



The Double Whammy: Facing the Effects of Current Economic Conditions on the Seasonal Hospitality Venue Cycle

I have received a number of emails and phone calls recently in regards to the impact nightclubs, bars and restaurants have seen from what is, without question, an extraordinarily slow period. Operators are finding that they are not just having to deal with the annual, seasonal revenue cycle, but that they are faced with a simultaneous and overlapping crash on consumer confidence, the likes of which have not been witnessed for over a decade. On the assumption that it will not be getting better any time soon, immediate planning can allow for both current and future survival.

I. THE PROBLEM:

When consumer spending and confidence hits this kind of dip, the first industry to suffer is the hospitality market.

It's not very complicated: Consumers have a lower disposable income which, when combined with their view of the market leads to them moving any disposable income they do have to the warm hiding place under the proverbial mattress. As the time of writing, even the banks are under pressure. I was sitting in a client's office when news broke that Washington Mutual had collapsed and the FDIC was seeking an emergency solution. My client raced to the bank to withdraw his maximum available amount and was freaking out about what would happen tomorrow. His worry was not losing his money - it was obviously protected - his worry was the potential interruption to his business operations.

After all, it is cash strapped businesses like bars, nightclubs and restaurants that write checks and pay bills on tomorrow's merchant drop, and with credit card sales now making up the overwhelming majority of the transaction base, an interruption of any kind has a domino effect.

We have all seen it and been there; first the Sales tax does not get paid, followed swiftly by the payroll deposits to the IRS and EDD. You are faced with spiraling balances to your NET 30 vendors and, suddenly, within 60 days you are purchasing from a supermarket. Once you fall behind, catching up and becoming current become ever more remote. You are not the first and certainly will not be the last.

II. FOLLOWING THE MONEY LINE (FML) – A BIG PART OF THE SOLUTION

FML has been my strategy from day one - the solutions and options are obviously dependant on size and scope, but with many clients being single or few-venue owner-operators, my suggestions are geared to that market. Here are a few:

☒ *Get Your Hands Dirty*

Many owner operators have not really jumped back into the hot seat of being their venue General Manager since the first six months of opening. The wear and tear of an NSO and the first months of operation have made hiring a competent manager (who allows you a day off) a delightful relief. From there we all get busy on our next venture,

and it is all too easy to forget about the small things - while you may have spent a lot of time at your location generally, you find you have only returned to back-of-house operations and management, when there has been a larger problem.

By retaking your position at the wheel of back and front-of-house operations, you will immediately see a million things that need to be fixed – most of the time, there will be a solution to remove the problem in entirety and save money, or a cost/benefit analysis will show that you will actually make money by spending a little.

So, first things first:

- Your office should be moved directly into your venue if it is not already.
- You should have access to all your accounting data including vendors and payroll.
- You should be working adjacent to your management team.
- You should be on location day and night for a short period, having a hand in every decision, action or dollar spent.

☒ Share the Load – Motivate Your Managers

If your staff are not aware of the cash crunch you are facing, now is the time to bring your upper management up to speed - they are the executioners of your objectives and the motivation of being involved in the solution will have them looking for ways to save or become more efficient, which will produce better results.

☒ Set Your Targets and Chart Your Progress

The first item I generally always try to create is a “money saved spreadsheet” with simple columns: ITEM and then money saved into columns of DAILY/WEEKLY/MONTHLY/YEARLY.

