

# 110 FOODSERVICE MANAGEMENT

## INSTRUCTOR

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**Michael Bekolay**

Founder/CEO  
Venue Hospitality Solutions  
Weston, FL

## COURSE OBJECTIVES

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At the conclusion of this session, participants will be able to:

1. Assess the importance of foodservice management in the larger context of the venue.
2. Understand the fundamental concepts in foodservice management.
3. Understand a simple foodservice profit and loss statement
4. Demonstrate an understanding of inherent risks in the management of a foodservice operation.

## ***Introduction***

### ***What is foodservice?***

Simply put, foodservice is loosely defined as the preparation, delivery and serving of ready to eat foods and typically includes beverages. Albeit incredibly broad in definition, the concept is universally evident throughout the entire spectrum of public assembly facilities. Regardless of whether that be convention centers, performing arts centers, stadiums, or arenas it is likely that there is some measure of foodservice and/or beverage service within. It is therefore important that the venue management team have some working knowledge of the food and beverage services provided within their venue.

### ***What is the function of Foodservice within a venue?***

Foodservice within any venue provides for many needs. These include:

1) Enhance the guest experience:

The best venue operations always consider the guest experience in totality including every touchpoint from the moment the guest arrives at the venue through to their departure. They are not singularly focused on the prime attraction. Using food and beverage as a means to enhance and augment their facility will help to ensure an overall positive experience.

2) Profit:

The food and beverage operation in public assembly venues can and typically has meaningful impact on the profitability of the entire venue. This profit can be delivered directly from day-to-day operations or indirectly through related initiatives such as marketing, sponsorships, and advertising.

3) A basic requirement compliment to the functionality of the venue:

Food service is often a fundamental requirement to service the needs of people in the venue. These include:

- a. Large group functions that require catering as part of their event.
- b. Employees and team members that are required to be fed during their shift. (This can have a meaningful impact on enhancing employee retention.)
- c. Providing the basic human needs of food and water. By way of example, the importance of providing ready access to water during a hot event.

### ***Why is foodservice important?***

Food service in public assembly venues is a typically highly ranked in importance within most venues. First and foremost, the venue manager must constantly monitor the quality of the food served in their venue. Reputation is one of the most important achievements of a successful building and foodservice operation. Years of hard work and marketing efforts can be quickly lost if the quality of the product is allowed to suffer. In the meetings and convention industry, word travels very quickly among meeting planners, and if a particular client has had a less than satisfactory experience, future sales will surely be affected.

As for stadiums, arenas, performing arts, amphitheaters, fairgrounds and venues catering mostly to local audiences, reputation for quality foodservice is even more important. “Do we eat before the game, at the game, or after the game?” the fan asks her party. It is critical to ensure that customers think of your venue as a viable option for a dining destination rather than as a last resort. The profitability of food and beverage is a motivation that should drive all venues to create outstanding experiences for customers.

Regardless of what type of venue we operate our mandate as professional venue managers is to provide an enjoyable and safe environment while our guests are in our house. But to be truly successful, we have to additionally be cognizant of the total experience of our guests from the time they leave their homes until they return. As we have all learned, if anything goes wrong in the “total experience” (even if we have no control over the circumstances), it is still registered adversely in the minds of our guests and may affect their decision to return or spend at our venue.

Therefore, a prudent and successful venue manager will always be aware of her or his surroundings and be especially watchful over the operations within the physical boundaries of their venue. Unfortunately, there are still some managers who focus only on what they directly control and have no hesitation to pass off a complaint to someone else. There are also many contractors and suppliers who are only focused on the “money” and not focused on the ultimate mission of their work with their venue, and they too, fail to realize their full potential for a successful operation.

Foodservice at our venues is one of the most important elements of the “Total Experience” hopefully enjoyed by our guests. Regardless of whether foodservice is provided in-house or by contract, a venue manager needs to be expertly aware of its performance.

