EAGLE HARBOR

Food & Beverage Financial Evaluation and Operational Review

Mike Manuchia
Restaurant Partners, Inc.
1030 N Orange Ave; Suite 200
Orlando, Florida 32801
www.restaurantpartnersinc.com
407-839-5070

EAGLE HARBOR FOOD & BEVERAGE
FINANCIAL EVALUATION AND OPERATIONAL REVIEW

Restaurant Partners, Inc. (RPI) has been retained to perform an independent evaluation of the current food and beverage operations of Talons restaurant located in the Eagle Harbor Golf Club. Areas of review included financial statements, a la carte dining, beverage and banquet menus, multiple site visits as well as onsite interviews with management and culinary staff.

Summary of Findings

It is not unusual for the food and beverage component of a golf course or private club to operate as an amenity, and therefore require additional funding to maintain the desired standards of quality and service. As a general rule, many of these food and beverage locations lack visibility and proximity to major thoroughfares and business districts, which presents a unique challenge to the lunch and dinner trade as well as casual business banquet opportunity. In other words, the properties are "destination locations" vs "drop in" or "impulse" decisions. Talons fits that criteria.

I. **Facility**: At Talons there are a number of favorable factors to the food and beverage operation, including:

- **a. Main Dining:** The lounge and patio areas are inviting and appropriate. The appearance of Talons is that of a sports centric bar or pub, as the bar itself is the focal point of the main dining area. Multiple televisions, the prominence and quantity of liquor and draft beer, price point and general seating mix support a bar/pub identity. Seating in the bar and lounge area could be underutilized and limited during times of peak volume. Inclement weather and temperature limit the full utilization of the patio on an annual basis.
- **b. Banquet Seating:** The main banquet room and smaller, private dining room are adequately equipped to accommodate smaller parties and events (<150 people). To accommodate larger parties requires the use of outdoor space and rented equipment.
- **c. Kitchen:** The general condition of the kitchen area and equipment is good and sufficient to execute normal operations with some additional capacity. The cook line, refrigeration, warewashing, and dry storage areas are adequate, however, general prep space and hot holding capacity is limited for plated meal and larger events.

II. **Financials**

- **a. Revenue:** Total revenue for food and beverage for Talon's was just over $1.287M in FY 17. Expressed as revenue per square foot (Annual Sales/Square Feet), this equates to approximately $307 psf. Banquet revenues were identified as approximately 20%, or $260,000 of total revenue. By way of comparison, the casual dining chain Applebee's reports average revenue psf of $417, with the average store approximately 5,000 sf.
    - **i. Food and Beverage Revenue PSF**

Bar/Lounge	1566
Banquet	2000
Kitchen	630
Total SF	4196
Revenue	$1,287,288
Rev PSF	$307

b. Cost of Sales: Total Cost of Sales for all categories in FY 17 were 37.2% and are higher than most benchmark standards. To benchmark that result, cost of sales in the casual dining segment was 28.2%, according to CPA firm BDO's Restaurant Industry Scorecard.

i. Food and Beverage Cost of Sales

	Revenue	Costs	Cost %
Food & Beverage (NA)	$811,295	$325,232	40.1%
Beer & Wine	$299,763	$109,787	36.6%
Liquor	$181,520	$44,251	24.4%
Total Cost of Sales	**$1,287,288**	**$479,270**	**37.2%**

c. Labor: Payroll expenses for Talon's in FY 17 were 48.3% and are also higher than most benchmark standards. Through the same time period, labor costs were 33.2% in the casual dining segment according to the Restaurant Industry Scorecard. Although the amenity position of a club lends itself to a higher service level and cost, matching labor dollars with sales volume is critical.

i. Payroll Expense

Total Income	$1,287,288	Cost %
Salaries & Wages	$509,453	39.6%
Commission & Bonus	$3,430	0.27%
Casual Labor	$1,292	0.10%
Employee Expenses	$106,975	8.3%
Total Payroll Expense	**$621,149**	**48.3%**

d. Prime Cost: Prime cost is arrived at by adding total cost of sales and payroll costs. These costs represent the largest cumulative expense to the operation and are generally the most volatile. Prime Cost for Talon's in FY 17 was 85.5% of total revenue. Casual dining benchmark standards suggest prime costs in the 60%-65% range.

