



Determining if Casino Food and Beverage Outlets Should be Profit Centers or Loss Leaders

by Craig Pendleton

Every operator must decide the purpose of each food and beverage outlet within their casino. The decision for each outlet should be independent of the other outlets, allowing each to serve the specific needs of different players. Typically outlets may be purposed as amenities or attractions.

Amenity outlets are those that fulfill the basic expectations of food and beverage services provided by other similar casinos and will often provide offerings that allow guests/players to remain on property without having to leave the casino to find food and beverage.

Attraction outlets are unique and provide a destination and reason for trial and visitation by new guests/players or visitation by dining only guests.

Most Common Delineations of Food Outlets Seen Within Casinos

Amenity	Attraction
Outlet: Quick Serve Purpose: Convenience, grab and go bus parties, inexpensive comp redemption	Outlet: Quick Service Specialty Cuisine Purpose: Signature menu or unique product
Outlet: Buffet Purpose: Expected at most casinos/all you can eat/price-value	Outlet: Special Restaurant Purpose: Signature items/unique products or service
Outlet: Cafe/Coffee Shop Purpose: Expected/24 hour available	Outlet: Ethnic Oriented Restaurant Purpose: Targeted local player demographics or "latest hot trend"
Outlet: Steakhouse/High End Restaurant Purpose: Expected/high end reward comps	Outlet: Steakhouse/High End Restaurant Purpose: Exceptional product (i.e. prime beef, etc.) and/or exceptional service
Outlet: Third Party Contracted Operator Purpose: Provide food service without the casino's daily involvement	Outlet: Third Party Chain Operator Purpose: Expected products/familiar to guests

The Purpose of Each Outlet

The targeted purpose for each outlet must be coordinated with casino marketing plans and targeted players. Carefully balancing the uses between providing the "amenities" that casino guests expect and the unique offerings that "attraction" restaurants can provide, which can encourage trial visitation of new visitors is the challenge. The marketing, hosts and players club are then tasked with the conversion of the casino trial visitors, once attracted to the casino on a trial basis into regular casino visitors and hopefully gaming players.

Often outlets may serve both purposes of amenity and attraction for different visitor/player groups. Every player group tier and demographic segment must be analyzed and have outlets that fit their specific needs. Focus groups can be a direct method of establishing the desired products and services specific to each player type.

Once the types of outlets have been determined, the next step is deciding if each outlet will be an amenity that may be budgeted to break even (or even lose money), or a profit center. Very few casinos have the majority of outlets targeted to break even or lose money. Gone are the days of the \$1.99 buffet. Limited time offers in conjunction with special marketing promotions are the infrequent times that deep discounting typically occurs.

Profit Centers

It has become much easier for operators to use food and beverage outlets as profit centers. Bars and alcohol driven outlets will be more profitable than food centric outlets. Due to the increasing cost of goods and labor in the marketplace outside of the casino, many guests are not as prone to "sticker shock" from increased pricing as has occurred in past years. Combo meals at national quick server outlets are now priced in the \$6-\$9 range, and casual dining has broken barriers with \$10+ hamburgers. Casino guests are aware when food and beverage product ingredient pricing increases in supermarkets and generally understand when prices will potentially be increased.

The area of most exposure for casino food and beverage outlets is the cost of labor. This is an area in which costs can change dramatically. Guests do not generally understand these expenses and are not always sympathetic to increases in a casino's labor rates and employee benefits. When labor costs increase the greatest challenge lays in factoring potential profits and pricing menus in outlets to make a profit. Labor costs will always continue to increase over time. Diligent operators practice aggressive controls in the this area to avoid all potential profits being erased by bloated payroll.

Casinos should track competition pricing and local dining alternatives offsite to understand when an increase in menu pricing has occurred and then increase casino pricing accordingly while maintaining an acceptable price/value of goods. Comparable pricing of menu items should occur or increases made at a set margin below "street prices" maintained. The key is to react with the marketplace pricing when it increases.