Foodservice can be, and in most cases is, a major contributor to the profits of public assembly venues; in convention centers it is often the number one

(1) profit center and in sports venues, amphitheaters and performing arts centers it is one of the top three (3) profit centers.

In addition, foodservice complements other revenue sources that will be discussed in this course. Conversely, problems with foodservice operations can greatly diminish the reputation and financial performance of a venue. Unfortunately, many venue managers feel they have limited abilities to influence changes in existing foodservice operations at their venues. To address this concern, this course will discuss certain risks within the foodservice operation and resources that are readily available to mitigate them.

### ***Foodservice Fundamentals***

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### ***Understanding the foodservice financial model***

We all understand that the ultimate financial goal of most foodservice operations is to generate a profit or at least at a minimum break even. Profit is simply defined as an excess of returns over expenditures in a transaction. Simply put:

$$\text{REVENUES} - \text{EXPENSES} = \text{PROFIT}$$

To best understand the profitability of a foodservice operation, managers should have a basic understanding of a food and beverage Profit and Loss Statement. The following narrative provide a general outline of the flow of a Profit and Loss Statement (P&L statement) from revenues to profit (top to bottom).

#### ***Revenues***

Revenues in foodservice operations come from selling a variety of goods and services. Due to the broad scope of food, beverage and services offered, revenues are typically, and at minimum, categorized as

- a. Food revenues
- b. Non-alcoholic beverage revenues
- c. Alcoholic beverage revenues
- d. Other revenues

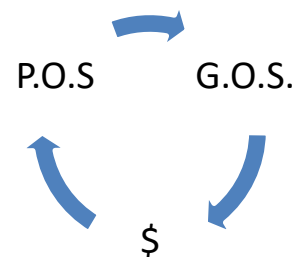
There are often subcategories of each of these general categories above depending on the level of reporting detail that is ideal. i.e. alcoholic beverage may include multiple subcategories such as beer, wine and spirits which may then be further sub divided such as draft beer and packaged beer.

Ensuring that food service operations are capturing the maximum revenue in the food and beverage operation can be a complicated process but is an important function of the management team. Foodservice managers rely on three general data sources ensure that they are capturing the maximum the potential of their revenues within a venue.

These are:

- a) Actual money (cash and credit ) received.
- b) Goods out of stock/inventory (G.O.S.)
- c) Point of Sale (P.O.S) devices

It is a common best practice for operators to validate their actual revenue using a three-way reconciliation of these three data sources.



### ***Sales Taxes***

Sales taxes are directly related and applied to the sale of items and services sold to a customer within a venue. Sales taxes may be in the form of federal, state, or local municipality and vary from state to state and municipality to municipality. Additionally, taxes vary depending on the type of good or service being sold. i.e. sales tax on food may be different than the tax on alcoholic beverage.

It is important to note that in all sales tax scenarios, it is ultimately the customer who pays the sales tax which is then collected, reported, and remitted to the tax authority on a regular basis by the operator. Taxes are generally not considered a revenue source but rather a “pass through” expense. Therefore, for the purposes of foodservice accounting, revenues are generally considered sales price less sales tax. It is also important to note whether your menu prices as listed include or sales tax or are incremental to each sale. By way of example, a bottle of beer sold for \$8.00 at a sales tax rate of 10% may really represent a revenue of \$7.26.  
$$\$7.26 + .73 \text{ (10.0\% sales tax)} = \$8.00$$

### ***Expenses***

Foodservice operations are generally consistent in identifying three major expense categories. These include:

- a. Cost of Goods Sold (C.o.G.S.)
- b. Labor
- c. Other operating expenses.

#### **Cost of Goods Sold (C.o.G.S.)**

The C.o.G.S. is generally the greatest or second greatest expense within the foodservice operation next to the labor expense.

C.o.G.S. are generally categorized in a manner consistent with the revenue categories above. They are typically represented in both real dollar amounts and as a percentage of the relative revenue that is generated from them. C.o.G.S. is generally reviewed as a comparison of theoretical or ideal costs to actual out of pocket costs followed by further investigation understand any variance between the two.

