

Controlling Food & Beverage Inventory in Club Environments

Presented by:
Bill Schwartz



February 26, 2007
Anaheim, California



“In the next 8 hours, the 3,000 CMAA-managed private clubs in the United States will lose \$400,000 dollars to inadequate food and beverage control.

World-wide, the number is nearly \$2.5 million per day.

The tragedy is this vast sum - nearly \$150 million annually in the US, and \$1 billion worldwide could go into the industry’s profit column, rather than being deducted as a cost of doing business.

This staggering loss can be avoided without raising prices, reducing portions, paying less for purchased items or changing the menu. It is essential that club managers understand how this loss occurs, and begin to implement procedures designed to recapture their percentage of the industry’s annual loss averaging more than \$50,000 per club.”

*Bill Schwartz
President & CEO
System Concepts, Inc.*

Table of Contents

About the Speaker 5

Presentation

Presentation Slides 7

Published Articles

Reducing Food and Beverage Costs through Inventory Control

Part I - A New Way of Thinking 18

Part II – Making Food and Beverage inventories Count 20

Part III – Receiving – The First Line of Defense 22

Part IV – Understanding and Reducing Employee Theft 24

Part V – Professional Services Key to Success in
F&B System Implementation 26



About the Speaker

Bill Schwartz

Bill Schwartz founded System Concepts, Inc. in 1980, and was instrumental in the development of the FOOD-TRAK System, a combination of software and techniques used to control food and beverage inventory. While Bill's FOOD-TRAK system and its related techniques and processes are used by more than 10,000 clients around the world, Bill is also widely known as one of the industry's leading experts and most dynamic speakers on the topic of food and beverage inventory management, as well as the use (and misuse) of available technologies as they relate to F&B management.

A noted speaker for more than 25 years, Bill has developed and presented seminars for the Club Managers Association of America (CMAA), Hospitality, Financial and Technical Professionals (HFTP), Canadian Society of Club Managers (CSCM), National Restaurant Association, the American Hotel and Motel Management Association and other associations across the country and throughout the world. Through his seminars and articles, he revolutionized the process by which food and beverage inventory is managed.

One of the first to downplay the traditional use of food and beverage cost percentages to control inventory, he views them as inaccurate and largely meaningless numbers for purposes of controlling food and beverage inventories. Instead, Bill focuses on usage management, offering operators ways to improve cash flow and significantly reduce waste, theft and other types of food and beverage loss. The use of his control techniques results in significant increases in food and beverage profits, and works proactively, as opposed to the reactive approach represented by P&L evaluation and flash reporting.

Bill's expertise and unique approach has lead to hundreds of speaking engagements and seminar presentations as well as the publication of numerous articles in hospitality-related trade publications.

Today, as a recognized expert in the industry, Bill is a frequent contributor to various industry trade publications. He also presents seminars for colleges, universities, corporate conferences and trade shows in addition to the seminars and workshops he develops and presents for private clients.



Presentation

Controlling Food & Beverage Inventory in Club Environments

Presented By:
 Bill Schwartz, President
 System Concepts, Inc.
 Scottsdale, AZ




Notes:

Introduction

- ❑ About me
- ❑ About you
- ❑ About this presentation
- ❑ About after this presentation




About Me

- ❑ Name: Bill Schwartz
- ❑ Education: Michigan State University
- ❑ Occupation: President and Founder of System Concepts, Inc. (Developer of FOOD-TRAK®)
- ❑ Been Doing This Since: 1980
- ❑ Seminar Background: Developed seminars for CMAA, HFTP, CSCM, NIGA, NRA, and many private clients and schools
- ❑ Publishing: Articles for trade publications such as Nation's Restaurant News, The Boardroom, Indian Gaming, Restaurants USA, and many others




Notes:

About You

- Responsible for food and beverage management
- Complex facilities – F&B everywhere
- Seasonal volume
- Want maximum control with minimum effort
- Want to identify and solve problems before they get big – no finger pointing
- Want a PCA (personal competitive advantage)



About This Presentation

- Overview
 - Why are we here?
 - What are we thinking?
 - What should we be thinking?
- Getting the Data
- Diagnosing the Problem
- Getting Results



Question #1:

Are P&L food and beverage cost numbers accurate?

$$BI + P - EI = U$$
$$U / S = \text{COGS } \%$$


Notes:

Question #2:

Is the target (ideal) food or beverage cost number accurate?



sci SYSTEM CONCEPTS, INC.

Question #3:

Does accounting for food and beverage costs save money or generate profits?



sci SYSTEM CONCEPTS, INC.

Question #4:

Can you control food and beverage costs?



sci SYSTEM CONCEPTS, INC.

What's At Stake?

- In the next 8 hours – 3,000 private clubs in the US will lose \$400,000 to inadequate F&B control.
 - US annual loss = \$150 million
 - World-wide annual loss = \$1 billion
 - Average loss per club = \$50,000/year (assuming \$1.5 million in annual F&B revenue)

Source: CMAA, SCI Research



Notes:

Accounting vs. Control

<p>Accounting:</p> <ol style="list-style-type: none"> 1. All about tracking money 2. Required for financial management and government reporting 3. Period-based 4. Generates no savings (profits) 	<p>Control:</p> <ol style="list-style-type: none"> 1. All about tracking goods 2. Required for profit maximization and effective management 3. Real-time-based 4. Generates significant savings (>3% of sales)
---	---




Principles of Control

- Objective:
 - Use only as much inventory as is dictated by purchases and transfers for central storage areas, and...
 - Use only as much inventory as dictated by sales, and the recipes and yields associated with those sales in outlets
- Focus is on cost reduction through overuse minimization
- Identify usage variance – all tracking is done in units of measure
- Action must be taken to succeed




