

“Why Can’t You Make A Profit Like They Do Every Day at MacDonald’s???”

Ammunition Managers and Boards Need When Discussing Operating Losses in The Dining Room

You’ve Heard the Moans and the Groans:

If you’re a manager, chef, food and beverage director, board member or club president, you’ve been asked more times than you care to remember about club food operations---why isn’t the service better, why can’t there be greater consistency, why are there so many functions, why is the dining room empty, why does the club lose money in the dining room when McDonald’s makes billions selling burgers cooked by high school students? Everybody eats, everyone’s an expert, everyone has a solution and no-one’s shy about telling you why.

Whether you like to hear the questions and the commentary or not, the issues raised are important ones. Let’s take a peek at dining room operations and see if we can’t arrive at some first principles and simple explanations that’ll make your job as manager or director a little bit easier than it might otherwise be during your next heated exchange over dining rooms, member subsidies, minimums, function business, dues increases and the like.

The Club Food Dilemma:

Members can’t deny that food is a core issue in any club operation. The perception of a given club is caught up in the symbolism of the dining experience---is the food “good”; does it reflect the needs, wants and expectations of the membership; does it amplify the social experience; does it represent good value; is it consistent; are members proud to have their guests down to dinner.

Pride in the food experience, however, comes at a high price. “Big Bucks” are needed to fuel the private club food operation since the “user group” is a small one; the clientele has sophisticated tastes and expectations; the creation and maintenance of a culinary team equal to those tastes is expensive; the service schedule is irregular; usage patterns gyrate wildly throughout the week, month and year; the competition for the member’s dining dollar is intense in “mature” urban locations; and the spectrum of member dining needs is enormous, ranging from kid buffets to gourmet dinners, from fast food to “mega” wedding receptions. These conflicts generate losses and it is the rare private club that actually makes money on its dining room operation. And it is equally rare that members see theirs as anything more than “club food,” acceptable but not terribly exciting, okay but certainly not memorable.

Therein the dilemma. How does a club provide for the needs and expectations of its membership without “bankrupting” either the finances or the good will of the very member community it hopes to serve?

Every club handles the “food dilemma” differently. Some clubs value food and service so highly that they assess the membership to cover losses at the end of the year. Others raise their dues enough to neutralize those losses. Others try to provide a variety of dining and drinking venues which, taken together, exceed the losses in the dining room alone. Most clubs encourage private events which, because of their predictability and the premium dollars they can demand, generate profits used to reduce or overcome those

dining room losses. Other clubs have a “food minimum” which requires that member families spend a certain amount of money each month in the dining room or pay a premium for not doing so. These are but a few of the many options which exist, though the dilemma remains---how to provide “the best” with the dollars available.

Five Easy to Remember, Easy to Explain and Easy to Budget Reasons Why a Club Food Operation Doesn't Run Like a Commercial Restaurant:

Club food operations are very complex. Anyone who tells you they are not are innocents that need to be educated. Although each club's operating and strategic assumptions may be different, there are some principles which are constants in your and every other club. To make a very complex business less so, keep the following points in mind when addressing your own culinary issues:

1. **Clubs have a limited user base.**
2. **The user base is sophisticated and demanding.**
3. **Members want better value than they find elsewhere.**
4. **High cost / limited benefit services are expected.**
5. **Quality requires a creative kitchen.**

1. Clubs have a limited user base---the membership: A private club sells food to members and their guests. The members are limited in number, each of those members has multiple dining choices within the local community and each has only so many dining opportunities in a given week. On the one hand, there are too few families for the facilities available and on the other hand there is too little variety for the repeat users of the dining room. How many times will anyone eat in the same location during a given month? To compensate, one needs either a larger membership, some technique for forcing them to eat at the club (monthly food minimums) or a larger subsidy from the dues charged each and every month.

The varied definitions of “food success” among the members: Since the user base is varied and since the club provides food for each of those user groups, there are multiple different definitions of food success amongst the membership. The club tries to be all things to all people and the effort has a tendency to be both costly and not altogether successful. A young family might think that cheap and casual are the ideal, whereas the “blue hairs” might believe that traditional food in a formal setting is best while the “empty nesters” are searching for cutting edge cuisine in a contemporary setting. Try to be everything and you'll eat up “the big bucks” and if you specialize you alienate a large percentage of the membership. In the commercial world, you focus on a special niche and ignore the others whereas in a club you address them all and hope to keep your cumulative losses in check.