Variances may be the result of several influences including:

- a. Change in purchase price
- b. Change in portion or package size
- c. Spoilage/waste
- d. Errors in counting inventory
- e. Theft

#### **Inventory Management**

Inventory management is one of the most important functions of the

foodservice operation. Food and beverage items are often perishable and require close attention to keep them at their best. Proper storage conditions and rotation of inventory following the principle of First In...First Out (F.I.F.O) is regarded as an industry best practice.

### ***Gross Profit***

Gross profit (Gross margin) in foodservice operations is generally defined as revenue less the cost of goods expense.

$$\text{REVENUE} - \text{C.O.G.S.} = \text{GROSS PROFIT}$$

### ***Cost of Labor Expense***

The Cost of labor is generally the greatest or second greatest expense within the foodservice operation next to C.o.G.S. The cost of labor within a foodservice operation is typically categorized as

- a. Hourly (variable) labor expense
- b. Salaries and management labor expense
- c. The cost of benefits and taxes associated with and (a) and (b) above. This is commonly referred to as “fringe”.

Like C.o.G.S, the cost of labor is generally represented in both actual dollars spent and as a % function of revenues within the foodservice profit center.

### ***Other Operating Expenses***

As a general rule, within a foodservice operation, after C.o.G.S. and labor expenses have been considered, all of the remaining expenses fall within the category of Other Operating Expenses. This general category is often further subcategorized into Direct and Indirect expenses.

#### **Direct Expenses**

Direct Expenses are those that are directly related to revenues and generally incurred when revenues are created. Examples of Direct Operating Expenses include Utilities, trash removal, paper products and uniforms.

#### **Indirect Expenses**

Indirect Expenses are those that are incurred independently of the activity of generating revenues. Examples of Indirect Operating Expenses include legal services, accounting services advertising and insurance.

### ***Operating Profit***

Operating profit in foodservice operations is generally defined as Gross Profit less the Labor Expense and Other Operating Expenses.

**GROSS PROFIT – LABOR EXPENSE – OTHER OPERATING EXPENSES = OPERATING PROFIT**

Operating Profit is one of the better indicators of the health of the foodservice operation as it is typically within the control of management team. It is the profit derived from the operation before taxes, contractual commissions, business loans and related expenses are removed.

***Foodservice Risk Management***

Foodservice operations are particularly susceptible to potential risk within public assembly venues. There is the potential of risk with both employee's and the public that they are servicing.

Risk within the foodservice operation may be generally categorized into the following groups:

- a) Employee activity
- b) Technology
- c) Equipment and facilities
- d) Health and Safety Compliance
- e) Licensing

**Employee Activity**

The employees of the foodservice operation often pose the greatest controllable risk in an operation. They include such things as responsible alcohol service and safe food handling.

In venues that serve alcohol, the obvious and inherent risk is in the responsible service of alcohol. It goes without saying that the ultimate and most devastating risk is that of the served guest who then leaves the venue and causes harm to themselves or others. According to MAAD (**M**others **A**gainst **D**runk **D**riving) drunk driving is still the #1 (number one) cause of death on US roadways. It accounts for 300,000 incidents a day, 10,142 people killed in 2019 and over 300,000 related injuries in 2019.

Each state has the authority to govern their own responsible alcohol enforcement. This is established through A.B.C (Alcohol Beverage Control) Boards and in most cases the same agency also has oversight on the sale of Tobacco products thus creating T.A.B.C agencies.