Notes:

Reporting Objective

Item	Unit	Actual		Ideal		Variance		Activity					
		Usage	% Sales	Usage	% Sales	Usage	% Sales	Ext Cost	Begin	Purchases	Kh In	Kh Out	End
Red Light Can	can	181.00	1.82	7.00	0.88	154.00	1.74	\$230.74	244.00	150.00	0.00	0.00	233.00
Vodka Skyychive	1.541	6.20	1.50	0.03	0.01	6.17	1.49	\$197.29	3.70	3.00	0.00	0.00	0.00
Subaru Aspenmaster	700ml	5.10	1.31	0.00	0.00	5.10	1.31	\$173.45	3.50	2.00	0.00	0.00	0.40
Likaler Live	juice	28.00	3.62	20.00	2.56	8.00	1.03	\$136.97	138.00	0.00	0.00	0.00	110.00
Prime Rib	lb	58.61	3.00	52.74	2.65	6.87	0.35	\$45.80	255.74	0.00	0.00	0.00	196.13
Red Light Bottle	bottle	50.00	0.33	6.00	0.07	24.00	0.26	\$34.75	92.00	24.00	0.00	0.00	68.00
Guinness Tea 8 Oz	juice	10.00	1.00	100.00	0.79	3.00	0.24	\$31.55	110.00	0.00	0.00	0.00	100.00
Cosmos Light Btl	bottle	21.00	0.21	0.00	0.00	21.00	0.23	\$30.41	83.00	0.00	0.00	0.00	42.00
Red Bull Can	bottle	15.00	0.23	2.00	0.03	13.00	0.20	\$25.88	10.00	0.00	0.00	0.00	35.00
Break Service 8 Oz	juice	54.99	3.40	91.00	3.25	3.99	0.14	\$18.90	402.95	0.00	0.00	0.00	367.96
Break Plan 7 Oz	juice	17.00	0.83	10.00	0.73	2.00	0.10	\$10.85	74.99	0.00	0.00	0.00	58.00



Getting the Data

- Ultimate objective:
 - Automated, integrated system
- Short-term objective:
 - Implement disciplines
 - Key item tracking
 - Effective action steps




Automated System Overview

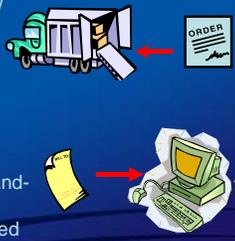
1. Full periodic inventories using wireless hand-held scanner
2. Partial (spot) inventories as needed for key items
3. Forecast reports help determine order quantities (pars, reqs, imported catering events, past usage) – generate shopping lists
4. Shopping lists modified as needed and processed automatically against bids to create purchase orders




Notes:

Automated System Overview (cont)

- Purchase orders transmitted electronically to vendors, new bids downloaded
- Goods received against PO using wireless hand-held, automatically converted to invoices and transferred electronically to A/P
- Requisitions placed on an ongoing basis via wireless hand-held
- Transfers automatically created and priced from requisitions



The illustration shows a green truck on the left with a red arrow pointing to a document labeled 'ORDER' on the right. Below this, a yellow document is shown with a red arrow pointing to a computer monitor on the right.

sci SYSTEM CONCEPTS, INC.

Automated System Overview (cont)

- Sales mix collected electronically from POS system, catering system at pre-determined intervals
- Perpetual inventory by location runs constantly, providing up to date quantities on any shelf
- Reports identify usage variances, many other key issues as needed
- Actions taken to control usage and thereby minimize costs



The illustration shows a woman with red hair holding a clipboard with a checklist. In the background, there is a line graph showing an upward trend.

sci SYSTEM CONCEPTS, INC.

Interface Points

- Hand held device for inventory, receiving, requisitions and transfers
- Vendor interface for ordering, receiving invoices and bids (Sysco, US Foods, etc)
- Catering interface for BEOs and event sales (Clubsystems, Caterease, Delphi, etc.)
- Accounts Payable interface for invoice transaction data (Lawson, Great Plains, Jonas, etc.)
- POS interface for sales information (Micros, Northstar, ClubTec, etc.)

sci SYSTEM CONCEPTS, INC.

Notes:

Short Term

- Implement disciplines:
 - Frequent inventory
 - Thorough receiving
- Perpetual inventory for central storage
- Key item tracking:
 - Track inventory and purchases by location
 - Track sales by location
 - Calculate variance




Calculating Variance

1. Determine actual use: $BI + P - EI = AU$
2. Determine ideal use:
 - a. need number sold of each recipe using key item
 - b. need amount of item called for in recipe
 - c. need yield
 - d. sum of (# sold * quantity required) divided by yield = IU
3. Determine variance: $AU - IU = \text{Variance}$



Calculating Variance – Example

Inventory Control Example 

Actual Usage:	
Beginning Inventory:	200 lbs ground beef
Purchase Inventory:	+ 250 lbs
Ending Inventory:	- 150 lbs
Total Actual Usage:	= 300 lbs ground beef
Ideal Usage:	
Jack's Better Burger (4 oz X 750 units sold):	3000 oz
Bonus Better Burger (8 oz X 100 units sold):	+ 800 oz
Total Ideal Usage:	= 4000 oz
Yield:	
Assuming 90 % yield: 16 oz per pound X 90% = 14.4 oz usable per pound of raw ground beef	
4000 oz sold / 14.4 oz yield per lb = 277.78 lbs	
Variance:	
Actual Use:	300 lbs
Ideal Use:	- 277.78 lbs
Overuse:	= 22.22 lbs



Causes of Overuse

- ❑ Over-portioning
- ❑ Waste
- ❑ Spoilage
- ❑ Poor yield
- ❑ Improper preparation




Notes:

Causes of Overuse (continued)

- ❑ Employee theft
 - Acute
 - Chronic
- ❑ Purveyor theft
 - Driver-related
 - Invoice-related
- ❑ Clerical errors




Now What?

