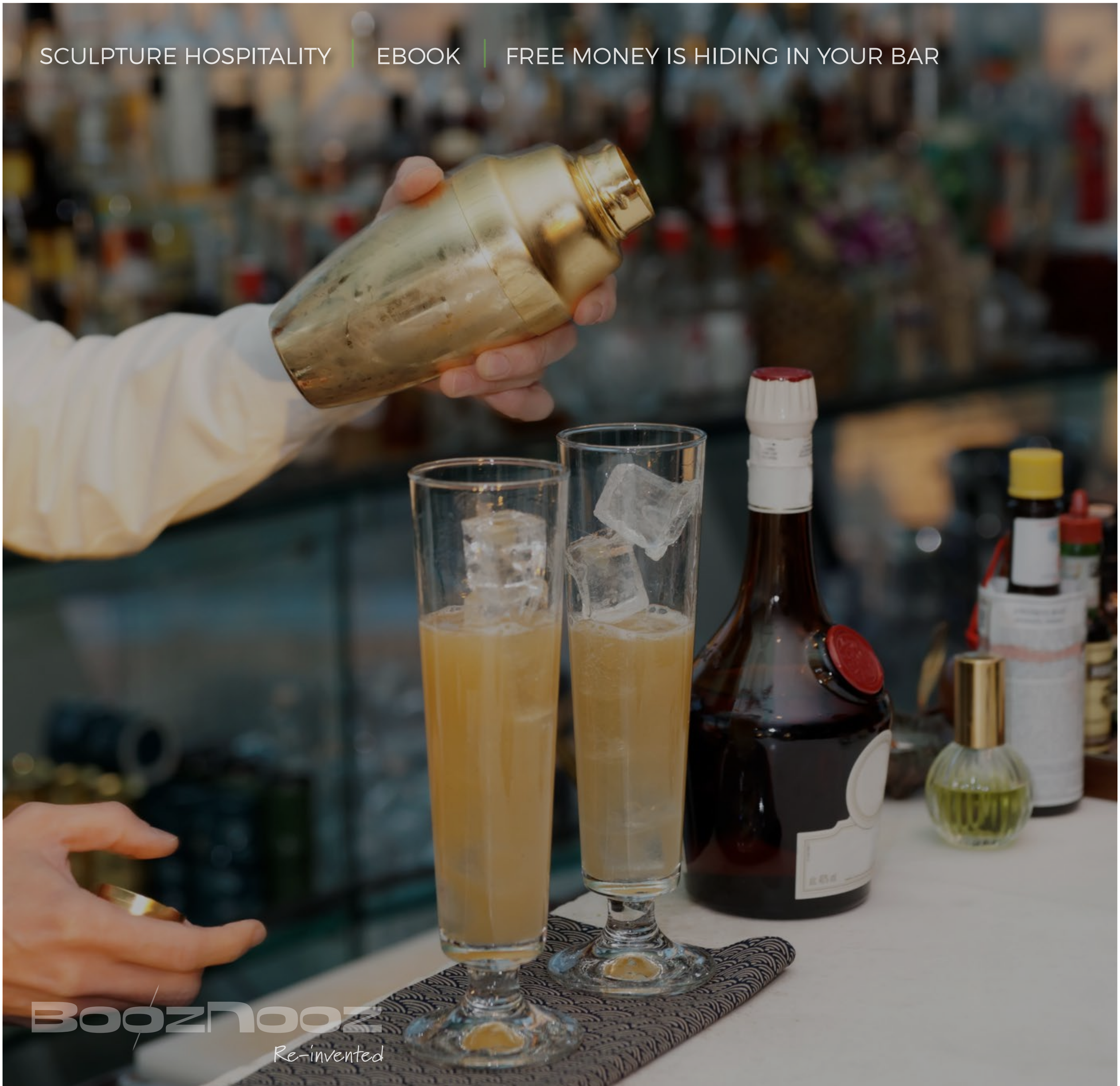

FREE MONEY IS HIDING IN YOUR BAR

(learn how to FIND it!)

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sculpture hospitality

Free Money is Hiding in your Bar
– learn how to find it!

You throw on an old jacket and discover $50 in the pocket – free money! In reality, of course, that $50 is money that you earned but couldn't enjoy because it was hidden away from you.

