
# Liquid Cash

**If properly managed, the multifaceted beverage business can become a respectable profit center.**

By Mike Holtzman

Food and beverage sales usually rank low on athletic, fitness and recreation facilities' master plans for success. The constant attention required of a concessions operation, the complexity of properly managing and maintaining it, and the perceived lack of profit it generates often ensure its secondary status. Some facility operators have even gone so far as to call food and beverage sales "necessary evils."

While both food and drink are necessary, beverages are the lesser of those two evils. Because food is commonly considered a loss leader, drinks (both alcoholic and nonalcoholic) are

Photo by Dale Hall

relied on to boost a concessions operation's bottom line each month.

But not all beverages are created equal. Many boast higher profit margins than others (selling fountain soda yields much greater returns than selling bottled soda, for example) and some beverage categories don't mesh with the needs of a facility's clientele (hot chocolate at an aquatic center?).

Concessions managers can bottle up plenty of frustration if they fail to pay attention to such crucial factors as inventory control, product selection and employee training and relations. Here's how to avoid getting wet with beverage sales.

> Because food is commonly considered a loss leader, drinks are relied on to boost a concessions operation's bottom line each month.

When calculating the cost of goods (COG) for a facility' s food and beverage operation, the food and the beverages must be considered as two separate entities. Beverages need to be treated as a business within the business, with one or more lines on the profit-and-loss statement. Some facilities separate beverages into individual categories, each generating its own COG — or pour cost. For example, alcoholic drinks are typically broken down into beer, wine and liquor. Typical COG for wine is 35 percent, 25 percent for beer and 18 percent for liquor. The average pour cost for your facility's alcohol mix should hover around the 25 percent mark. Nonalcoholic drinks, meanwhile, can be divided into fountain soda, coffee and tea — all solid moneymakers with an average COG in the 12 to 15 percent range. Packaged hot chocolate powder, the most common means of preparing that beverage, yields a COG of about 25 percent, while bottled nonalcoholic drinks have a much higher COG.

Charting weekly COG counts is strongly recommended. In fact, it's not unusual for more diligent concessions managers to perform daily counts of specific items, which allows for more timely recognition of numbers that are either too high or too low. Waiting for the accounting department to produce a monthly COG report makes research and follow-up a futile exercise, should there be discrepancies.

Calculating COG for beverage sales is one thing, but how do you know if that number is what it should be? Comparing the *actual* COG with a *theoretical* COG is one way to find out. "Theoretical" refers to what the COG would be in a perfect world: no pilferage, no spillage and no unequal pours.

If the actual COG for alcoholic beverages at your facility is 28 percent, but the theoretical COG is 23 percent, you must determine the reason for that five-point spread. One way to do so is by comparing usage to sales. Say the point-of-sale system indicates 100 plastic bottles of beer were sold, but the weekly inventory reveals that 120 were used. Were the missing bottles stolen? Miscounted? Not even delivered? A detailed and up-to-date inventory system will help you find the answer.

Draft beer is trickier. If the standard keg holds 15.5 gallons, that means there are 1,984 ounces of brew in a barrel. If your facility serves a 16-ounce cup, that calculates to 124 cups per keg. Even the most efficient bartender is going to spill a little, but if your operation is getting only 90 glasses per keg, something is askew. Perhaps your concessions employees need better training. To find out, begin an experiment using a full keg, and track sales until the keg is empty. (For other inventory-management ideas, see "Booze

(Continued below)

Control," p. 102.)

Remote snack bars and temporary stands that don't have the luxury of a cash register can still compare beverage usage to beverage sales by relying on the cup count — a method used even by major stadium and arena concessions operators with their vendors at remote beer stands located throughout the venue. Employees are given a specific inventory of cups or bottles, and then are held accountable for any sales based on what is left over from that count.