- ❑ Enforce disciplines
- ❑ Separate and track central storage
- ❑ Identify key items to track
- ❑ Control key items
- ❑ Consider automated system if not already in place




And Finally...

- Things you can do now to save 1-2 points:
 - Frequent inventories, organize storage areas
 - Bring down inventory levels by target %
 - Receive goods like crazy
 - Reduce theft potential (including nibbling)
 - Track key items manually



sci SYSTEM CONCEPTS, INC.

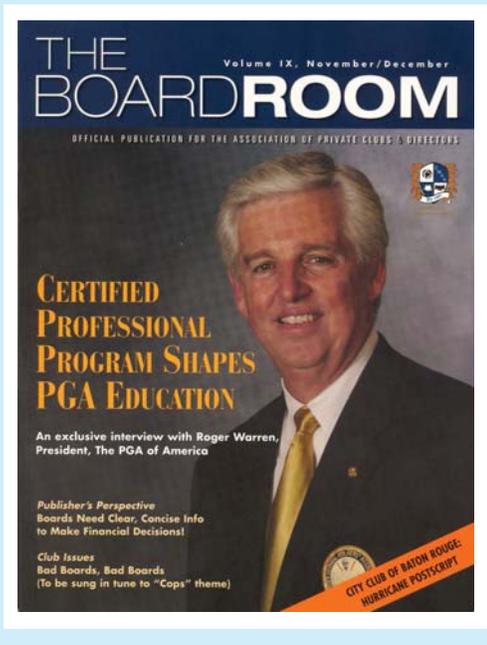
Notes:

Thank You!





Published Articles



Reducing Food and Beverage Costs through Inventory Control

Part I – A New Way of Thinking

As seen in the Nov/Dec, 2005 issue of Boardroom Magazine.

Since the dawn of time, clubs have been subsidizing their food and beverage operations, and boards have focused on Profit and Loss Statements for controlling food and beverage costs. Not only are the food cost numbers on these statements inaccurate, but the target numbers against which these values are compared have little basis in reality. Any serious attempt to reduce these costs without adversely affecting the club's food and beverage offerings will require quite a different approach.

By exposing some of the problems with the current view, the importance and benefits of the new way of thinking will become more obvious. Implementation of key-item tracking along with improved inventory, receiving and operations procedures should result in cost reduction in excess of 5% of total F&B revenues. All without changing any aspect of the food and beverage operation a member might notice, such as menus, recipes and prices.

Problem 1: Actual Food and Beverage Costs Are Always Inaccurate

Consider how food and beverage costs are calculated. The formula is fairly simple:

Beginning inventory + purchases - ending inventory = cost of goods sold

The problem with this calculation is the inventory value. First, inventory counts are not particularly accurate. Items counted by weight are rarely weighed, and some are mislabeled or counted as something else. Prepared items are tough to count accurately. Second, the cost of inventoried batch recipes or prepared items are generally not recalculated just prior to counting, even though many of the ingredients have changed costs since the last calculation. Third, the writing on the form is not always legible. And fourth, the people entering the data into the inventory system make errors entering the some of the numbers as they work through the form.

Considering the formula presented earlier, if the inventory value is inaccurate, and it represents two of the three numbers in the equation (beginning and ending), how could it be possible for the cost of goods to be accurate?

Problem 2: Ideal Food and Beverage Costs Are Always Inaccurate

Actual food and beverage cost percentages on financial statements are compared against percentages management feels the club should run. For example, one club determines it should run a 35% food cost. Assuming it actually runs a 42% food cost, management determines there is a variance of 7% and looks for the food and beverage operators to fix this problem. But how is the 35% number determined in the first place, and is it accurate? To be accurate, all recipe costs would have to be continually re-calculated as purchase prices change. These costs would need to be applied against sales figures for every recipe sold. A number of other calculations would have to be made to adjust for FIFO valuation, transfers, and comps. Without a very sophisticated software package, it is highly unlikely the number is accurate, or perhaps even close to accurate.

Problem 3: For the Most Part, Food and Beverage Costs Are Not Controllable

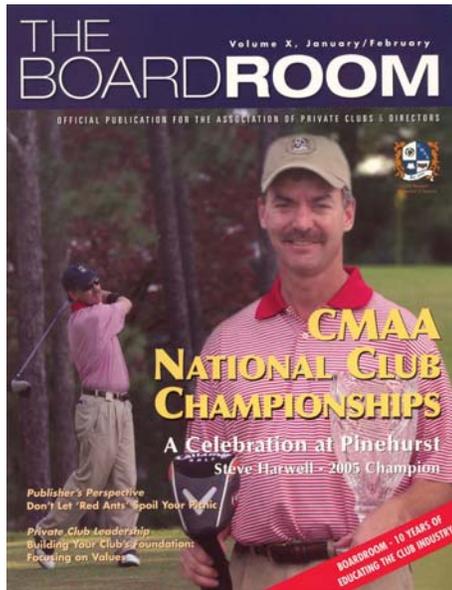
Stated simply, no food service operation can corner the market on individual food or beverage items. Distributors do not allow their customers to set the price they will pay. Certainly the food and beverage director cannot be held responsible for the cost of the food and beverage purchased. Hence the statement that food and beverage costs are not controllable.