III. Operational "Break Even" as a Goal

The unique position of Talon's within the Eagle Harbor golf and tennis community requires examination and scrutiny through alternative optics. In general, food and beverage within an amenity environment should work to perform at operational break even. Operational break even can be defined as an entity with revenues equal to pre-debt and/or capital improvement expenses. In Fiscal Year 2017, Talon's operational loss was $151,859.

a. Condensed Profit & Loss Statement – FY 17 Actual

Ordinary Income	**FY 17**	% of F&B Sales
Food	$767,457	60.7%
NA Bev	$43,839	3.5%
Beer	$202,780	16.0%
Wine	$96,983	7.7%
Liquor	$181,520	14.4%
Discounts	-$28,491	-2.3%
Total Food & Beverage Sales	**$1,264,087**	100.0%
Rental Revenue	$22,874	
Miscellaneous Income	$327	
Total Income	**$1,287,288**	

Cost of Sales		**Cost % per Category**
Food and Nonalcoholic Bev	$325,232	40.1%
Liquor	$44,251	24.4%
Beer & Wine	$109,787	36.6%
Total Cost of Sales	**$479,270**	**37.2%**
Total Labor	**$621,149**	**48.3%**
Gross Profit	**$186,870**	**85.5%**
Direct Expense	**$139,357**	**10.8%**
Fixed Expense	**$199,372**	**15.5%**
Net Ordinary Income	**-$151,859**	**-11.8%**

IV. Recommended Action for Achieving Operational Break Even

a. **Reduce Menu Size to Reduce Food Cost and Optimize Throughput:** The current menus in place at Talons are extremely large in terms of number of items offered and include excessive and repetitive verbiage in menu descriptions. This has a significant impact on the amount of time it takes a guest to navigate the menu and make a dining selection, thereby reducing the number of times a seat or table can be turned during a given meal period. The lunch and dinner menus respectively offer 45 and 44 items. A careful analysis of the sales mix will identify menu items lacking guest preference which could be eliminated.
    i. **Menu Engineering:** Low margin, high cost or single/limited use ingredient menu items should also be modified or eliminated. Items with similar ingredients should be further examined for menu cannibalization. An appropriate menu mix should be sought in order to balance preference between items with high preference and high margin vs. items with low preference and low margin. Creative limited time offerings and the use of seasonal ingredients further help control costs by reducing waste and can also increase guest engagement.

b. **Reduce Menu Size to Reduce Back of House Hourly Labor:** A reduction in the number of menu items offered, and thereby a reduction in the number of ingredients on hand, will have a significant impact in the following ways:
    i. **Deliveries:** Less time will be spent receiving, unpacking, putting away and disposing of packaging.
    ii. **Daily Prep:** Less items to prepare for daily lunch and dinner service reduces the amount of daily prep required.
    iii. **Set Up and Break Down:** Less time will be spent setting up and breaking down the cook line for lunch and dinner service.

c. **Raise Beverage Revenue Through Upselling:** In the amenity environment, value is often emphasized with respect to menu pricing, with alcohol prices particularly sensitive among members and guests. Service staff training on the art of upselling, where appropriate, increases the average guest check while adding additional value to the guest experience due to expanded product knowledge.

d. **Increase Banquet Revenue:** Raising overall sales volume is an ongoing challenge in any food and beverage operation. Increased competition, delivery services, emerging trends and changing consumer preferences are just some of the hurdles. As a destination location it can be difficult to increase guest traffic during the lunch and dinner periods, but there is significant opportunity to raise banquet revenue by way of a concentrated sales and marketing effort. A reexamination of available member and resident distribution channels with appropriate penetration strategy should increase regular dining traffic as well as social banquet business i.e. birthdays, baby and bridal showers, bar/bat mitzvahs, celebrations of life, etc. A review of room rental rates should also be conducted with an eye towards increasing casual banquet business, i.e. business meetings or networking events. Thoughtful collaboration with the golf professional could also introduce a “work and play” promotion, pairing business events with a round of golf.

e. **Sales Forecasting and Labor Management Tools:** Hourly labor in any restaurant environment is a significant expense and should be closely monitored. Identifying and reacting to sales trends, monitoring the weather forecast, checking the tee sheets, and being aware of holidays, school schedules and special events are key to appropriately scheduling hourly staff. Creating a weekly sales forecast and scheduling to the desired labor target are industry best practices. Digital programs, like HotSchedules, take the guess work out this exercise and more accurately and efficiently organize the data.

