by James M. Klas



# Maximizing Food and Beverage Profit

Casino operators have a love/hate relationship with food and beverage. It is a necessary component, both to accommodate gamblers and to attract them. However, it often operates at a loss, or at best a modest profit, and carries a higher proportion of headaches in the form of customer complaints, staffing issues and other problems than perhaps any other part of a casino resort. Efforts to increase profits, or at least mitigate losses, typically focus on cutting staff and finding cheaper sources for key ingredients. While labor and food costs are certainly the most significant expenses in any food and beverage operation, simply cutting those costs by reducing staff or quality fails to address many other key aspects of food and beverage operations that drive overall profitability.

Actually, maximizing food and beverage profitability should start before the first entrée is served, even before the first cook is hired. The design of the restaurant or bar itself, both the back of house and front of house, directly affects potential profitability to a greater degree than most people recognize. In the back of the house, key factors include: the size of refrigerated, frozen and dry storage; the distance from storage to cooking line; the distance from storage to receiving; the amount of pre-prep space; the layout of the cooking line itself (including space, equipment sequencing and line storage); the distance from the line to the floor; the distance of the dishwashing area to the floor and line; the ease of traffic flow and avoidance of choke points; and (to a greater degree than ever), the location of waste and recycling disposal. All of these factors have major impacts on labor cost and food cost.

For example, inadequate storage space placed too far from the cooking line and/or the receiving point will increase purchasing inefficiency, increase spoilage and waste, increase theft potential and reduce labor productivity, which either increases labor cost or increases customer dissatisfaction due to delays. In the same way, inefficiencies in cooking line layout or equipment result in more product loss due to cooking errors, slower order to table times, increased labor costs and a likely increase in customer complaints. Traffic flow problems and poor dishwashing placement can slow service and increase china, glass and silver costs due to breakage or greater par stock needs.

In the front of the house, it is critical to minimize the distance from kitchen to farthest table and ensure that service stations are conveniently placed and adequately stocked for the type and level of service offered. Traffic flow in the front of the house is also critical to allow servers and bussers to do their jobs and customers to move to and from their tables and to the restrooms. A common error is to place restrooms near the kitchen entrance creating potential collisions between staff and customers. An alternative problem in a casino setting is to have restrooms located out on the casino floor so far from the restaurant that it slows the overall dining experience and reduces potential table turns.

Aside from the physical layout and equipping of the space, menu design plays a critical role in maximizing profitability before the doors are even open. All menu items need to be pre-costed with target margins in mind. Not only does that allow you to target an overall cost of sales margin, it aids in monitoring waste, spoilage and theft. With a pre-costed menu, if the sales mix yields a cost of sales different from what should occur based upon pre-costing, something is getting lost, accidentally or deliberately. Par stock levels and purchasing patterns can also be compared to the actual sales mix to look for discrepancies that indicate a problem.

There will always be variance in the product cost and labor cost to prepare various menu items. In a two-fold menu, the eye rests first on the center of the right-hand page. In a three-fold menu it rests first in the middle of the center spread. This is the place to feature the items that have the best margins. Similarly, appetizers, desserts and above all beverages usually have better margins than entrees. Menu designs and staff upselling should always emphasize the encouragement of customers to include such components in their dining and drinking experience. Nightly specials should always feature better than menu-average cost of sales.

What is actually offered on the menu will vary, depending not only on the type of restaurant theme and target market, but also on the quality and availability of the labor pool and the raw materials. Scratch cooking from bulk products synthesized on site will always give the lowest cost of sales, but requires storage space, prep space and skilled labor that may not be practical. If it is, then a much broader selection of menu items designed to use all of the bulk raw materials is ideal, as the French have done for over 200 hundred years. In this day and age, however, space and staffing usually dictate more prepackaged and prepared components. While the food cost is higher, the labor cost is much lower and the quality level is more consistent, if perhaps at a more mediocre level. For that environment, a more limited menu is far more practical. However, even for a limited menu, a mix of items that allows for multiple uses of individual prepackaged raw materials (i.e. boneless, skinless chicken breasts or basic brown sauce base) will yield better overall profitability than having to purchase unique prepackaged components for each menu item.