On the other hand, food and beverage USAGE is controllable. The food and beverage director can and should be held accountable for the use of those products. It also stands to reason that if the use of the foods and beverages in the department equals the exact amount required by food and beverage sales as determined by the recipes and yields of the items sold, the food and beverage costs of the operation will be as good as they can be. In other words, if the variance between what was used and what should have been used is zero, the operation runs its best possible food and beverage cost, regardless of exactly what dollar amount or percentage that happens to be. Once again, the focus shift from cost to usage results in the ability to improve profits.

Solution: Focus on Food and Beverage USAGE to Control Inventory

Given the problems inherent in the cost-based approach to inventory control, it seems only prudent to find a better alternative. The best chance at cost control is by reducing overuse. Inventory is purchased and used in non-monetary units such as pounds, cases, sleeves, gallons, fluid ounces, and other similar descriptive units. The objective is to implement strong inventory, receiving and usage control practices, and then track usage variance for key items. This variance is calculated by subtracting the ideal usage in units for a particular item from the actual usage in units for the same item. A positive variance indicates overuse, and a strategy is then developed to eliminate the overuse. Implementation of good control procedures and the calculation of variances will be the subject of future articles in this series.

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



Reducing Food and Beverage Costs through Inventory Control

Part II – Making Food and Beverage Inventories Count

As seen in the Jan/Feb, 2006 issue of Boardroom Magazine.

It is 3:00am on the last day of the month, and some of the most highly-paid people in the food and beverage department are standing in the freezer counting shrimp. Not that counting shrimp is a bad thing, since everyone knows that shrimp have legs, but the process of taking inventory is no sane person's idea of a good time. The fact is, taking inventory for accounting purposes is perhaps the least profitable use of the information. On the other hand, taking inventory for control purposes can result in savings ranging from 1-5% of food and beverage sales.

Counting for Accounting vs. Counting for Control

Shifting the focus from accounting to control uncovers many new benefits without requiring any extra time. Done properly, counting inventory for control should enable operators to consistently lower their costs by at least 1-2% of F&B sales. Some club clients have saved in excess of 5% of sales. For every \$1 million in food and beverage revenue, the savings from control-oriented inventories translates to between \$10,000 and \$50,000 per year.

Control Objective #1: Less Inventory to Count

In a perfect world, there would be no such thing as inventory. Vendors would simply hand out product from their waiting trucks as it was needed. There would be no theft, no spoilage and cash flow would be maximized. While this scenario might be unrealistic, it does provide some interesting perspectives. If inventory were considered a necessary evil, and the objective was to have as little inventory as possible, many of the advantages associated with the idealistic "zero inventory" approach would still be available. Less inventory equals less theft, less spoilage, less money tied up on the shelves and more profit. In case after case, private club clients who reduce inventory levels report increased food and beverage profits.

Control Objective #2 – Frequent Counting of Key Items

Stated simply, the more often inventory is counted, the lower food and beverage costs will be. However, since 20% of the items purchased represent 80% of the food and beverage cost, it makes sense to count that 20% more frequently than the other 80%. The simple act of frequently counting this relatively small number of items drives significant savings to the bottom line.

Consider some of the ways frequent, key item inventories generate savings. Remember the shrimp with legs? It is much harder to steal something that is frequently counted. Frequent counting has the direct effect of discouraging, and thereby reducing theft. Spoilage is another contributor to losses. In the process of counting, operators notice items that are improperly wrapped, and can rewrap them. Items that should be in one place are found in another during inventory. When kitchen staff can't find what they're looking for, they ask the purchasing department to order more. This practice leads to spoilage of the misplaced items. Reorganizing the storage areas and putting things in their proper place reduces spoilage, improves kitchen efficiency and helps keep inventory levels lower.

Putting It All Together

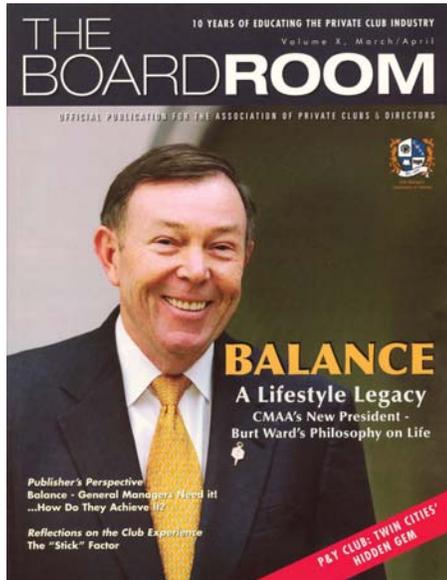
Combining the two control objectives of less inventory and frequent counting of key items, the whole picture becomes a bit brighter. The addition of systems and tools can help make the process easier as well. Shelf-order inventory forms for the full inventories help reduce inventory time and increase accuracy. Use of hand-held scanners available with some food and beverage management systems can reduce inventory time by more than 50%.

The best way to succeed is to set some goals. First, identify dead stock and other items that are overstocked, and find ways to remove them from the inventory. Specials, employee meals and even charitable donations can be a good way to reduce this inventory. Next, think about how often deliveries arrive for certain types of goods, and try to keep just enough to get to the next delivery (with a small buffer). For example, if groceries orders are placed twice a week, it stands to reason that only four or five days of inventory for those items are needed. Try to order smaller quantities if the usage between deliveries doesn't justify full cases. All these suggestions will help reduce inventory levels and thereby reduce food and beverage costs.

Finally, when taking key item inventories, be sure to keep storage areas organized. Place high value items on higher shelves, making them harder to steal. Pay close attention to the way prepared foods are wrapped, and monitor levels of prepared foods in inventory. Reduce batch sizes for prepared items that seem overproduced. Eventually, try to track the ideal use of key items and compare that to the actual to see if they are being misused. Inventory systems can be very good at this.

