

# BoozNooz

## Safeguarding Bar Profits in a Soft Economy

*A Special Bevinco White Paper Issue*

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**F**or the first time in decades, the amount of money spent in restaurants and bars is declining. Bevinco's statistics show that in 2008 alcohol sales were down 27% on average across all categories – and our clients tell us that food sales are significantly worse.

In this environment, operators who excel at the fundamentals will survive: watching costs, offering value and authentic hospitality to customers, managing cash-flow and safeguarding assets.

If you are able to look after these basics through this tough economy, your business will emerge stronger when the economy inevitably rebounds, as competitor's close their doors and you cut out any waste and inefficiency that has crept into your business over the years.

### PERCEIVED VALUE IS CRITICAL

Comparing the current slowdown with the Great Depression is unwarranted, except that it is instructive to note that "value pricing" was one of the rare successes in the 1930s. Back then diners became very popular because their low fixed-costs

enabled operators to cut prices. And two major innovations, "fast-food" and "take-out" first appeared based on the demand for low pricing and no frills (you may have heard of the McDonald brothers who opened their restaurant in 1940).

The increased demand for lower-priced drinks and entrees calls for a careful look at your pricing. Many customers are going to downgrade from imported beer and premium vodkas to Budweiser draft and well vodka. You need to make sure that those types of brands are competitively priced. If you haven't "shopped" your competitors pricing recently, now it is vital.

### GET PRICING RIGHT

With that said, there is no reason to discount your premium brands. When customers call for premium brands they are stating their preference for quality (or, more often, status) over price. In other words, they are not particularly sensitive to the price.



Cutting your premium brand pricing is unnecessary – see [BoozNooz Volume 2, Issue 10](#).

In fact, as more of your customers downgrade to cheaper brands, it is a good idea to devote more time training your staff to up-sell. While that training needs to include some basic up-selling techniques, it is just as important to show your staff why up-selling is good for the bar and good for them.

Of course, up-selling to a premium brand is counterproductive if you don't actually make more money by doing so. It is surprising how often we find that our clients actually lose money by up-selling to some brands. For example, it is pointless charging an extra \$1 for Grey Goose vodka if Grey Goose costs \$1.10 more than

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your well vodka.

Every bar should calculate the ideal pour cost from each drink (and food item for that matter) at least once a year. As part of this analysis, we also recommend calculating the additional profit contribution from up-selling to a premium brand. In this example, from a real Bevinco client, you can see that they actually lost money whenever a customer ordered a J&B scotch instead of a well scotch and that the Glenfiddich pricing was

too low compared to other single-malts. (See sidebar below.)

Pricing for rocks, martini and doubles up-charges should also be analyzed. In *BoozNooz Volume 13, Issue 2*, we noted that most up-charges were too low and that a higher up-charge price for premium brands is almost always better than a “one-size fits all” up-charge policy.

**DEVELOP A SIGNATURE DRINK**

Perhaps the single best way to build bar sales is to develop a signature drink that is only available in your establishment. When well-conceived, your signature drink should also be a one of your highest profit items. In *BoozNooz Volume 2, Issue 8*, we explained the essentials in making this work, including:

- ➔ **Have only one key signature drink:** if you have more than three, you don’t have a “signature”, you just have a list.
- ➔ **Develop something unique:** either visually striking or with an unusual ingredient.
- ➔ **Price it right:** with an ideal pour cost in the same range as your house margarita. Considering

the promotional effort that will go into it, your drink should be one of the most profitable items.

➔ **Market it effectively:** most of the effort here should be on-premise. Your bartenders and servers have to enthusiastically sell it so, make them part of the vision.

When done correctly, like at the Buena Vista Café in San Francisco, a signature drink can be enduring, profitable – and may become the centerpiece of your marketing. In 1952 Jack Koepler, the then-owner, developed a signature Irish Coffee. Almost overnight he had customers lined up three deep at the bar to try his new drink. Today Irish Coffees are commonplace, yet the Buena Vista still draws customers for theirs. This – fifty-six years later! – is a testament to the power of a well-conceived signature.

**PROMOTIONS FOR CHEAPSKATES**

Attracting new customers is challenging even in the best economy. When cash is tight, advertising seems prohibitively expensive. Linda Duke, CEO of Duke Marketing, suggests that restaurateurs make more use of sampling to drive business. “Not a lot of businesses can give what they sell to guests for free or to initiate trial,” notes Duke, in a recent interview with the California Restaurant Association. “[Restaurateurs] can spend 30 cents to get their food in someone’s mouth instead of a dollar asking people to come in and taste their food.”

Discounting can also be effective, but only when offered judiciously. Discounting too freely simply teaches your customers to expect to pay “special” prices. Bill Marvin, the Restaurant Doctor, recommends a half-price wine night to build sales on slower nights. In his newsletter ([www.restaurantdoctor.com/ehc.html](http://www.restaurantdoctor.com/ehc.html)) he quotes Paul Thornton of Pauli’s in Huntsville, Alabama, who writes:

“I have a quick note on the half-

## Are You Pricing It Right?

BRAND	DRINK COST	REGULAR PRICE	POUR COST	PROFIT PER DRINK	UP-SELLING PROFIT
Well Scotch	\$0.51	\$4.00	12.8%	\$3.49	
J & B	\$1.10	\$4.50	24.4%	\$3.40	-\$0.09
Johnny Walker Red	\$1.10	\$5.00	22.0%	\$3.90	\$0.41
Chivas Regal	\$1.19	\$6.00	19.9%	\$4.81	\$1.32
Glenlivet 12yr	\$1.63	\$8.00	20.4%	\$6.36	\$2.87
Glenfiddich 12yr	\$1.64	\$6.00	27.3%	\$4.36	\$0.87
Laphroig 10yr	\$2.01	\$9.00	22.3%	\$6.99	\$3.50
MacCallan 10yr	\$2.35	\$10.00	23.5%	\$7.65	\$4.16
Glenmorangie 12yr	\$2.56	\$11.00	23.3%	\$8.44	\$4.95
MacCallan 25yr	\$7.11	\$35.00	20.3%	\$27.90	\$24.41