A variety of food outlets within the club: To satisfy the variety of dining needs exhibited by the members, multiple different outlets are required where the food and the setting are appropriate for a specific user group. This is always an inefficient way of doing business since it requires more staff, more supervision and more menus than the size of the user population would suggest. Clubs make that provision and accept the inefficiencies, however, since they're in the “happiness business” and not the profit business.

2. The membership is sophisticated, worldly and food savvy with high expectations from the club's food operation: Member expectations are dictated by their education, their affluence and their experience in the larger culinary world. These tastes are of a very high order. To satisfy them, the culinary team has to be of a higher quality than might be required in the commercial world. Boards and managers should be aware of the ultimate reality---members praise great kitchens and rarely if ever comment on food profits.

Club tradition---anticipated quality, service and offerings: Each club has a history that members have come to accept with time. Businessmen feel comfortable eating off paper plates in a particular grill operation Mondays through Fridays while ladies in the very same club expect to have lunch service seven days a week in the dining room. Those standards and expectations can easily be raised but they can rarely be lowered. These traditions limit options and build in losses.

“Ritual of dining” environments cost more to operate than “bistro” type environments: Those who are into “the ritual of dining” restaurant experience want formality---in the ambiance of the dining room, in place settings, in the dress of the service staff, in the complex presentation of food---and that formality costs a great deal. City clubs are famous for this type of service.

An interesting building complicates service: People love old buildings with character. Intimate dining spaces are sanctified. However, the most efficient service environment is one in which all services are provided in a single space. The service supervisor can monitor the entire area at one time, service personnel from one station can be used in another location as needed and members can “see” where the service people are, thus reducing anxiety and frustration. Most traditional clubs, and most architecturally interesting new ones, are a unique collection of spaces which give an idiosyncratic personality to the facility. But this personality costs money since coverage requires more service people than a single contiguous space would require. While the happiness quotient within the membership might go up, costs will go up as well to provide a given level of service in each of those locations.

3. Members know what restaurant food costs and expect value from their “home away from home”:

Value is paying the right price for the quality received. Members, however, consider the right price to be somewhat (or considerably.....) less than is the norm for that level of quality in the outside community. The reasoning is that in their own home where profit is not a factor and where they pay monthly dues, they should get a deal on each purchase they make.

Speaking with the feet, member satisfaction and the willing subsidy: Clubs are in “the happiness business.” If members walk in the door in greater numbers, we can assume that they are happy. Covers are more important in determining member satisfaction than dollars spent. As long as members continue to use the dining room in increasing numbers, the club mission is, to a very large extent, being satisfied. Clubs would be ill-advised to improve the bottom line if it meant slowing the number of users from the member base.

Club tradition---Member Expectations about breaking even, losing money or making a profit: Some clubs have a tradition of great food and service and a willingness to pay---either with dues or an annual assessment---for both. Others have accepted that they can’t win the competition war and have instituted a “food minimum” which, though considered unsavory, is simply part of the “norm” in a given club. Others, hope to break even in food and beverage operations by netting to zero the losses in the dining room with the profits in the bar and grill---which are both “manufacturing environments” and therefore profitable. History defines member expectations and a club should acknowledge that when evaluating food options. Managers and boards need to know, however, that dues are a far more efficient way to subsidize food operations than quarterly minimums, and a lot less annoying to the membership.

Food Cost: Food cost is the cost of the raw ingredients used in making a given food item. The norms for commercial restaurants---which are manufacturing environments by definition---are different than for clubs where a creative kitchen is usually pursued and sale prices are lower. Because of the inconsistency in the club business---hours of operation, limited user base, etc.---there is a higher percentage of waste in raw food costs. In a restaurant, a low food cost is “good” since the profit margin is higher whereas in a club a low food cost might be seen as “raping” the members. The “right” food cost in a given club is dictated as much by tradition, board policy and perceived value as

by any industry standard. The “right” cost of sales is what any given club feels is right. And “right” will always be different for ala carte business, function business and “member promotional events” such as our summer Sunday buffets.