Unfortunately, the Accounting Department will still require month-end inventories. But instead of focusing strictly on counting and extending, think of them as bigger control inventories and reap the benefits. Adding the frequent key item inventories between the full inventories ties it all together. Inventory no longer needs to represent the last thing on earth foodservice people want to do. In fact, done for the right reasons it can contribute to a more successful and rewarding career.

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



Reducing Food and Beverage Costs through Inventory Control

Part III: Receiving - The First Line of Defense

As seen in the March/April, 2006 issue of Boardroom Magazine.

Looking back over 25 years of working with food service operations of all types, clearly the one place these operations lose the most is the infamous “back door”. For most club operators, losses relating to the receiving function typically exceed of 3% of total F&B sales! The back door is the place all F&B costs enter the club, and therefore represents the front line of defense against higher than necessary F&B costs. By training and managing the troops on the front line, it is possible to virtually eliminate this type of loss.

It All Starts with the Purchase Order

First and foremost is the supposition that a PO exists and is present at the receiving area prior to arrival of the goods. Unfortunately, most clubs don't use purchase orders at all. Typically only the largest clubs, and those run by management companies bother to use this critical control tool. Those who don't use purchase orders might as well raise the surrender flag, since there are no troops on the front line at all.

Second, assuming it exists, the PO must clearly identify each item ordered, the cost and associated unit of measure for that cost, and the quantity ordered. The quoted cost and associated unit need to be present on the PO to insure the vendor has not quoted one price and charged another. Clients routinely save tens of thousands of dollars annually by reconciling the quoted price (on the purchase order) to the invoice price. Finally, the quantity ordered must be indicated, along with the unit associated with that quantity.

Receiving – The Front Line

Once the PO house is in order, focus shifts to the receiving function. Think about the receiving function in military terms. The quality of the troops manning that post, and the approach they use to defend it plays a big role in determining how much variance between actual and ideal food and beverage cost will be due to invoice errors and driver theft. As mentioned above, this value typically exceeds 3% of total F&B sales, and the receiving staff can virtually eliminate this type of loss if they take the time to receive goods properly.

We use four indicators to help determine the quality of the receiving process at a glance. First, how long does it typically take to receive a large grocery order? Second, out of 100 invoices, how many contain revisions? Third, are the receiving clerks friendly with the drivers? And fourth, do the drivers help put the goods away?

Looking at each indicator individually, it stands to reason that a 50-case grocery order should take some time to receive, since each item should be counted and compared against the PO, and each item's price should be checked. If it takes only a few minutes to receive an order this size, the counting and reconciling is not being done correctly.

Invoice errors are fairly typical. Anyone who puts their mind to it will find at least one error on every significant invoice. Certainly the invoices with 1-10 items will be less likely to have errors than the invoices with 100 or more items, but invoice errors with regard to quantity, price and specification are more the rule than the exception. Therefore, if a stack of 100 invoices has very few corrections, it is unlikely the invoices are being reconciled thoroughly against the PO.

Security Concerns

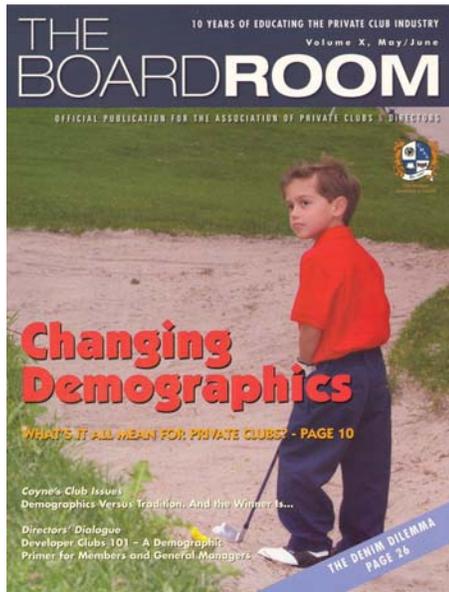
Collusion between truck drivers and receiving personnel can be one of the most damaging problems with high food and beverage costs. Again using the military example, consider friendly relationships between drivers and staff as potential for fraternizing with the enemy. Not that the drivers are the enemy or that staff should be encouraged to be hostile to them, but all receiving personnel should be made aware of their role as defenders against loss due to purveyor theft or invoicing errors.

The truck drivers are in the best possible position to steal from the club. They know the practices of each receiving clerk – what they count, what they don't count, whether they use scales, whether they reconcile prices. They know where the goods are stored, and how secure the storage areas are. They have other customers who will pay for the goods they can keep, and they certainly have the means to transport those goods. In other words they have knowledge, access and motivation, which in the wrong hands can be dangerous. Allowing them to put goods away simply adds more opportunity to an already ripe situation.

Win the War

The best case for receiving is to be thorough and unpredictable. Count some items that are packed by the each, weigh some items that are packed by weight, and never let the driver put the goods away. Check to be sure the receiving staff is comparing the quoted price against the invoice price. Consider the adage that a strong offense is the best defense, and keep the pressure and security tight on the receiving function. After all, the vendors already make enough money from the club, so why give them or their drivers an extra 3% of the club's food and beverage revenues?

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



Reducing Food and Beverage Costs through Inventory Control

Part IV: Understanding and Reducing Employee Theft

As seen in the May/June, 2006 issue of Boardroom Magazine.

Employee theft is a subject most food service operators don't want to think about. But employee theft is a significant problem in club operations. This article will attempt to shed light on approaches to reducing the potential for employees to steal from the club's food service operation.