The good news is that there are thousands of dollars of "free money" hidden away or locked up in your bar operations. When we start working with a new bar owner, they almost immediately start unlocking thousands of dollars of increased profits every month without bringing in any new customers. That money is just waiting to be found – like cash in an old jacket.

Here are some of the ways our clients increase their sales and profits without having to build new business through advertising, renovations, promotions or discounts.

Stop Throwing Money Away With Poor Buying Practices

One of the easiest places to free up cash-flow is your alcohol inventory. 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 saw a good example of bad ordering practices last week at a bar in Sacramento. The bar manager ordered a case of Johnnie Walker Black Label scotch, despite the fact that our inteliPar order report showed that they did not need it. After reviewed this report with the bar manager and owner, they realized that they already had 85 days of stock on-hand and, because they only use about a third of a bottle a week, ordering a case is a particularly bad idea (see below).

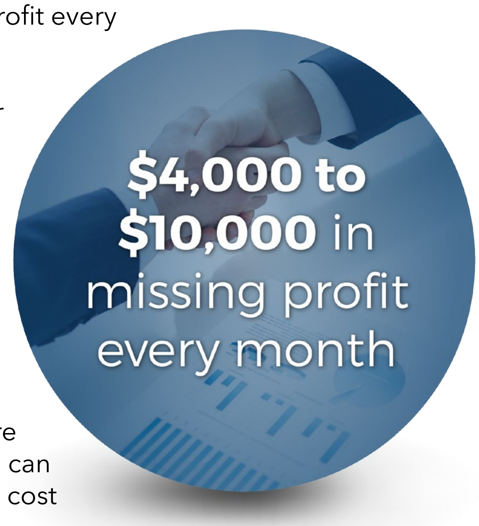
Item Name	On-Hand	Historical Usage	Par	Days Remaining	Excess Stock Onhand
Johnnie Walker Black	3.12	0.3	0.9	85.3	$89.93

The key to unlocking this extra money through better ordering is to institute a good inventory management process. Here are some fundamentals:

- **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 continuously recalculates par levels for our clients according to each brand's usage over the three most recent weeks)
- Take advantage of **case discounts** but only when your usage warrants buying by the case. Most states charge Broken Case Fees ranging from $0.40-$1.80 per bottle. If you will use up a case in eight weeks or sooner, it is worth buying by the case. If it will take you more than two months to use up the case, then buying a case is a false economy.

Find Hidden Losses in your Bar Operations

We have been helping operators do exactly this for over 30 years. 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, most operators just don't know that the problem exists, noting that "my sales are good and my pour cost is in-line." In today's competitive economy, where every dollar counts, complacency is unaffordable. All of us 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.



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 or last year provides a false sense of security. Our company will do a two-week Discovery Period at your bar to measure your ideal pour cost; identify any losses; and determine whether we can make you more money. Most prospective clients find that their pour cost will drop by at least two or three points

It might be difficult to accept the fact that your employees are routinely over-pouring (and sometimes stealing). Unfortunately, when a 23-year old bartender works a slow night and makes $60 less than he expects, 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.

We should all take a cold, hard look at the controls we have in place and institute systems to deter and eliminate theft and over-pouring. Ronald Reagan's maxim works well in any operation: "trust but verify." Trust that your bar staff are doing the right thing but have a system verifying that your trust was warranted. We weigh and count all the alcohol each week for our clients, and then we match up 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 - thus, deterred from malfeasance.

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

- **Develop solid measures of efficiency.** For example, we monitor the difference between ideal and actual pour costs (ie: 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**
- **Ring up drinks as they are ordered and created**
- **Cash drawers should remain closed between transactions**
- Always **check off deliveries** against the invoice to make sure nothing was shorted (and nothing was added to the order without your consent)

Getting Pricing Right

It is critical that your pricing on well liquor and domestic beer is about the same as your competitors. Guests ordering those products often decide which bar to patronize based on pricing.

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 – nobody is going to switch to well if Grey Goose is an extra dollar or two. So it is probably a good idea to be at the higher end of your competitor's pricing range.

It is also a good idea to train your staff on basic upselling techniques but perhaps even more important is to get your team to understand why up-selling is good for the bar and good for them.