4. Clubs provide services to the membership, members expect those services to be provided whether economic or not and members expect that dues will be used to keep the value relationship high for the services they use:

Dues are levied on members since operating department contributions are not equal to the “overhead” needed to run the club operation. In a sense, dues are used to fund “loss leaders” such as sports, bridge, living rooms, youth programs and plasma screen televisions since members join for these and other services which are not financially “self sustaining.” Wanting these services means paying a premium to receive them and the monthly dues are the premium charged to subsidize those programs.

Quarterly food minimums are about taxing non-users and forcing usage: Minimums force people to use the club dining room or to pay a “tax” for not doing so. This is a poor system since those who are “forced” feel blackmailed into using the club, the profits on those visits are miniscule and the “taxed” ---that is, those who choose not to spend the minimum and pay the difference between what they spent and the minimum---are really disturbed. The ultimate minimum, however, is a dues increase since this is the most efficient (every dollar received is pure profit) and to all but the most active users of the club, the most equitable way of handling the subsidy when needed. If there’s a buzz in your dining room, people don’t need to be pushed into visiting---eliminate the minimum. If business is booming, people are using the dining room and they’re raving about the food and service but you’re still losing money, increase the dues and bank on the goodwill you’ve created.

The “Seat me now” reservation mentality: Members pay dues and they feel that their ownership interest in the club gives them rights not otherwise accorded to them in the commercial world. In a regular restaurant, tables are available or not according to the service staff hired at a particular time. Too few staff for that time frame means that you wait at the bar. Members act like they’re owners (which they often are---) and when they arrive, with or without reservations, they expect to be seated. This means that you need to overstaff to ensure that they can be seated and served when they want rather than when the maitre d’ wants. In such a situation, staffing for maximum efficiency is difficult to achieve.

Labor Cost: Labor cost is the cost of the labor involved in creating a given amount of food revenue. High turnover, low expertise and youth keep labor costs down---the very things that you find in a “manufacturing” food environment like Wendy’s or a Holiday Inn. The norm for labor costs in these environments is different than in a creative kitchen, whether that kitchen be in a club or in a high end French restaurant in the commercial world. Clubs have high labor costs because they have executive chefs with creative skills (or they should have), they seek consistency by retaining staff for a long time and they have a team capable of developing personal relationships with the membership.

Revenue per cover---regular business: This term deals with the dollars spent by each person who sat eating during a regularly scheduled dining opportunity. Ideally you want more spent per customer. However, having more customers eating slightly less---say, more using the bar and eating heavy appetizers for dinner during the game---is actually a “good” though on the surface the opposite would appear to be true. The reason is simple: more members using the club, under most definitions of “the good,” is a plus regardless of the dollars spent per visit. Members who use the club frequently willingly pay the dues each month.

Staffing known losers: Food is a “service” provided to the members. Some members want food options that make no economic sense---breakfast seven days a week, lunch in the dining room each day, a formal coat and tie dining room and the like---and those services are provided since dues rather than economics drive the service options.

Limited days of the week: Most clubs don't have seven day a week, three meals a day food operations. Although breakfast is generally a "dog" meal everywhere, a strong seven day a week lunch and dinner business---as is the case with most successful commercial operations---helps eliminate waste (you can use tomorrow what you don't use today) and increase revenues.

All of Which Creates Waste: Waste relates to food production and waste occurs when food is produced inefficiently. Clubs are inherently wasteful since irregular dining schedules complicate utilizing each day's over-production, usage on any given day is difficult to predict, over-production occurs in anticipation of high usage, and on big occasions buffets are needed which are "waste engines" for the kitchen. Waste increases food cost and accelerates losses.

5. Member expectations require that a "creative kitchen" rather than a "manufacturing kitchen" be provided: Manufacturing kitchens such as exist in the commercial world rarely change the menu, have little flexibility in customizing items for the user base and are resistant to innovation. However, manufacturing kitchens can produce food quickly and inexpensively using relatively untrained employees who turnover frequently. Turnover is even encouraged to keep manufacturing costs down. No chef is needed once the initial menu has been created. MacDonal'd's, which makes money, is a "manufacturing kitchen" whereas your fine dining outlet requires a "creative kitchen." People like MacDonal'd's---casual, paper plates, self service, the usual offerings of grease, salt and sugar with low expectations from the user community--- but they rave (or I certainly hope they do!) about your dining room operation. Both satisfy an important consumer niche but only one of the two will ever make money in a member oriented club environment.