Two Types of Theft – Acute and Chronic

The problem is easier to address if broken down into two primary types. Acute theft involves stealing large quantities, or operating in collusion with truck drivers or other employees. Chronic theft involves theft of small quantities, and tends to be an individual activity. Since the two types are different from a variety of angles (motivation, planning, execution), prevention of acute theft must be handled differently than prevention of chronic theft.

Motivation for chronic theft is typically as simple as being hungry or poor. It is very difficult to resist food on an empty stomach. It is also difficult to resist the temptation of taking a little food home when there is so much around it would never be missed, and access is easy. Chronic theft is about food. Motivation for acute theft usually involves a desire to make money. In many cases, people who steal in this manner try to enlist others in their schemes. For example, truck drivers are famous for corrupting receiving clerks with the lure of big money and low risk. Bartenders are famous for stealing cash and explaining their methods to other bartenders. Acute theft is about money.

Nibbling Problem

Consider the chronic theft of food associated with nibbling in the kitchen. For example, if every employee in a 10-man kitchen eats 1 pound of food per day, and the kitchen operates two shifts per day, the annual cost is approximately \$36,500 assuming the cost of what they eat averages \$5.00 per pound. While nibbling is one form of chronic theft, chronic theft can also take the form of sneaking small quantities of food or liquor out in clothing, trash, or any other container leaving the premises. Called shoplifting in other industries, pre-portioned foods are often the target of this type of theft, since they are conveniently packaged individually, well-sealed, and easy to conceal. It seems incredible that liquor would be guarded far more carefully than food, given liquor's lower cost in general. In some operations, they protect the liquor storage rooms with retina scanners, while the meat walk-in is never locked, and succulent tenderloins hang from the shelf whispering "take me".

Reducing Chronic Theft

Deterrence is the best solution to chronic theft. Place expensive food in harder to access locations. Lock the walk-ins, or if that isn't possible, place smaller, locked cages on the shelves for expensive items like meats and seafood. Some popular items can be placed on high shelves. Others can be moved to a central storage location and require requisitions to release. Take frequent inventories of most items and more frequent spot checks of key items, using an inventory system or manual calculation to determine variances.

Another form of deterrence is setting rules and making an example of those who break the rules. A no-nibbling policy in the kitchen is an excellent rule, and as a deterrent to breaking the rule, people who are caught nibbling might have their names written on a board. Those who end up there might draw grease trap cleaning duty or some other unpleasant task. Second or third offenses may result in termination.

Finally, remember that one of the motivations for chronic theft is hunger. Some chronic theft can be avoided by properly timing employee meals. For example, having employees eat early (perhaps one to two hours) into their shift, and then again perhaps three to four hours later should keep their stomachs full for the majority of the shift. Most companies offer a single lunch break in the middle of the shift, but employees who come to work hungry are likely to nibble early. Similarly if they are fed too many hours before the end of their shift, they are likely to nibble late in the shift.

Reducing Acute Theft

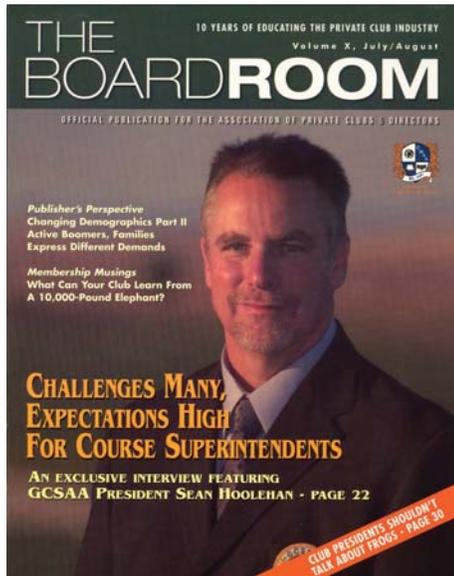
Acute theft requires a much different approach. The object with stemming acute theft is to identify the perpetrator(s) and stop them immediately. These people need to be removed from the premises before they do more damage or encourage others to follow their lead.

Acute theft can be discovered in a number of ways, but the two primary techniques are observation and variance tracking. Placing cameras in the receiving area and at kitchen exit door locations and employee parking lots can act as a significant deterrent. Variance tracking is another way to detect acute theft. Cash reconciliation is typically performed by most companies. Calculating variances between actual and ideal usage of items you suspect may be involved in acute theft should be done on a daily or shift basis. Invoices should be audited for discrepancies against purchase orders. Large invoices with no errors are suspect. Inventory systems can help with both those approaches.

Final Thoughts

While employee theft is an uncomfortable subject, every food service operation must deal with it. By understanding the motivations behind the two types of theft, it is possible to devise creative ways to minimize the impact. Think about why people steal, and remove the motivation by reducing temptation, making access more difficult, increasing surveillance, implementing tracking systems and making examples of those who steal. Using this approach, hopefully the only ones leaving with dinner are those who paid for it.

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



Reducing Food and Beverage Costs through Inventory Control

Part V: Professional Services Key to Success in F&B System Implementation

As seen in the July/Aug, 2006 issue of Boardroom Magazine.

Is the purchase of a food and beverage management system primarily a product purchase or a professional services purchase? Nine out of ten times, club managers will think of it as a product purchase. They look at it like they might look at a POS purchase or an accounting system purchase as being made up primarily of hardware or software.

However, unlike accounting or POS systems, F&B management systems represent a major shift in the club's approach. Instead of replacing or upgrading systems that are already in place, the introduction of an F&B system is a new concept. The previous approach utilized paper and spreadsheets, and did not employ hardly any of the techniques or integrations required for a comprehensive system. In fact, the purchase of an F&B management system is far more reliant on professional services than it is on the actual software supplied.