V. **Profit & Loss Statement Category Targets for Operational Break Even:** To achieve operational break even, strides must be made in growing sales revenue, lowering food cost and hourly labor, and controlling those operating expenses that are directly impacted by guest traffic and sales volume.

a. **Growing Sales Revenue:** Total Income for FY 17 was $1,287,288. We estimate that sales will need to grow to approximately $1.5M to achieve break even.

b. **Lowering Food Cost:** Food cost for FY 17 was 40.1% of food and nonalcoholic beverage sales. A food cost of 38% should be targeted and can be achieved by reducing the overall menu, driving preference to higher margin items, appropriately pricing menu items while still emphasizing value, and reducing waste and spoilage associated with underutilization or over prepping.

c. **Effectively Managing Hourly Labor:** To effectively manage hourly labor, some changes may be required regarding how Salary and Wage information is reported in the Talons P&L. Currently, Salary and Wage expenses are expressed as a lump sum, which can make it difficult to zero in on the hourly expense component. Hourly labor should be targeted at 25% of Total Income for operational break even. For example, if a given week was forecasted to generate revenues of $40,000, targeted hourly labor at 25% would dictate $10,000 could be spent on hourly wages. We would recommend separating payroll expenses into the following categories:

    i. **Total Hourly Labor**

        1. **Front of House Hourly Labor**
        2. **Back of House Hourly Labor**
        3. **Overtime**
        4. **Vacation, if applicable**

    ii. **Management Labor**

    iii. **Payroll Taxes**

d. **Controlling Variable Operating Expenses:** A closer look at variable expenses will also require manipulation to the current P&L format. Expenses such as operating supplies, repairs and maintenance, and janitorial supplies that will fluctuate with guest frequency and wear and tear, should also be broken out so that they can be better managed. 6% of Total Income should be targeted for this category.

e. Consolidated Operational Break-Even Sample P&L

Talons - Break Even

Food	$895,448	60.7%
NA Bev	$51,150	3.5%
Beer	$236,598	16.0%
Wine	$113,157	7.7%
Liquor	$211,793	14.4%
Discounts	-$33,243	-2.3%
Food & Beverage Sales	**$1,474,903**	**100.0%**
Rental Revenue	$26,689	
Miscellaneous Income	$382	
Total Income	**$1,501,973**	
Total Cost of Sales	**$539,435**	**36.6%**
Direct Hourly Labor	$375,493	25.0%
GM	$75,000	
CHEF	$51,500	
SALES	$50,000	
**Management Labor*	*$176,500*	*11.8%*
**Estimated Management Labor*		
Commissions & Bonus	$4,002	0.27%
Casual Labor	$1,507	0.10%
Employee Expenses	$115,919	7.72%
Total Labor	**$673,421**	**44.8%**
Gross Profit	**$289,118**	**80.8%**
Direct Expense	**$90,118**	**6.0%**
Fixed Expense	**$199,000**	**13.2%**
Net Ordinary Income	**$0**	**0.0%**

Final Comments

In closing, it is our opinion that Talons has the potential to reach self-sufficiency at the operational level, which would be a reasonable expectation for a food and beverage outlet in a "non-dues" environment serving primarily as a golf and community amenity. The commitment to provide quality and consistency in food and beverage, while delivering exceptional service is a daily test and requires constant attention. Allocating efforts to the key initiatives and expense items addressed herein should provide favorable performance results. The location within the Eagle Harbor community, golf side dining and player traffic will continue to afford Talons the opportunity to attract and foster a loyal customer base. Thoughtful programming and events marketed to the community should drive engagement and additional banquet revenue.