Opportunity Areas to Reduce Costs and Increase Margins to Ensure Profit

Cost of Goods

Opportunities are greatest in strict control of pricing/purchasing, planning, production, standardized recipes/yields and minimizing wastage.

Technical support is available to track cost of goods ideal/

theoretical costs. Software programs work in conjunction with point of sales systems, purchasing/database systems, free-standing purchased systems or cost of goods programs provided at no cost by broadline grocery suppliers. The benefit of using a supplier based system is that the cost of products is updated along with the purchases when they occur and the program can be interfaced with the outlet point of sales system to input daily sales amounts sold of each menu item. Most outlets can see reductions of 3-6% cost of goods in improved utilization of products when properly using this technology.

Pricing

Opportunities involve beverage pricing at competitor rates (soft drink, iced tea and coffee menu pricing are now generally around or more than \$2 per beverage). Underpricing non-alcohol beverages in outlets fails to capture revenues in a simple acceptable area. Guests price shop entrees not beverages. Casinos may have these beverages priced a dollar or more under local restaurant pricing. Not all guests order one of these beverages but at 75% consumption of head count in an outlet serving 40,000 guests per month this reflects over \$300,000 of annual revenue not captured by insuring beverage prices are increased to be priced according to local pricing.

Another area not often efficiently used by many operators is the science of menu engineering and strategic pricing of menu items. In order to properly use this process, accurate figures must exist for the cost of each menu item, amount of each menu item sold and the total sales. Rough estimates of plate costs or across the board percentage pricing increases can be extremely detrimental to operations.

Sales

Opportunities leading to increased check averages exist through specialty/signature menu items, incremental sales/suggestive selling, special offers, selling accompaniments, increased sales of appetizers (pricing of appetizers is now more acceptable at 70-80% of entrée pricing for “shared items”), desserts, coffee and after-dinner beverages. By improving the efficiency of non-confrontational suggestive sales while guiding guests through their dining experience, servers can easily increase check averages by \$2-\$5 per guest. Using the same calculation of 40,000 guests per month this would reflect an additional million dollars of increased revenue on an annual basis.

Purchasing and Rebates

Opportunities lay in bulk purchasing, prime vendor agreements, GPO rebates and efficiencies in operations when using fewer vendors with better volume based pricing. Most outlets can find 3-10% reduction in the cost of goods in this area. Side benefits will be felt within the purchasing department,

shipping and receiving staff with the simplification of the process. Many casinos also see increased benefits in food safety with the reduction of the time products remain in the danger zone when receiving and transporting to outlets.

Labor Control

One of the largest areas of opportunity that is typically not efficiently achieved is savings in staffing costs. Building and using specific staffing model schedules for each volume level of sales as the maximum daily budget for expenditures, along with daily/week to date tracking that is converted into user friendly metrics, can produce substantial results. (Note: don't tell a manager or chef that they are tracking 2% or \$126 over budget for the week, tell them how many labor hours that have been overspent that need to be recovered to achieve the labor goal for the week). Too often operators look at P&Ls or other control forms that are “after the fact” report cards when it is too late to take corrective action. Many scheduling software programs are available in the marketplace along with realtime staffing metrics from POS and table control systems. The key is to avoid fixed schedules and to create an environment where the staff understands when it's slow, someone goes home. Hiring a strong percentage of part time staff adds flexibility and reduces the benefit expense/cost burden on payroll. Most outlets can find 3-15% reduction in the cost of labor with aggressive controls and active management.

Service

Outstanding service that creates individual personalized experiences for guests can allow higher prices than the competition. Generally, guests do not mind paying a little more if they receive great service, are made to feel individually special and receive a consistently excellent experience every time they come to the outlet.

Unique Products and Menu Items

Offering items that are not available elsewhere allow an opportunity to price these items higher in relation to ingredient costs due to the lack of comparison pricing in the marketplace. These specialty items should be the products that are strongly promoted in the outlets.

Given the level of opportunities, new technologies to assist operators and the atmosphere in the restaurant industry where prices are now not typically directed to create loss leaders the majority of outlets can be profitable in casinos. ♣

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