Of course, that is not to say the software is not important, or that mistakes can't be made by purchasing the wrong software, but the ability of the supplier to provide the knowledge and experience to implement a complete F&B control approach in a club environment is more critical than the software itself. For this reason, using a product purchasing approach for this type of system can lead to dismal failure.

Product purchase decisions are based on the product's features, performance and price, while services are purchased based on the provider's expertise and skills. More often than not, club operators want to know the price and see a demo of the software first. This approach is typical of a product purchase. A better approach would be to look at the purchase as a services-oriented decision, and ask about the ability of the supplier to implement such a system in the club, the time and effort involved on both parts, and the long-term ability to keep it implemented.

Assessing the Situation

The first step in the process should be a comprehensive assessment of the current club F&B operation. This assessment is either performed by the F&B software company (supplier), or by a consultant familiar with the configuration of these systems. The assessment helps to determine the proper number of profit centers required, the various software modules needed and other technical information, but it also provides a means to determine exactly how much training will be required in order to convert the staff from the current approach to the new way of controlling inventory. The assessment also makes it possible to determine the order of events required to properly implement the new system, which depends entirely on the staff's current capabilities, the physical layout of the operation, the availability of staff relative to the club's busy season, and many other factors that play a role in successful implementation.

Other key information determined during the assessment phase includes the identification of all other systems that need to be integrated, such as the accounting system, the POS system, the vendor ordering systems and catering system. Feasibility of hand held computer use, budget constraints and of course, board and management near-term and long-term objectives as they relate to the project must be considered.

Development of a Project Plan

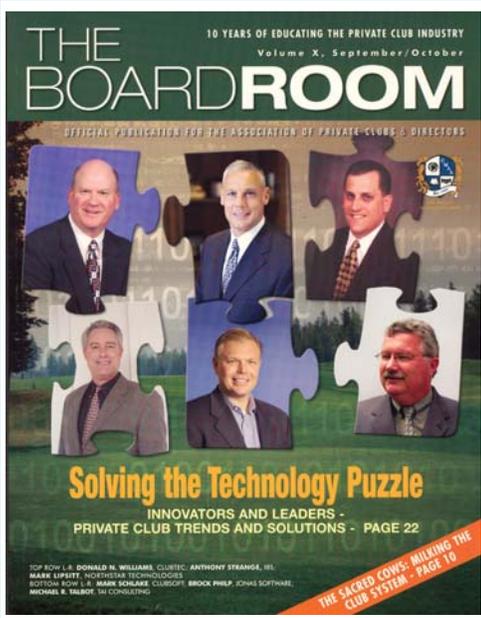
Once the assessment phase information has been gathered, the next step is the development of a preliminary project plan. This plan describes the implementation process in detail, and is customized to meet the exact needs of the club, considering all criteria and fact-finding during the assessment. It should clearly identify in phases and steps each task of the project, the time required for the task, the personnel involved both from the club and from the supplier, and the objective of the task. This approach is conducive to the development of a reasonable timeline, which the club can use to insure it has the resources and staff in place as needed, and there are no substantial conflicts with club seasonality.

Finalization of a workable project plan provides the basis for the supplier to quote the project costs. Note that to this point, all the work has been consultative. This process provides the club with the opportunity to become familiar with the supplier's skills and expertise. This knowledge will be critical when the time comes to make a decision. And the decision is made less risky thanks to the presence of the project plan.

It is not unlikely that the majority of the cost associated with a system of this type will be charges for professional services. Experts must be used to build the database, train the staff and guide them in the implementation process. It is incumbent on the supplier to insure the project succeeds at each step and phase before moving to the next phase. The supplier will be responsible for analyzing reports and suggesting possible actions based on the reports. In the end, it is the quality of these professional services in both the development of the plan and the execution of it that will determine the value of the system.

Once the system has been implemented, a process that could take anywhere from 3 months to 3 years, the relationship between the supplier and the club continues on a professional services level. Additional training is provided as the software is upgraded, club management changes, facilities are added or modified at the club, new outlets are built, etc. Consultation is also provided for purposes of getting more value or use from the system, analyzing reports, or simply bouncing related ideas around. In the end, the decision to implement a food and beverage management system is more about professional services than it is about purchasing a product. And as a result, the approach to this type of purchase should be structured accordingly.

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



Reducing Food and Beverage Costs through Inventory Control

Part VI: Making the Case for F & B Management Technology

As seen in the Sept/Oct, 2006 issue of Boardroom Magazine.

Clubs have never been afraid to invest in technology, with the possible exception of food and beverage management. Lighting and sound systems, computer-based accounting systems, kitchen equipment, beverage guns, tee time reservation systems, course maintenance equipment and even member web sites have been widely adopted by private clubs everywhere. But many clubs have yet to implement, or even explore the benefits of food and beverage management technology.

While some of the larger, more prominent clubs have invested in F&B system technology, various perceptions have caused the majority of private clubs to either drag their feet or fail to even consider moving in that direction. These perceptions can be summarized as follows:

1. Cost is prohibitive.
2. Too much work and not enough people to do it.
3. Club is too small to make the investment pay off.
4. Existing systems provide all the needed information.