In addition to the types and amounts of preprocessed raw materials used, it is important to differentiate between cooked and uncooked items. Storage times are much longer for raw materials that have not yet been cooked or even prepped than for dishes that have been partially or completely prepared in advance or stored due to under use. This is particularly critical for the venerable buffet line. The amounts and unit sizes of the food placed on the line should be kept as small as practical to reduce loss due to time on display. While smaller batches could have a negative effect on labor cost, the reality is that buffet attendants and line cooks usually have sufficient time to keep things stocked, provided preplanning is done for the max-peak periods when spoilage is unlikely to be a problem. Conceptually, the model is the same as that used in fast food chains, with the par stock of precooked items carefully calibrated to match the demand cycle. This doesn't mean having empty slots in the buffet line as much as having smaller display pans more frequently replaced. Such an approach will also have the effect of improving the quality of the food served by making it far fresher off of the cookline.



Food and beverage profitability in general, and food cost in particular is commonly judged on a percentage basis. There is nothing wrong with that approach. However, the absolute dollar margin also needs to be considered. An item with a higher food or beverage cost margin on a percentage basis but a higher dollar margin in absolute terms actually covers more of the labor and overhead costs than one that has a low cost of sale percentage but also has fewer absolute dollars generated per sale. An example from a wise old restaurateur serves as a nice illustration of the point.

Years ago, a Washington, D.C. hotel had a leased bar and grill as its on-site food and beverage offering. In addition to a limited but interesting wine list, the operator included Dom Perignon at a price that anyone familiar with wine would recognize as an excellent bargain, far closer to liquor store pricing than typical for a restaurant. It seemed out of character with the other wine offerings and obviously cheap. It was explained that almost nobody ever ordered the Dom Perignon, but most people recognized that it was an excellent price. They drew from that observation the natural but not actually accurate conclusion that the rest of the wines on the list, ones for which they were less likely to know typical pricing, were also bargains. They were not, but the customer felt good about ordering wine there and ordered it more often. As for the rarer occasions when someone in a celebratory mood or trying to impress a date ordered the Dom Perignon, the restaurateur made more in total actual net dollars off of it than from any other bottle on his list. Either way, he won.

There is a further important point related to absolute versus percentage margins. As operators, it is natural to focus on the numerator of the percentage equation, the dollars spent on food and beverage raw materials, labor and other inputs. However, the percentage equation has a denominator too, the same one across the board, namely sales. As a result, the higher the sales, the better the operating margin. Operators tend to regard cost of sales and even labor cost as all or nearly all marginal, the more sold the higher the cost. While this is generally true, it is not strictly and absolutely true, especially for labor or other expenses besides cost of sales. The same server will take roughly the same amount of time to serve the patron ordering fewer and lower cost times as the patron ordering more items or items with better margins. While you cannot make people order things they do not want, at least not in the long term, you can definitely help them see the items first and most clearly that you most prefer they order and train your staff to highlight those options. If your customer spends $10 on a ticket that cost $5.70 to prepare and serve, your gross margin is 43 percent. If instead they spend $10.50 for the same cost level, not because you raise prices but because you used your menu and staff to highlight the only slightly higher priced item and you structured your operation to serve it for the same cost, you just increased your gross margin to almost 46 percent and dropped more money down to cover overhead.

It's nice to have these ideas and guidelines, but how do you make sure they are happening across your food and beverage mix? Your executive chef, food and beverage director and other senior food and beverage managers should be able to explain clearly the steps they are taking to address menu design, work flow and raw material controls. If they do not appear to have a clear grasp in some area, outside operational consultants can be brought in to offer guidance. In this technologically driven age, many of the types of ideas, planning and controls described have applications incorporated into restaurant inventory control and point of sale systems. Monitoring the customer comments is another useful tool. When there are complaints about long waits, food temperature, food quality or menu item availability, there are most certainly underlying issues that are not only hurting you on the sales side, but on the cost side as well, a double whammy on the operating margin.

Of course, there is one more shortcut to deal with food and beverage profitability, one that has become more pervasive in recent years: offload the problem to somebody else partially or completely through franchises or leased restaurant space. The advantages, disadvantages, nuances and pitfalls of that option are myriad enough to warrant an entirely separate article. However, the basic advantages are a reduction in business risk and the acquisition of operational expertise and focus beyond your in-house capabilities. The basic disadvantages include a reduction in business control and a reduction in income potential, at least the income potential of a properly run operation, since your franchisor or lessee claims a share of that income.

The food and beverage components in a casino resort will always run at lower margins than similar independent operations. Casino operators can and should accept lower margins in exchange for more gaming customers and more time for those customers on the gaming floor. However, even in that context, food and beverage operations in casinos can be designed to maximize profitability within the casino resort framework by taking a wholistic approach, from design to menu to operations. ♣

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