



5 Steps to Finding Hidden Profits

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Reprinted from the Colorado Beverage Journal

There is a wide range of factors that shrink the profit margin in any establishment. It might shock you to find out all that I uncover in my profession when I do an analysis for a new client. Here are some ideas you can implement very easily. All will help you to increase sales, reduce usage of product, and ultimately fatten your profit margins.

1) "OPEN LIQUOR" KEY:

This is a bartender's best friend, an owner's worst enemy. Here is why: The bartender charges the customer \$16 for a round of drinks. He goes to the cash register and rings up \$13 on the open key. He gives the customer the proper change, but takes the "skimmed" amount and puts in his tip jar. If he does this enough during a shift he could net an extra \$50 or more in "tips".

In another scenario the honest staffer charges the customer \$15 for a round that should have been \$17 in reality. He simply made a math error when he added up the round in his head. That error just cost the owner almost 12% in operating revenue on one transaction. Happens all the time.

What is the solution? **YOU MUST, REPEAT, MUST** all but eliminate the use of this key. If you do not have a system with pre-set keys, to track at the very least by quality level (wells, calls, bottle beer, etc.), get one TODAY. You will pay for it in less than a month, believe me. The open key should only be used when there is no other way to ring an item. I have a client who does over \$40,000 weekly in bar revenue. They never have more than \$20 a week on the open key, yet they have an antiquated POS system.

2) HAPPY HOUR: 2 FOR 1 or 1/PRICE:

Can changing your happy hour from a two for one to a discounted amount help your bottom line? You bet, here is why:

▶ Your HH starts at 5pm and goes to 6:15. The customer orders their first round (\$3.50 wells) at a bit after 5pm and does not finish until about, say 5:45. He/she then orders their next round at shortly before 6pm. They finish that second round and leave around 6:40. They have now spent \$7 on drinks in your bar and your gross profit is \$4.90 (assuming Pour Cost is 15% at regular price on drinks ordered, double to 30% for HH).

In the ½ price scenario, customer orders first, second, and third drinks during HH period. But he/she stays for one more after HH and pays full price for that drink. That customer has now spent \$8.75 and the gross profit is \$6.65. That is an \$1.75 increase in profits. It is not hard to change to this scenario for most establishments. You are reacting to the demand in society to promote more responsible drinking (not pushing so much quantity at your clientele). I did this with one client and we saw profits increase by more than 3%. There were no complaints and traffic did not decline.

3) CASE DEALS, "FREE GOODS":

A trap many "savvy" buyers fall into. Your reps will tell you all the reasons it is smarter to buy liquor in case quantities. Or if you buy a case of this Vodka, we will give you a free bottle of this new flavored vodka, "your customers will love this product". Often I find my clients have way too much inventory on hand to support their sales.

Take a look at the volume-discount scenario: An item turns over at a rate of lets say 3 bottles a month. If you buy in a case quantity you save \$9.00 or 75 cents per bottle. Assume you pour a 1¼ oz shot. If the product costs \$14.25 per bottle after discount, you have just saved a shade over 2 cents per drink. This improves your PC by a *whopping 4/10* of a percent on that item. You now have a four-month supply of this product. Invest your money in any short-term money market and you will do better.

The free goods are only good if you can turn them into sales. This ploy is used to introduce new products to the market. How often do you find these items sitting on your shelf gathering dust? Make sure that your rep will come in and aid in promoting that item and if they don't, make them take it back. Also consider the more inventory you carry the harder it is to keep track of, the more potential for internal theft.

Next time do the math before you commit to these types of buying practices. It is important to track your usage on key products and only buy in volume when merited by inventory turns, not price.

4) RECEIVING OF ORDERS:

How often do you go to the liquor room to stock that premium liquor you just bought; only to find out it is not there. You know you just ordered it, so where did it go? Maybe it was already sold? Doubtful. Maybe it got stolen by one of your

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have determined these percentages by simply adding up the cost of the product we used and dividing it by the cost of the product sold. So, for example, if a bar used \$5,000 in alcohol in January and had sales of \$25,000, their pour cost worked out as 20%.

Unfortunately, this traditional method has serious defects that limit its effectiveness.

The main problem with pour cost is deciding what to compare it against.

How do you know if your percentages are in-line? Most operators simply look at the average pour cost in the industry or at their own historical costs. On that basis, most operators are happy if their pour cost is around 20% and their food cost is around 30%. But, even if your costs match these arbitrary targets, they are still probably much too high.

The reality is that almost every bar and restaurant has problems with shrinkage. Bar owners have perennial problems with bartender sloppiness, unauthorized give-aways, over-pouring for tips and outright theft. BEVINCO, a beverage auditing company specializing in the hospitality industry, has determined that the average bar is missing between 20% and 25% of their liquor, wine and beer.

Pour cost and food cost calculations are adequate for budgeting: they are simple to figure out and easy to understand. But, they are not the correct method for evaluating your business - and are almost useless for determining or preventing product loss. Here is why; there are two simple reasons:

1. The mark-up on all your products is not the same. For example, a bar will usually mark up their well products by around eight times cost (hence a 12% ideal pour cost) but expensive scotches will only be marked up by four times cost (a 25% pour cost). Restaurants face the same issue. Pasta dishes have a much higher profit margin than steaks.
2. Your product mix changes from day-to-day, month-to-month and season-to-season throughout the year. You cannot control what your customers will order or which customers will come into the restaurant.