The first step toward pulling the trigger on an F&B system is understanding the benefits of such a system, and its impact on the club. Of course, as with most systems, saving time and saving money are the two primary benefits. But many other, less obvious benefits accrue when implementing systems of this type as well:

1. Increased sense of security, knowing it is far more difficult for vendors or employees to steal from the club.
2. Bidding between suppliers results in lower purchasing costs
3. Standardized control and accounting approach facilitates faster training of seasonal staff
4. Integration of point of sale, distributor ordering, accounts payable, catering and inventory systems reduces potential for inaccuracy and financial statement turnaround time
5. Club management can react instantly to control problems, instead of waiting for financial results at end of month
6. Availability of menu item popularity and profitability aid better menu planning
7. Instant access to current costs makes it possible to price catered events properly to achieve the desired margins
8. Lower F&B costs lead to lower F&B subsidies, allowing the funds to be used elsewhere in the club

These types of benefits may be more difficult to quantify, and therefore are harder to use to justify the decision to invest in a system. But time and cost savings are more easily quantified, and help define the conservative breakeven points for board members when considering this type of solution.

Time Savings

Time savings come mainly by eliminating associated clerical work and redundant or duplicate data entry. For example, systems eliminate the need to distribute invoices to G/L accounts, extend inventories, and calculate transfer costs for accounting purposes. They also save time by providing the ability to place orders electronically with major suppliers, enter invoices into accounts payable, cost out recipes, buffets, banquets and catering events and calculate key item variances. Using hand-held scanners, these systems also reduce the time required to take inventory, in some cases by more than 50%, and eliminate the need to type the inventory values into spreadsheets after counting it.

Time ROI Calculations: Annual savings = \$33,735/yr:

1. Invoice coding 5 hours/week = 260 hours/year. Invoice entry into accounting system at 2 hours/day = 520 hours/yr. Transfer costing 5 hours/week = 260 hours/year. Main menu recipe costing 20 hours/quarter = 80 hours/yr, banquet costing 4 hours/week = 208 hours/year. Total hours = 1328 at average wage of \$15/hr = \$19,920/yr.
2. Forecasting order quantities, speaking with distributors to compare pricing, speaking with distributors to place orders, typing purchase orders for receiving personnel = 3 hours per day. Assuming 75% reduction in associated time through use of the system, 585 hours/yr at \$15/hr = \$8,775/yr.
3. Inventory time for 2 people, 8 hours per month = 192 hours/yr at 50% time savings using hand-held scanner = 96 hours/yr. Inventory entry and adjustments into spreadsheet from forms at 8 hours per month = 96 hours/yr. Determination of correct inventory value for inventory extension at 12 hours per month = 144 hours. Total hours = 336 hours at average wage of \$15/hr = \$5,040/yr.

Cost Savings

Cost savings come primarily from the purchasing area, secondarily from tighter inventory control, and through reduction in overall inventory levels through better forecasting. On the purchasing side, the ability to compare bids between competing distributors typically results in lowest possible prices for all purchased goods. The ability to generate purchase orders with specifications, quantities and quoted prices provides savings through better receiving practices. Goods priced higher than quoted, quantities higher than ordered, substitutions and even goods not originally ordered are caught at the door, before they negatively impact food and beverage costs.

Tracking central storage using a perpetual inventory approach provides the ability to know exactly how much of each item should be on the shelf at any given time. Any variance between the system's estimate of current quantity on hand and actual quantities on hand points out immediate problems. Daily tracking of key items such as expensive meats and seafood products once they leave central storage helps reduce the possibility they are stolen or otherwise misused.

Cost ROI Calculations: Annual savings = \$40,000/yr per \$1 million of F&B revenue:

1. Reduce purchase costs by bidding between vendors and tightening receiving practices using purchase orders. Estimated savings of 2% of total F&B sales = \$1 million at 2% = \$20,000/yr.
2. Reduce losses due to purveyor and employee theft by isolating and automating processes in central storage and implementing real-time perpetual inventory to track all materials in and out. Estimated savings of 1% of total F&B sales = \$1 million at 1% = \$10,000/yr.
3. Reduce losses due to theft, over portioning and waste associated with key items. Estimated savings of .5% of total F&B sales = \$1 million at .5% = \$5,000/yr.
4. Improve cash flow by reducing inventory levels. Estimate 10% reduction in inventory based on F&B inventory value of \$50,000 = \$5,000/yr.

To Status Quo, or Not to Status Quo – That is the Question

The cost for capable inventory systems, including the cost of implementation is typically less than \$70,000 for most clubs. Given the return on investment values in excess of \$70,000/yr for clubs with F&B revenues as low as \$1,000,000 annually, it seems prudent to consider system acquisition. But what about time required to implement and manpower requirements over and above current levels?

There is no question the investment in technology requires some time and effort from an implementation standpoint. Significant professional services are required to implement these systems, since many types of data must be entered and connected together. Group structures, accounting information, vendor IDs, bar codes, recipes, unit sizes and yields are a few of the many database construction challenges.

If the developer provides a turnkey approach, many of these issues go away. A clearly presented turnkey approach can result in speedy, relatively hassle-free implementation, since the software company's experts do all the work. Once the system is in place, only the subsequent training aspects and ongoing maintenance tasks require staff time. The net result should be a significant reduction in time and effort required to operate the club from this standpoint.

Maintaining the status quo also maintains the current costs. Significant savings can only be realized through informed action. Perhaps the time has come to bring the food and beverage department's technology level up to that of the rest of the club. Done correctly, the money budgeted for the technology and implementation will end up back in the bank before a year goes by. After that, it's all gravy!

About the author: Bill Schwartz is president of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is the developer of the FOOD-TRAK® Food and Beverage Management System, which is widely used in private club operations around the country. Bill can be reached by calling (480) 951-8011 or email bills@foodtrak.com.



DEVELOPERS OF **FOOD-TRAK**
FOOD & BEVERAGE MANAGEMENT SOFTWARE

15900 North 78th Street - Scottsdale, AZ 85260
Toll Free: (800) 553-2438 Direct: (480) 951-8011 Email: ftsales@foodtrak.com Web: www.foodtrak.com