Your F&B operation could be eroding its value

Implementing controls and managing the middle of the income statement can significantly increase F&B department margins.

For almost all hotel transactions, the value is based on cash flows. Therefore, profitability of the hotel is directly related to its sales price. Hotels generally excel in maximizing the operating profit from the rooms department; however, many hotels do a poor job on maximizing food and beverage (F&B) department profits. It is hard to blame a general manager for focusing on the rooms department, which can represent 75% of revenues at an 80% operating profit over the food and beverage department, with 20% of the revenues and 30% operating profit, but restaurants, room service and catering should be managed to maximize profits as well. Increases in F&B department profit are applied to the multiple when determining a hotel's value and, in my opinion, the potential increases are significant.

After reading the above paragraph, you may have decided you don't need to read further, as perhaps the F&B department at your hotel generates a 20% profit. I strongly recommend you dig deeper.

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Jeff Dover
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Unlike commercial restaurants, hotels do not allocate occupancy costs, all maintenance expenses, utilities, etc. to the F&B department. If your hotel has significant meeting space and does a lot of catering, which is more profitable than restaurant operations, that can hide a lot of operational inefficiencies as well. Many hotels do a poor job of managing F&B department cost of sales and labor costs. If the answer at your hotel when F&B margins decline is to raise prices, your hotel may be included in the group that can do a better job of managing costs. F&B brand standards can erode profitability and the emergence of food delivery services like Uber Eats can erode room service revenues making controlling the middle of the F&B Department Statement more important.

The good news: sound food service management is not rocket science. Solid controls are relatively easy to implement. Many hotels hire F&B directors and chefs with experience in commercial food service where cost control systems are commonplace. However, many of these managers, when faced with resistance to change, don't enforce the controls necessary to maximize profitability. I recommend meeting with your F&B director and chef and ensuring controls are being followed at your hotel. Consider the following:

Menu development and pricing. Most hotel chefs are able to design menus that are appealing; however, they are often less consistent with costing each recipe/menu item and determining the price accordingly. Ask your chef for costed recipes and when the costing was last updated (it should be each period). I worked at one hotel where the most popular lunch item in the all-day restaurant was priced such that the food cost was 98% of the listed price. Ingredient costs change and chefs must be constantly vigilant and respond accordingly by changing the prices or modifying or replacing the menu item.

Purchasing. Procurement is key as a dollar saved in procurement goes right to the bottom line of the F&B department statement. Contracts with broadline distributors should be tendered regularly and prices checked against other distributors. An inventory should be taken, and hotel occupancy projections and banquet orders reviewed prior to placing orders to prevent over-ordering and, potentially, waste.

Receiving. Before accepting deliveries, all items received should be checked to ensure quantities are correct and quality is according to standards. Before invoices are approved, they should be checked against the pricing when ordered. At one hotel I worked at, I observed staff from various restaurants taking items from the delivery before it had been reviewed leaving no way for management to determine if the proper amounts were received or allocating costs to understand the relative profitability of each outlet.

Inventory and storage. F&B inventory should be secured and issued as required. Only management should have access to the storage areas. Keys to storage areas shouldn't be readily available to all staff. Staff should not be able to bring personal bags into the production or service areas.

Production and forecasting. Portion controls should be in place for all items. This can consist of proper sized ladles, scoops, shot glasses, etc. Items can be pre-portioned as part of mise-en-place.

Prime item counts. Prime items should be counted daily and reconciled to sales. Items to count should include steaks and other high-cost proteins, bottled beverages, etc. At the bar, draft tap counters should be used. At one hotel I worked with, the bar manager proudly showed us his draft tap counters and then admitted they hadn't worked for three years.

Individual outlet statements. Most hotels prepare statements for individual food service outlets, including catering. However, in many cases, the cost of sales is often allocated based on revenue. One hotel I worked with had a popular tea. Cost of sales and often labor expenses were allocated across all outlets at 33% of revenues. The actual cost of sales for the English Tea was less than 10% and one of the other outlets had a cost of sales of 58%. Ask your F&B director and chef how expenses are tracked, transferred and allocated across outlets. In most cases, it should only be management labor that is allocated across outlets. Properly prepared operating statements by outlet allow F&B management to identify opportunities for improvement.

Actual versus theoretical cost of sales. Each period, actual food cost should be calculated for each outlet (opening inventory plus purchases and transfers received, less closing inventory). This should be compared to theoretical cost of sales (itemized sales multiplied by the menu items' recipe costs). Actual cost of sales should be no more than 1 to 1.5 points greater than theoretical cost of sales to allow for normal shrinkage and waste. Management should investigate any outlet where this is not the case.

Track waste. Waste sheets should be available and used in all receiving, storage, production and service areas. These waste sheets should be cost extended and regularly reviewed by department management to identify opportunities for improvement.

Labor cost control. Staffing levels should be set based on projected covers in each outlet. I recommend adding an extra server to ensure quality service should actual covers be greater than projected. Too often, hotels have set schedules by day of week, etc. I am not suggesting minimizing labor cost to the point service quality is adversely impacted but instead ensuring staffing levels are correct to accommodate demand.

Implementing such controls and managing the middle of the income statement can significantly increase F&B department margins. Using such tools, I have seen improvements of up to 12 percentage points. Actively marketing your food services to increase sales can grow those margins. Imagine what that can do for your hotel's bottom line and, by extension, its value when it is time to sell the asset. Hotels simply can't afford to not pay attention to the F&B departments profitability.

Jeff Dover, a member of the International Society of Hospitality Consultants, is president of fsSTRATEGY, a consulting firm specializing in strategic advisory services for the hospitality industry, with an emphasis on food and beverage.