Here, the well scotch generates \$3.49 in profit while the profit on J&B, at \$3.40, is actually less. Glenfiddich has a gross profit of \$4.36 but that is only 87¢ more than the well. This is probably far too low considering that the other single-malts generate between \$2.87 and \$24.41 more profit than the well.

price bottle of wine night that I “borrowed” from you. We have been offering half-price wine on Monday nights since January 2007... Anyway, it works very well – our numbers on Monday are close to weekend numbers before discounts. I keep it “unadvertised” to my email list only and I throw in a statement like ‘I’ll keep doing this as until I can’t afford to any more.’ This adds a little bit of scarcity to the deal.”

The necessity of attracting new customers comes with an essential caveat: don’t neglect your “regulars”. Retaining the loyalty of your regular customers is much less costly than trying to attract new ones. All too often, as we discussed in the [Spring 2004 BoozNooz](#), operators haven’t developed any strategy to explicitly acknowledge regulars. When every establishment is fighting for the customers’ shrinking dollars, you cannot afford to let your regulars decide they get more love from your competitors.

### CASH-FLOW IS KING

In the current economy where additional financing is nearly unattainable, poor cash-flow could kill even a profitable business. One of the easiest places to free up cash-flow is your alcohol inventory. [BoozNooz Volume 12, Issue 3](#), stated that the average bar has between \$6,000 and \$10,000 in excess inventory – a lot of money that can be easily put to use in your business instead of gathering dust. We suggested these fundamental rules of good inventory management:

➔ **Never let your liquor salesman determine your order**

➔ **Know how much inventory you should have** considering your volume: for most bars that means a turnover ratio of at least 35x. Another way to look at it is 33¢ of inventory for each \$1 of sales

➔ **Determine par levels for each brand.** Those pars should be based on your peak usage with a safety margin added on top

➔ Find a system that **constantly re-adjusts these par levels** as your sales change [Bevinco constantly re-calculates par levels for our clients based on usage for the three most recent weeks].

### SAFEGUARD YOUR ASSETS

Bevinco has been helping operators do exactly this for over 20 years. Our audits during the last recession verified that theft rises when sales fall. When your sales are lower, your employees make less money from tips. Unfortunately, when a 23-year-old bartender is making \$60 a night less than he is used to, the temptation to make up the difference is overwhelming for many – especially when “forgetting to ring in a few drinks” is so easy and will go unnoticed by the owner.

The average bar is missing twenty percent of their sales due to theft and over-pouring, a hard reality that has been established by several studies. That means an extra \$4,000 to \$10,000 in missing profit every month. Although it is difficult to believe that any restaurateur could afford to ignore that kind of money, many deny the problem, noting that “my sales are good and my pour cost is in-line”. In today’s economy, no operator can afford that kind of

complacency. To thrive, all of us will have to examine our unquestioned assumptions – starting with the erroneous idea that if your pour cost looks good, you probably don’t have a theft and over-pouring problem [see [BoozNooz Volume 2, Issue 14](#)].

The simple fact is that your pour cost is probably two to three points higher than it should be. Comparing this month’s pour cost to last month’s or last year’s provides a false sense of security. An inventory/sales audit would undoubtedly find that your pour cost has been 2 or 3 points too high **all along**.

It may be difficult to accept the fact that your employees are routinely over-pouring (and sometimes stealing). But if you deny that there may be an opportunity to tighten up your operation, you will be at a competitive disadvantage to those operators who are willing to take a cold, hard look at their controls.

Efficiency, which will enable you to keep your prices low, demands that you put systems in place to deter and eliminate theft and over-pouring. At Bevinco, we often quote Ronald Reagan’s maxim, “trust, but verify” – believe that your people are doing the right thing, but have a system that confirms your trust was warranted. Bevinco weighs and

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## INSIDE:

# Tips to help your business survive...

## THE CURRENT ECONOMIC TURBULENCE

In a special Bevinco white paper, **IAN FOSTER** explains how the current economic downturn can be weathered, using smart business practices and a little common sense. You may even come out of it all stronger than ever!

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counts all the alcohol each week for our clients, and then we compare the usage from each bottle to what has been rung up. Hidden losses are quickly uncovered; thieves find that there is nowhere to hide. Happily, the result is not employee turnover, but rather bartenders and managers who understand that they are accountable and, thus, deterred from wrongdoing.

Using an independent alcohol auditing company will pay for itself several times over. Here are several other ways to maximize the economic efficiency of your operation:

- ➔ **Develop solid measures of efficiency.** For example, Bevinco clients monitor the difference between ideal and actual pour costs [i.e. the Bevinco Efficiency Rating]
- ➔ **Hold your managers accountable** for excelling on this measure. The best way is to tie at least a part

of their pay to achieving measurable results

- ➔ **Monitor void and comp reports** and “walk-out” claims
- ➔ **Question no-sale transactions** when excessive
- ➔ **Use blind cash drops**
- ➔ **All transactions need to be rung up** and printed on chits – before they are served
- ➔ **Cash drawers should remain closed between transactions**
- ➔ **All employees should be required to sit at a table for service**, not at the bar. This puts a buffer level between the bartender and staff member.

Which brings us to the rare light of good news: recruiting good employees and managers is easier now than it has been in at least a decade. In this labor market, you don’t need to stick with lousy employees; you can afford to have high standards – or perhaps, you cannot afford not to. **BN**



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