

Food and Beverage 2008.... Times demand a strategic approach.

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“Intensified by high fuel prices, growing demands in developing countries, the weak dollar, and the diverting of grain to biofuel production, wholesale food prices increased 7.6 percent in 2007, the greatest single-year food price increase in 27 years, according to a National Restaurant Association (NRA) analysis of Bureau of Labor Statistics data.” QSR Magazine, May 12, 2008

Hardly a day has passed in the last year when rising food costs have not been an issue. Whether it's the treasurer of the club, chair of the finance committee or a member of the house committee, all are voicing their concerns on a regular basis. Top managers and clubs are fighting back, taking proactive measures and educating members about the effect of rising prices on the club's finances.

Think Globally, Act Locally

It is time to review purchasing from top to bottom. How many deliveries come through the door on a daily basis? Most invoices at this point include a fuel surcharge. While the charge may seem mandatory, some clubs have been successful in negotiating reductions or elimination of the fees. Another consideration: vendors may be willing to give discounts for delivering larger loads, making less frequent deliveries or deliveries scheduled during slower periods.

Consolidation may be another option. Are multiple deliveries arriving from a number of different vendors? A consolidation of orders that increased volume to the remaining vendor might lead to more favorable pricing. Traditionally, clubs have followed the lead of the hotel business and done daily bidding using as many as three vendors. After receiving the bids, orders are split as much as three ways. This practice may merit reconsideration in the current economy with cost-plus buying becoming more popular. This method allows for a customized agreement between club and vendor and eliminates the need for daily or weekly bidding.

Knowledge is Power

Implement “Flash Reports” as an addition to areas such as F&B where trends, changes and outside influences are significant and can cause considerable concern for the membership. A “Flash Report” is a one page easy-to-read report which should highlight key changes and issues the club may be facing.

For example, as an addition to standard food and beverage financials, a section of the F&B Flash Report entitled “Food Cost” might identify recent increases in beef prices or the fact that flour prices have risen 350 percent over the past year. The most effective examples are those that everyone will understand. Using items like milk, flour, eggs and beef are excellent examples while foie gras, saffron and aged balsamic vinegar might cause members to ask why their club is even using these specialty items.

Another section might be entitled “Changes.” This part of the F&B Flash Report should highlight and document changes such as portion reductions, substitutions or replacements as they occur.

If board and committee members are aware of changes, they are ready for the questions members may ask or concerns expressed over the changes. A reduction in portion size may allow the club's favorite items to be sold without raising prices and may be an appropriate response. If board and committee members know why the change was made there is less chance of negative feedback.

Arthur Maguire, General Manager of the Larchmont Yacht Club in New York recently created a list for his board showing what the club paid 12 months ago for major food items as compared to current prices. The list will be updated regularly. There may be no more shocking example than flour. According to the Portland Herald, Jim Amaral, owner of Borealis Breads, reported paying \$8 for a bag of flour in 2005, \$10 in 2006 and \$12 last year. Most recently the cost was \$20 a bag but his supplier anticipates prices soaring to \$39 a bag. This example of rising costs can be taken a step further on an F&B Flash Report where the resulting changes in pricing of bread, baked goods, desserts and other items using flour can be shown.

As previously mentioned, most vendors are charging a fuel surcharge. These charges are another example of influences to be tracked and included on the "Flash Report." No need to get technical in this report – quite the opposite. If you see a trend coming or the cost of items regularly on your menu going through the roof, put your observations in writing.

Menu Changes

The club's a la carte menus are the most obvious battleground for reducing food costs but they're also probably the least popular. Clinging to tradition and refusing to adjust content, portion or pricing for fear of offending the one senior member who will yell when his or her favorite item is changed leaves many clubs at a disadvantage and is a bad business practice. If the budget has been approved with a targeted food cost of 30 percent and rising costs are driving it up, the logical solution is to review and reconsider the price, the portion size or even the item itself. Chefs throughout the country are finding pork a good substitute for beef and hanger steak an alternative to a New York Strip Steak.

If ever there were a time to reevaluate portion size, it is now. It is unlikely members will even notice if an 8-ounce hamburger is downsized by a single ounce. If the usual portion of fresh asparagus is six stalks, would members revolt over cutting back to five? Likewise, could it be time to downsize those monster buffets? What would be the effect of making dessert a choice of two or three pre-plated items rather than the 15 to 20 currently offered. The result would be a reduction in labor, in expense and in waste.

A favorite industry story illustrates how member sensitivity to pricing changes can also work to the club's advantage. Years ago, The Lotos Club in New York City featured fresh raspberries on their dessert cart at market pricing. In winter months, the price was exorbitant – nearly equal to some of the entrees. Members hosting multiple guests actually started asking the raspberries be taken off the cart before it reached their table lest all their guests order them. The club ultimately set an annual price for raspberries which proved a more profitable solution.

Finally.....

Rising F&B costs, like anything else, should be treated strategically and logically. Ongoing discussions between club leaders and management should evaluate options as the problems arise. The issues must be dealt with aggressively, professionally and logically. No club leader or manager wants to stand up at the end of the season at the club's annual meeting and say costs have risen 10 percent and there was nothing which could have been done. Instead, the knowledge shared between the club's leadership and management can assure members their club is doing the best possible job at maintaining control over rising costs.

Good communication between club leaders and managers will assure your club is doing all it can to be the best it can be. Transparency in this process assures both sides of achieving the common goal in these trying times.

Charles D. Dorn, CCM is the Managing Director of The Dorn Group, Ltd. Created in 2005, The Dorn Group, Ltd. is a full-service hospitality consulting firm focused on providing strategic planning and operations management to the hotel, restaurant and private club industries. The company is dedicated to helping clients maximize potential through exceptional management. The Dorn Group strives to deliver proven strategies to clients by capitalizing on their potential in an ever changing world. The firm is client driven, solution based, and committed to providing the best advice and services in a timely and cost efficient manner. Dorn may be reached by telephone at (914) 921-3150 or via e-mail at charles@thedorngroup.com .