The need to maintain a "core culinary team": The best culinary team is the one that works together year-round. Given seasonality, a larger core team---that is, the full time, year round employees of the culinary operation--- is needed than is sometimes required by the amount of business *at any given moment* . Most clubs are year-round operations with high quality expectations whenever open. Add to that the reality of large capacity production needs during the off-season (Christmas, New Years, Easter, Thanksgiving, Fourth of July or whatever), a larger core of quality kitchen and service staff is needed than would be the case in a commercial operation.

Consistency and the costs involved in providing it: Consistency is difficult to achieve in a non-manufacturing environment since the menus change with some frequency and are usually more complicated to produce. To counter this reality and to achieve production consistency, a higher level of employee, properly trained and with a long term commitment to the club, is required. "Buying" consistency is expensive.

It's easier to find part time people for the service staff than for the kitchen staff: Part time wait staff are easy to locate and can be trained quickly to be waiters in almost any service environment. Such is not the case with part kitchen staff since the skills needed to work in a creative versus manufacturing kitchen are usually specific to a given kitchen environment. Therefore it's easier to operate service component with fewer full time core people---since part timers can be found when needed---than it is the kitchen, which must inevitably carry far more trained people in its core team since finding part timers is difficult at best. Therefore, during busy times, the core kitchen staff gets tons of overtime whereas the service team does not.

Bars make money because they're a "manufacturing environment": Labor costs in the bar are very low since the products are standardized, the "manufacturing techniques" are easy to teach and the ingredients can be easily quantified, thereby reducing waste and "shrinkage." Synergies exist between the dining room---which might be considered a loss leader with its creative kitchen---and the bar since diners tend to drink before, during and after they eat. Consider your dining room subsidy in light of the bar's contribution to overhead.

Function business makes money because it's a "manufacturing environment": Functions involve a fixed menu for a fixed number of guests with a guaranteed minimum for attendees. The food can be

created on an assembly line, the service staff can be minimized since orders needn't be taken and there is little waste from over-production. Clubs love functions because they're the one area where "creative kitchens" can function like "manufacturing kitchens" and make a significant contribution to overhead.

Cost Reduction Options:

Losses in the food operation can be reduced. Doing so requires choosing amongst one or more options, some of which (perhaps it would be more accurate to suggest that most of which---) would be unattractive to your membership. That said, the following options are out there for managers and boards to ponder:

1. Move from a creative kitchen to a manufacturing one. The members' happiness quotient might go down, but so too would your subsidy.
2. Charge members a "dining room subsidy tax" each year, perhaps on a monthly basis, to make up the difference between the budgeted net of the food and beverage operation and zero. If you budget to lose \$10,000 in food and beverage operations then you would bill each member an amount equal to the pro-rata share of that loss. This would dramatize the subsidy each month, possibly making the members more amenable to the other options. And you'd also discover how much value members really place on the dining room operation-----
3. Reduce the size and variety of the menus. Doing so will save you production and service costs, but affluent types might revolt because affluent types like to maximize not minimize choices.
4. Be ruthless in eliminating food options that don't pay their way. Accept that the fringe diners---the ladies social bridge group that drinks free iced tea and eats half sandwiches on Thursdays in the formal dining room---will be ousted. (*Better you tell these characters than me!*)
5. Reduce the number of rooms where food service is offered. Forget about personalizing spaces for niche groups within the membership. Jam the lot of them into one room and enjoy the operating efficiencies thereby created.
6. Actively promote function business and ignore the squealing from displaced members.
7. Charge more for whatever's served thereby acknowledging that the price should reflect the true cost of providing the service. Ignore the squeals from your comparative shoppers.
8. Encourage turnover in the labor team to keep the man hour costs to an absolute minimum. Accept that you'll be a different operation from month to month and that employee morale may plummet. Be cautious of what you eat thereafter.
9. Create a food minimum that puts dollars to your food operation's bottom line. Accept that by doing so that you'd *prefer* members to pay the minimum, which is 100% profit, and eat elsewhere during the month.

Boards and managers need to have ready explanations for losses in the dining room operation. You will be asked and you don't want to look dumb, defensive or openly hostile toward the critics and the self-appointed culinary experts. Efficiencies need to be sought but the constraints on that efficiency need to be understood. Food is a service, paid for in part with dues and in part with operating revenues from the "manufacturing end" of your food and beverage operation. To suggest otherwise, or to act otherwise, would be to compromise one of the core "happiness factors" in yours and every other club.