

WHY ARE WE LOSING MONEY IN FOOD AND BEVERAGE?

Club dining is a member amenity, not a restaurant facility

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“Why are we losing money in the restaurant?” inquired the board member while sipping his \$4 gin and tonic — from a beer glass, a full beer glass without much ice and probably less tonic.

Losing money in food and beverage stimulates so much discussion with board members it might feel like a permanent topic on every agenda — right after the approval of the previous meeting’s minutes. If club leaders received \$1 for every time they had to field this question from board and committee members they would not need to worry about shortfalls in their 401k. Better still, if the food and beverage operation in a private club could recognize an additional \$1 of revenue for every time this question was asked, perhaps the question would cease to be asked.

National surveys continue to show that club dining operations represent the most popular member amenity offered by clubs. Note the use of the word amenity — a word used deliberately. The popularity of dining operations should not be terribly surprising given the simple fact that more people eat than swing a golf club or tennis racket. Meanwhile, dining operations are also the most discussed, analyzed, scrutinized, criticized, re-analyzed and essentially controversial, while also misunderstood, elements of club operations. Simply put, a club’s food and beverage operation is not a restaurant and here is why.

Why a Club is Not a Restaurant

Private member club. The clue is in the name. Private clubs, and hence club dining outlets, are not open to the public. This element of privacy or perhaps better expressed as



exclusivity is one of the primary reasons members join in the first place and that privacy comes at a price. A club’s customer base is essentially capped by the number of memberships plus members’ guests. This differs from a restaurant that is open to anyone in the community who is prepared to pay the menu prices. If a club has 750 members, then its customer base is comprised more or less of those 750 families. Given that the number of customers for a club’s dining offering is essentially fixed, at least in the short term, the implications for revenue are fairly obvious — in a recent survey of club food and beverage revenues, these were found to have been flat for the past five years.

Repetition. “If history is going to repeat itself, I should think we can expect the same thing again.” So said Terry Venables, the little-quoted former head coach of the national soccer team of England. Clubs are faced with the challenge of having to continuously resell the same dining experience to members. Compare for a moment a fine dining restaurant where 40 percent of customers in a given evening are first time customers to a club where 100 percent of diners are

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repeat customers. This helps explain the low capture rate of food expenditure by clubs from their members. Fifty cents of every dollar spent on food and beverage is on product for consumption in the home (i.e. supermarket shopping). Of the other 50 cents, which is spent in various types of restaurants, clubs capture the revenue from fewer than one out of four “dining out” experiences of 80 percent of their members. In other words, only 20 percent of club members eat at their club on more than one out of every four meals out. But if that sounds disheartening, consider that a half of club members eat at their club fewer than one in 10 dining out experiences. This is in spite of the increasing prevalence of food and beverage minimums.

Competitive pricing. So if activity or covers are essentially fixed, can revenue be grown by increasing menu prices? Not really. Clubs do operate in the same competitive marketplace as restaurants, and aggressive menu pricing will likely result in the club hemorrhaging revenue dollars to neighborhood restaurants or, more likely, cause an insurrection among the members. Like all consumers, even those in upper income brackets, club members tightened their belts throughout the recent economic slowdown. Furthermore, they are conscious that they already pay sizable membership dues and generally expect the club’s menu prices to represent exceptional value. Recent surveys show that approximately 80 percent of clubs either held or reduced their menu prices in 2010, and of the remaining 20 percent that increased their prices, the average price increase was 5 percent. This is despite rising food costs, which are anticipated to continue rising through the remainder of 2011. It is always worthwhile for clubs to compare their menu prices to those of a local restaurant offering a similar dining experience to confirm the value that club dining represents.

Quality and quantity. If a simple side-by-side menu comparison of a club dinner to a restaurant equivalent does not bear out the value of club dining, then a tasting probably should. Clubs typically

serve better quality products — fresh produce as opposed to frozen, baked rather than purchased bread — and serve more generous quantities. The concept of highest quality does not only apply to à la carte dining either. A typical club’s buffet carries high quality products with a tendency to over prepare. As far as alcohol is concerned, just try to identify the last time a jigger was used in a club bar. Free pours from a heavy handed barman are more the norm and oftentimes cocktails are served in wine goblets or beer glasses. This situation presents clubs with unique challenges in protecting the bottom line. As mentioned above, aggressive pricing is not really an option and neither are some of the “tricks” used in the restaurant trade to maintain profitability. Members will be highly resistant to portion control, weaker drinks, cheaper ingredients or low-end consumables.

Capacity. Clubs tend to have excess capacity for à la carte dining, but lack the capacity for large scale catered events. Clubs will have multiple and competing dining outlets, such as a formal dining room, grill room, and pool café, even though it is only possible for a member to use one at a time. Hence fixed revenue dollars are spread across the outlets to cannibalize sales from one venue to another, and remember that each outlet has its own storage area, kitchen and staff which all carry a cost. Restaurants usually have a single dining room and kitchen and, of course, a larger customer base.

Staffing and labor. Club members expect a “creative kitchen” rather than a “manufacturing” kitchen. While restaurants tend to use hourly line cooks, clubs frequently employ highly-trained executive and sous chefs plus specialized staff, such as sauciers, pastry chefs and sommeliers. All of whom are typically full time salaried positions which are carried through slower seasons. The staffing situation in the dining room is often challenged by prohibition on cash tipping. Clubs therefore find themselves having to pay a higher hourly rate or offer more overtime than competing restaurants in order to attract and retain service staff

to offset the lack of tips. Members are rarely required to make reservations for lunch or dinner, and hence the tendency to overstaff — just in case every one turns up for Friday night dinner.

Club policies. Want to drop \$200 on dinner for two while wearing your jeans? Better go to the local restaurant rather than your club. Amending club policies, particularly dress codes, is one of the few items likely to spark move lively debate in a board meeting than the loss in the food and beverage operation. However, in today’s time-constrained society, it is worth bearing in mind that formal dress codes and prohibitions on electronic devices likely discourage many members from frequenting the dining room.

In the mix. Both the activity and product mix at clubs are not conducive to turning a profit in the food and beverage department. Clubs do more lunch business than dinner business, and lunch menus are always more competitively priced than dinner. Because the mix is so lunch heavy, less beverage is consumed, which is unfortunate from a profitability standpoint, as beverage carries a higher profit margin than food. While the most profitable meal for restaurants is in fact breakfast, clubs typically have minimal breakfast traffic. Or to clarify, minimal breakfast traffic is more accurately described as few breakfast sales, as “gratis” breakfast items are quite common in clubs.

It’s a Member Amenity

To sum the situation up in a single word, the reason clubs “lose” money in food and beverage is because the dining room is a member amenity. Just like the golf course, tennis courts, fitness center and swimming pool. How much money did the club “lose” on its golf course last month? Probably more than it did on food and beverage. Rather than explaining why the club is losing money on food and beverage, the time has come to question the premise that money is even lost. All club amenities carry a cost, which is why clubs charge dues. So, worry less about the numbers and enjoy your dinner. Bon appétit! ■