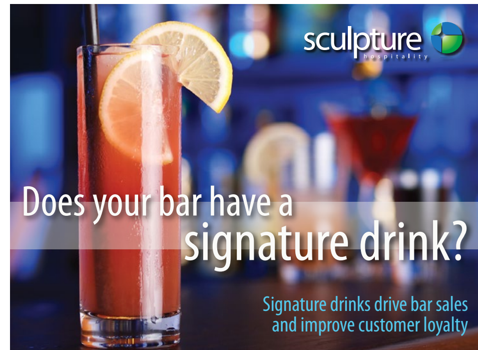
Of course, up-selling to a premium brand is pretty stupid if you don't actually make more money by doing so. It is surprising, however, how often we find that our clients actually lose money by up-selling to some brands. For example, it is no good charging an extra $1 for a Grey Goose vodka if Grey Goose costs $1.10 more than 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 recommend figuring out 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:

Brand	Drink Cost	Regular Price	Pour Cost	Profit Per Drink	Upselling 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

Pricing for rocks, martini and doubles up-charges should also be analyzed. Most up-charges for these modifiers are set too low – particularly for premium brands.

Developing 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 very highest profit items. In a Booz Nooz article we ran last year (ask your Sculpture rep to email you that edition) 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 right, like at the Buena Vista Café in San Francisco, a signature drink can be enduring, profitable - and might become the centerpiece of your marketing. In 1952 Jack Koeppler, the then-owner at the Buena Vista, developed a signature Irish Coffee. Almost overnight he had customers lined up three deep to try his new drink. Today Irish Coffees are commonplace, yet one of my friends who recently visited San Francisco is still talking about the Buena Vista's Irish Coffees, and how the place was crowded with tourists and locals clamoring for them. This – sixty years later! - is testament to the power of a well-conceived signature drink.

Promotions for cheapskates

Attracting new customers is challenging even in the best economy. Advertising is expensive and often ineffective. 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 an 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), he quotes Paul Thornton of Pauli's in Huntsville, Alabama, who writes:

> *"I have a quick note on the 1/2 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."*

Look After Your Regulars

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 bar operators haven't developed any strategy to explicitly acknowledge regulars. When every establishment is fighting for the customer's shrinking dollars, you cannot afford to let your regulars decide they get more love from your competitors.

The best strategy for making sure that your regular customers feel the love is to buy them an occasional comp drink. Over-pouring is much less effective. Here is why:

1) Over-pouring becomes the new normal.
Once you allow the bartenders to over-pour when they think it is warranted, the inevitable result is that the bartenders will over-pour indiscriminately; not only for the regulars but for the bartender's friends, employees from other bars, anyone who throws a buck into their tip jar, and then, eventually, over-pouring just becomes habitual and every drink is over-poured.

2) It is impossible to manage.
There is no way to track or control which guests are getting "a little extra." Without any record of when over-pours occur and for what reason, your management team doesn't know the extent of the problem and they can't manage it or control it.

3) It is too expensive
Bevinco reports show that most over-pours are in the 30%-40% range. That is a lot to give-away; most bars make less than 10% net profit at the end of the year. Once you factor in labor and overhead, a 38% over-pour means that the bar is losing money on that sale.

4) Your regulars probably don't appreciate it anyway
After a while, these generous pours are taken for granted by your guests – or, worse, they simply go unnoticed. And even if they do happen to notice the excessive pour, your guests don't value it very highly, thinking only about the cost of the extra liquor, not your labor costs, rent, overhead, taxes and other costs.

About the Author: Ian Foster joined Sculpture Hospitality in 1991, and has spent the past two decades helping his clients eliminate over-pouring, mis-ringing and theft from their bar operations.

He has written extensively about improving bar profitability for industry publications such as Santé magazine, The Publican, numerous restaurant association publications from coast-to-coast as well as Robert Plotkin's Bar Profits newsletter. Ian is also the publisher of Sculpture's Booz Nooz.

Together Ian and the California Restaurant Association (CRA) successfully fought to change California's sales tax laws which the CRA estimates will result in "yearly savings of $3 million to $4 million dollars for CRA members"

Converse with him on [LinkedIn]