Nonalcoholic drinks are just as critical to monitor as alcohol. The general profit margin on fountain soda is sharply higher than bottled nonalcoholic beverages like soft drinks and juice. For example, a five-gallon bag-in-the-box (BIB) of fountain syrup is designed to yield about 3,800 fluid ounces of soft drink. If a facility pays $40 for a BIB, that averages out to just more than a penny per ounce. If a 20-ounce cup half-filled with ice is the standard serving size, that cup will hold about 15 ounces of fluid. Throw in the costs of the cup, straw and lid, and the total expense is about 25 cents. Sold for $1.50, the pour cost is less than 17 percent, equating to $1.25 in gross profit.

Compare that to the 20-ounce soft-drink bottles that beverage distributors cheerfully sell to facilities for as much as 50 cents each. If you sell the bottle for that same $1.50, the pour cost jumps to 33 percent with only a $1 gross profit margin. Specialty drinks, such as energy enhancers and thirst quenchers, are even less profitable, costing facility managers up to $2 each. That's why many concessions operations charge a premium for bottled beverages. If feasible, a concessions business should focus on fountain drinks and consider bottled drinks a secondary option. (Incidentally, draft beer offers the same advantages over cans and bottles.)

Be careful when you price various cup sizes. Don't simply pluck a number out of the air based on what the ice rink or public pool on the other side of town is charging for a 20-ounce soft drink — or based on the profit margins you'd like to see. Rather, consider your cost of serving various sizes at different price points and what the ramifications will be on your bottom line. Some experimentation and calculation may be necessary before you settle on agreeable price points.

Another advantage of the BIB system is storage. Good inventory practice includes keeping stock on the shelves at manageable levels. Beverage vendors are rarely sensitive to this issue and often unload far more cases of drinks than a facility needs — quickly making a facility's storage area crowded. Contributing to excess inventory is the fact that alcohol distributors usually discount for bulk purchases. Overreacting to a sales pitch or leaving a less-experienced staff member in charge of ordering can actually make managing the operation more difficult. More inventory means restricted cash flow.

Also worth noting is that empty beer kegs and carbon dioxide tanks are valuable. A $10 or $15 deposit fee is usually tacked on to each invoice and then credited upon their return, so don't store them in an unsecured area behind the building or in a hallway or concourse frequented by the public, where they can easily be stolen.

Beverage distributors, as savvy product-placement specialists, are more than willing to help you merchandise their brands. With huge promotional budgets, they will provide you with free menu boards, display refrigerators, neon signs and table tents in exchange for your facility's commitment to experiment with new products that may increase the manufacturer's market share. It's up to you to decide how far to take such merchandising efforts. In one venue, this form of advertising might be considered colorful and energetic, while in another it could be viewed as garish clutter. Determine if the new beverages and subsequent marketing materials are really appropriate for

## Booze Control

Many for-profit venues — indoor multipurpose arenas and golf courses, for example — operate restaurants or bars that serve beer, wine and liquor. Because alcoholic beverages are rife with temptation, the potential for inventory abuse by employees is high. Putting inventory-control procedures in place and enforcing them will help keep people honest. Consider these options:

- Control the pour by using one of several systems available to control pouring, including special nozzles and spouts, metered sensors, jiggers and shot glasses.
- Refrain from allowing personnel (including management) a complimentary serving for a job well done at the end of a shift, and don't provide free drinks to loyal customers or friends.
- Make sure bartenders aren't overpouring for customers known to leave good tips.
- Empty bottles and kegs completely before discarding or changing.
- Beware that some concessions personnel have been known to bring in their own bottles of booze for patrons and then pocket the sales with no decrease in house inventory.
- Make sure each employee knows how many fluid ounces are in typical alcohol packaging sizes: 25.4 in 750 milliliters, 25.6 in a fifth, 32 in a quart, and 33.8 in a liter. If, for example, your facility has a policy of pouring a 2.5-ounce glass of liquor, then a specific brand of vodka that comes in a quart bottle should be yielding at least 12 drinks. If it's not, consider a before-hours or after-hours training session and implement quality- and quantity-control standards to which each worker must adhere.
- Use requisition sheets that track where a bottle or can goes after it enters the facility. Some managers tag every bottle that is delivered and keep a log tracking drink-mixing mistakes, complimentary servings and unexpected waste (broken bottles, spilled glasses, leaky nozzles).