ITEM	DAILY	WEEKLY	MONTHLY	YEARLY
	163.69	1,145.83	4,352.33	55,000.00
	141.84	992.88	3,971.50	47,658.00
	142.86	1,000.00	4,000.00	48,000.00
	22.14	225.00	900.00	10,800.00
	31.43	220.00	880.00	10,560.00
	125.00	875.00	3,500.00	42,000.00
	28.57	200.00	800.00	9,600.00
	67.00	469.00	1,876.00	22,512.00
	1,091.44	7,640.05	30,560.24	366,722.88
	13.00	91.00	364.00	4,368.00
	4.29	30.00	120.00	1,440.00
	3.57	25.00	100.00	1,200.00
	11.43	80.00	320.00	3,840.00
	652.00	4,564.00	18,256.00	219,072.00
	12.44	87.09	348.36	4,180.32
	21.00	147.00	588.00	7,056.00
	193.45	1,354.17	5,416.67	65,000.00
	160.71	1,125.00	4,500.00	54,000.00
	7.14	50.00	200.00	2,400.00
	6.92	48.44	193.76	2,325.12
	7.75	54.25	217.12	2,605.48
	50.00	350.00	1,400.00	16,800.00
	26.00	182.00	728.00	8,736.00
	110.00	770.00	3,080.00	36,960.00
	25.00	175.00	700.00	8,400.00
	468.00	2,856.00	11,424.00	137,088.00
	53.57	375.00	1,500.00	18,000.00
TOTAL	3,596.25	25,131.74	100,526.98	1,206,323.75
TARGET	3,720.24	26,041.67	104,156.67	1,250,000.00
REMAINDER	123.99	909.92	3,629.69	43,676.25

- Once you have an item and the associated saving, the number can be placed under the appropriate column and excel can generate the savings in either direction.
- This spreadsheet, which should be shared with management also allows for tracking progress, so that you actually see the direct result on paper – seeing the saving itself helps bring about the goal.

☒ Don't be Silly

It should go without saying that now may not be the best time for new, big CAPEX projects such as construction of a remodel or the inventory purchasing requirements of menu engineering(!).

☒ Don't Ignore the Little Things – They Grow

The accumulated results of small savings are IMMENSE. A recent client provides a nice case study of how you can achieve immediate savings (not including payroll and COGS):

- Removing linens
- Cancel directTV
- Larger candles
- Vendor Negotiations
- Lower Merchant Fees
- iPod vs DJ
- Remove cleaning crew
- Lower Trash Pickups
- Negotiate lower utilities

CASE STUDY: Of course every venue is case specific but in this instance there were so many small items that they actually represented a majority of the wasted expenditure. Just moving to a larger CO2 tank instead of the smaller ones saved \$8,000 annually, and having the cleaning crew removed and using existing staff instead saved over \$42,000.

Paying attention to very small line items can deliver fantastic savings when amortized over the course of a year. In our case study, cancelling directTV saved \$1,400, and having the staff use their own knives instead of using a service saved \$1,200.

That's over \$52,000 saved right there, without even trying very hard.

But it's more than just the money - by forcing yourself back into every nook and cranny of the business, you will find other problems of inefficiency and leakage.

Cross Utilizing Your Staff

In the current climate, a venue operator would do well to use a dynamic scheduling strategy - a scheduling process that can adapt to slower nights without degradation of service.

On a slow Monday can your:

- Busboy also bar-back?
- Second bartender also be a server (and vice versa)?
- Runner be used as a busser?

The payroll is the largest single expense you have and by being on site you can see the opportunities for cross utilization. 30 minutes after you close, why are there still hourly employees clocked in? 2hrs before you are open who is clocked in, what are they doing and could they come in 1hr later and just work harder?

CASE STUDY: A client of mine with revenues of \$2.3m was able to shave \$350,000 off its annual payroll after 15 days of evaluation. That's 15% of revenues saved using a dynamic scheduling method. Obviously there was significant data analysis and historic number crunching required, but the only important factor is whether the customer noticed any difference to the level or quality of service. From small bar to fine dining, every operator has uttered the magic words "if the customer had any idea". Plunging a toilet of one of our client's restaurants last week I wondered the same thing!

Staffing is and will always be a problem area, but time served preparing, analyzing and creating a solution will recoup serious dividends.

Remember: Vendors and Operators Live in the Same Space-Time Continuum

It's simple really: your vendors are suffering under the same economic conditions as you are. They don't live in a parallel universe. And their only insulation from the downturn is for their customers to stay in business.