Thus, if you sales mix in a given month was higher in well drinks or pasta sold, your cost percentages would have to be higher - regardless of any other factors. The result is that your **target** pour cost or food cost should also vary continuously.

Our industry has been slow to recognize this. Most operators will still tell you that their bar is doing well because their pour cost is under 20%. Most restaurant chains still give each of their restaurants the same food cost budget – despite differences in product sales mix from location to location.

Many operators have realized that that they need a better method of analysis; that there must be a better way. Here, then is the correct way to measure your operations. It is based on the following principles:

1. First, the person conducting the analysis should be independent of the operations. A lot of restaurants entrust their bar managers and chefs to take inventory, but they are not really objective and unbiased. Owners or independent companies are the best choices.
2. Precision is critical in determining on-hand inventories. Steaks should be counted individually; kegs of beer should be weighed – not simply shaken.
3. The amount of product used should be converted to units. For example, 100 ounces of Jim Beam used or 150 rib-eye steaks.
4. This usage should be compared directly to the number of units sold. If this bar used 100 ounces of Jim Beam and 150 rib-eye steaks but only sold 80 and 140, then the bar is missing 20 oz of Jim Beam and 10 steaks.

The best part about this method is that missing product is easily identified. You then have the tools to hold your staff accountable for shortages. If you can tell your bartenders that there were 35 bottles of beer missing last week, you will soon have this problem licked. Your profits will quickly increase – and you can ensure they stay that way by performing these procedures on a regular basis.

How much are operators losing if they just look at their food costs and pour cost percentages? It can be an awful lot. For example, a restaurant had recorded sales of \$10,000 for one week and a cost of 31%. But, based on product usage, their theoretical or ideal cost was really 29%. This difference of only two points cost the owner over \$635 *each week* or \$33,000 per year. The average restaurant is losing even more than this.

Sadly, the truth is that most operators are satisfied that everything is fine because their food cost and pour cost numbers look good. They should ask themselves two more questions:

Am I really sure I don't have hidden shortages? Can I afford to rely on antiquated measures like pour costs and food cost to tell me?

Who is BEVINCO?

BEVINCO is an international liquor auditing service. We work for thousands of bar and restaurant owners throughout North America. Your BEVINCO auditor uses a computerized program to weigh every container of liquor, wine and beer in your bar.

Our weekly reports will then compare the usage and the sales of every drop of alcohol in your bar. BEVINCO will uncover hidden losses and give you the tool needed to eliminate any theft, over-pouring and bartender sloppiness.

BEVINCO has found that the average bar and restaurant is missing over 20%.

We have over 160 offices throughout the world. We will be happy to send you more information on our service. One of our auditors and consultants will give you a free demonstration, please call us anytime at:

1-888-BEVINCO



Stephen Smith, Toronto, Canada
One of 150 BEVINCO auditors in 15 countries

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employees? Possible. Maybe you never got what you already paid for? Highly probable. I am often shocked to find out just how poor my clients receiving procedures are. I deal with some large outfits that have good procedures in their operations manual. Problem is they never train their staff properly how to use them. Here are some guidelines to follow:

- Receive your orders when you want them coming in, not what is convenient for your vendor, after all you are the customer.
- Schedule your staff properly. Have that AM bartender come in an hour earlier on the days your heavy orders hit. Also make sure they are properly trained to read and check in product the correct way.
- Never have the driver put the product away without checking it in. Once you sign the invoice, you are stuck paying for it, whether it was delivered or not. I see a lot of vendor discrepancies in my travels.
- Make sure shortages/damaged items are clearly noted on the invoices and verified with a driver's signature.

5) OVERPOURING/INCONSISTENT QUALITY:

How often do you say its ok to give that regular a little more because he is such a "good customer"? How about that table that complained their drinks are really weak compared to what they usually get? These scenarios hurt your business in ways you may not have thought of.

Every time you overpour a customer, you are **losing sales dollars**. How? Most bar owners I talk with think they are only losing the cost of the product that was overpoured, but this is incorrect. Let's say you overpour that regular by say a half a shot each time he orders. Now lets say he has 3 drinks in your bar 3 times a week. He drinks call rum, which you sell for \$3.75. Your cost for his drink has gone from 53¢ (1¼ oz pour) to 84¢ (2oz pour).

But the real damage is in the loss of potential revenue from that customer. He/she would have bought at least one maybe two more drinks each day if you had poured him to the standard. One drink a day is worth \$11.25 in revenue for the week. You could buy them a free drink, maybe two, and still make more profit.

How about those weak drinks? Maybe they're not weak, but poured properly. It is just that you have one bartender who is very heavy-handed. Your standard tastes "weak" only in comparison to this bartender's costly habit. Or perhaps recipes on multi-liquor drinks are not being adhered to. Either way you've got a problem. The solution is to make sure your staff pours consistently and knows their recipes. I suggest you do spot checks (pour tests), give written tests on your specialty cocktails, and use some sort of measured pour system (jigger).



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ADDRESS CORRECTION REQUESTED

Are your Costs too High?

-by Ian Foster (BEVINCO West Coast)

What is your pour cost? What is your food cost? Are they as low as they should be? Most bar and restaurant owners would answer yes to this question.

But, how do you know?

Now *this* question is usually answered only with a puzzled look. Today, many operators are asking themselves this last question and realizing that they really don't have any idea. Many are realizing that the traditional way of evaluating food and beverage operations is inadequate in today's world.

For most of the past century, restaurant and bar owners have evaluated their operations based on

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their cost of goods percentage – more commonly referred to as pour cost or food cost. Traditionally, we