*— M.H.*

your core user group.

This ties into the importance of determining how the beverage business will fit into your facility's overall operation. Keep in mind that everything has a hidden cost. A glass-fronted display case in the café, for example, will definitely increase beverage sales — but sales of bottled drinks that are less profitable. Also, be selective and wary of trying to promote new beverages that manufacturers are hot to move. There are numerous cafés, bars and restaurants with dusty inventories of fad drinks. Remember Pepsi Clear?

Deciding which beverage brands and flavors to carry also constitutes a major step in defining the goal and extent of your concessions operation. Do you want to be a stopping point for club members after they work out, where they gather to share a cold smoothie or bottle of water? Or do you prefer quick and easy transactions for spectators that involve a paper cup and a straw? Analyze your sales mix over an extended period of time to determine which products are most popular among your customers. For example, a health club concessions manager may insist that a menu loaded with fruit and vegetable juices is what members want. But actual sales might indicate customers prefer lemonade and gourmet coffees. Until you receive multiple requests for a specific beverage from several customers, it makes sense to stick with proven sellers.

When it comes time to add more beverages to the mix, contact other beverage-business operators in your area to find out what the going rates for specific brands are before agreeing on a price with your distributor. The going rate for a BIB hovers in the high $30 range, but some distributors currently charge more than $50. Doing your homework on the costs of such accessories as cups and straws can help save money in package deals, too.

Negotiation also plays a large factor. Alcohol has tighter guidelines for bargaining, while soft-drink contracts allow for a bit of negotiating room. A higher-volume beverage account is more likely to yield price breaks from a distributor. But by taking the position that your facility is neither the distributor's largest nor its smallest account, by paying your bills on time and by earning a reputation as a low-maintenance account that seldom orders incorrectly, you may earn some negotiating clout come contract renewal time. And, as in other transactions, sometimes simply asking for a better deal is all it takes to get a better deal.

Vending machine revenues also might be negotiable. For example, one facility may retain 10 percent of its vending machine revenues, while another keeps 30 percent, simply because the manager of that operation has taken on the responsibility of keeping the machines stocked rather than relying on the delivery person to do so. In any case, vending machines are not the strongest source of bottom-line revenue, and they should be viewed as a second line of defense for taking care of thirsty patrons. They're best used to relieve long lines or in remote areas that do not justify a staff person.

> *Beverages need to be treated as a business within the business, with one or more lines on the profit-and-loss statement.*

Concessions operations at an athletic, fitness or recreation facility can be successful and satisfying. But be aware that no operation runs on autopilot. The fine line separating maximum profits and poor guest or member experiences is always shifting and begs for your attention.

To ensure all employees are working together to achieve an overall goal of satisfaction, share particular numbers with employees. By giving them access to, say, actual pour costs vs. target pour costs, you're ensuring their enthusiasm and imbuing them with a sense of value. Posting weekly results has been proven to positively affect a concessions operation. Many managers who've experimented with this concept report that it improves staff performance and job knowledge. (For more details about sharing financial information, see "Money Hungry," April, p. 75.)

The beverage business is only a part of the concessions puzzle. A clean, pleasant environment and prompt service are also responsible for increasing sales, because sales increases are almost always built upon repeat business. The beverage segment of a concessions operation is the perfect entry-level place for experimenting with inventory control systems, negotiating tactics, marketing and employee relations. Once a manager has mastered those skills, more complex areas of the food business will appear less intimidating. ■

*Mike Holtzman (pff@nctimes.net) is president of Profitable Food Facilities, 11104 Papoose Court, San Diego, CA 92127, 858/675-3733.*