By way of example, Sysco Food Services are experiencing one of their highest months of returned checks and delinquent accounts - so much so, that they now have a delinquent account specialist who can keep you ordering, even with a past due balance. Smaller vendors with large balances can be asked to move deliveries to COD with 5% of the past due balance added to each order. Sysco is well aware that you still need your product, and will find it from somewhere, so they may as well try and recoup the loss and mitigate their exposure by helping you work your way out of difficult times. So many clients just stop answering the phone when their best bet might be to maintain the existing relationships they have (however strained they may be).

If, however, you are a good or at least quasi-decent customer, now is the time to negotiate with your vendors. Maybe if you change your terms from net 30 to net 10 they will give a larger discount? Smaller vendors would love to shorten their exposure to loss and bring down their AR. Maybe if you consolidate your meat, fish and produce under one company, they will provide savings that surpass the smaller vendors. These are all questions which, if addressed, could provide immediate savings.

☒ Get Smarter About Your Inventory – Product on Your Shelf is Money not in Your Bank Account

Almost every site I walk into has thousands of dollars worth of inventory they rarely use. It doesn't matter whether we are talking about incessant liquor promotions or just plain bad weekly ordering – the net effect is the same.

So one of my most important recommendations in tough times is to manage your inventory better:

- Order Just-In-Time for the week or half week.
- Pick a vodka brand and stick to it (by ordering more of a single product you can generally get purchasing discounts per case).
- For the awkward bottles that no-one drinks, simple solutions can include a drink special for a slightly reduced price or a custom cocktail to a small private party so they believe they are getting a good deal. (In a more up market establishment, a custom cocktail list may allow for the products to be sold for a premium.)

CASE STUDY: Our mixologist took a recent client who had a huge amount of non-moving inventory including a terrible (lets keep it un-named!!) vodka and created a cocktail which sold off the shelf for a premium and forced the client to purchase more product. The end result was the creation of a "Specialty Cocktail List" which works very well.

However, before one races to create this, the costs of the other ingredients, the shadow costs of training staff in preparation and up-selling and the education of customers costs real money and must be properly analyzed prior to execution.

CASE STUDY: A recent Mexican restaurant we worked with was suffering from low sales and generally poor returns so, before they phoned us they added a tequila bar and an inventory of rare and expensive tequilas. None of them sold and now they just have boxes of tequila on a shelf.

CASE STUDY: In a recent nightclub just taking the excess product and creating a fun shot was an easy and quick way to get rid of the product and still see a return. It may not have been the return they originally envisaged when they first purchased the product, but they certainly received more cash than they did when it was sitting on the shelf gathering dust.

The Lesson: There is a method to adding to menu items or twists / extensions of the concept and not following them has as much chance of leading to failure as to success. Many fine restaurants do the same thing with their wine list as the Mexican restaurant did with tequila, but such a one-dimensional approach, if used in isolation, will almost certainly fail every time.

☒ Remember the Point – They're There to Enjoy Themselves

The product being offered to the consumer and the overall dining experience MUST BE flawless. No ifs, no buts and no maybes. In this market with so much competition, there is no margin of error for a bad dining experience.

III. YOU NEED MORE THAN JUST AN ARTICLE

It is so important to read this article as a guide to the *kinds* of things you should be thinking about, not a comprehensive step-by-step to instant success. The suggestions set out here have been proven to produce some immediate results, but you will need more than a few tips. A serious process of evaluation, planning and execution is an absolute must. And in the final analysis, I have found the key to lie in constant, honest and intense scrutiny of the data delivered from back and front-of-house. No amount spent is too small or too sporadic to merit your full attention.

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James is an expert in maximizing returns from hospitality venues, whether in relation to a start-up new venue, redeveloping an existing venue or saving problem venues from insolvency. In addition to owning a number of successful bars, nightclubs and restaurants himself, his advice is sought around the country by owners and operators who need his specialist expertise when tackling the specific problems they face. He can be reached at james@onsiteconsult.com.