MAKING MONEY

**MIKE SWAIN** explains how changing what your business is focusing on can totally change your bottom line.

Also in this issue of *BoozNooz*:

## CUTTING OFF Intoxicated Customers

**ROBERT PLOTKIN** offers some solid strategies for dealing with this complex problem *before* things get ugly.

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I remember her reaction to this day. She raised her eyebrows for a moment, thought about it, and then nodded, seemingly unfazed and unperturbed. The brute walked back to the well grinning. "Kid, see how that's done? I just cut her off and didn't refuse her a thing."

As time went on he explained to me that cutting off a guest is less involved and better received when done before the person becomes inebriated. He said that way they're afforded the face-saving opportunity to nurse their last drink of the night.

That was 1973, and for the following 25 years, I approached refusing service in exactly that way. In my experience the tactic rarely causes patrons embarrassment, and typically doesn't provoke a negative response. To the contrary, more often than not, the person actually said thanks. In the handful of occa-

sions when a nasty scene ensued, I had misjudged the situation and was too late intervening.

That's the operative point. Bartenders need to be constantly aware of their environment and everything in it. There are easily recognizable signs of impending inebriation, but the rub is that you have to be paying attention. Before a person gets to the point of slurring, they've likely exhibited a dozen symptoms of intoxication. The time to intervene is early before the person is under the influence." **BN**

*ROBERT PLOTKIN is the past president of the National Bar & Restaurant Association and author of numerous books including Successful Beverage Management – Proven Strategies for the On-Premise Operator. You can sign up for his free newsletter, the Beverage Authority, at [www.beverageauthority.com](http://www.beverageauthority.com). He can be reached at [robert@barmedia.com](mailto:robert@barmedia.com).*