Agents of the board have most of the same citation and arrest capabilities as regular law enforcement officers and will have full right to enter public assembly venues with or without notice and may carry firearms at their discretion. Agents will have the responsibility to ensure that foodservice operators are following proper protocols related to responsible alcohol service. Failure follow those protocols including

service to minors may result in citations for the license holder, fines, suspensions and ultimately revocation of their liquor license. The agency may also cite an offending server with a criminal 2<sup>nd</sup> (second) degree misdemeanor which carries with it potential jail time and fines upwards of \$500. There are countless resources available to venues to support responsible service training efforts. They are available at a local, state and federal levels including TEAM Training (**T**echniques for **E**ffective **A**lcohol **M**anagement), TIPS (**T**raining for **I**ntervention **P**rocedure**S**). There are resource organizations such as M.A.D.D and your local TABC that operators can contact for information on responsible alcohol service. While employees may pose the greatest risks, they may also provide the greatest opportunity to manage the same risks through proper training. It is incumbent on the management team to ensure that their staff are properly trained in responsible alcohol service.

### Technology

Much has been documented in recent years over the security of personal data and specifically as it relates the storage and breach of stored data within the retail payment sector. Specifically, how is a customer's personal data stored once we capture it by credit card swipe or other means? In response to the worldwide demand for cyber security, the Federal Trade Commission (F.T.C.) created the PCI (**P**ayment **C**ard **I**ndustry) security council whose mandate it was to create a set of operating guidelines to ensure Payment Card Industry (P.C.I.) best practices. These practices are intended to secure personal data obtained through retail sales and storage of credit card information. Though not governed through regulation, PCI compliance is regarded as mandatory through court precedent. The financial cost of a PCI related data breach from within a venue can be devastating. It is important that managers are well versed in PCI compliance best practices.

### Equipment and Facilities

A foodservice operation typically requires the use of sharp objects such as knives and automatic slicers. These tools obviously pose inherent risks within the operation. Additionally, employees may be exposed to high temperatures creating burns. Lest we forget the 1994 infamous case of *Liebeck vs McDonald's* also known as the "McDonald's Coffee Case".

As with any venue, there is risk in foodservice operation related to equipment and facilities. Equipment needs to be properly maintained and facilities need to be tidy and free of the potential of personal injury.



The foodservice operation is usually directly or indirectly involved in spilled liquid or grease on floor surfaces. Within the workplace, workers compensation reports cite the greatest risk to injury as slips and falls. It is important that everyone in a venue is acutely aware of the potential for risk to personal injury whether that be to employees or guests and are employees are trained and empowered to deal with them. Remember this, cleanliness starts with a culture, not a responsibility.

### Health and Safety Compliance

It is commonly understood that there is risk potential to everyone's health every time we ingest food or drink. In fact, the C.D.C. (Centers for Disease Control) estimates that each year 48 million people get sick from a foodborne illness, 128,000 are hospitalized, and 3,000 die. Foodborne illness (also referred to as food poisoning) can have many different causes but can generally be classified into:

- a. Infections which are caused by bacteria, viruses and parasites.
- and
- b. Harmful toxins produced by bacteria within the food.

Anyone can get sick from foodborne illnesses, but they are particularly threatening to people with weakened immune systems including young children and older adults. The diagnosis of foodborne infections should be performed by trained professionals and if there is cause for suspicion within a venue, it is commonly investigated by the local health authority. Food safety risk also includes harmful foreign objects found within the food such as metal filings or glass.

Proper training of foodservice employees is the best defense in preventing foodborne illness within your venue. There are numerous resources available to ensure proper training and safe handling certification within every state. Most notably The National Restaurant Association has developed SERV Safe as a nationally recognized certification program to train employees safe food handling practices. The minimum requirements for safe food handling certification vary from state to state and county to county, however, suffice to say that a venue foodservice team cannot be over certified or over trained in safe food handling practices.

### Licensing and Sanitation

Having the proper regulatory licensing and permitting for the foodservice operation is essential to the operation.

These include:

- Liquor license and permits
- Health permits and sanitation inspections
- Local and state business licenses

Liquor Licensing and Permitting is controlled by the state TABC and administered through local boards.

The sanitation and food safety Foodservice operations are licensed and monitored by the local county health department within each county. An initial inspection is required to gain an operational license followed by annual fees and quarterly in person inspections by a qualified health inspector. The health inspector will have the right to require corrections to any violations and then suspend the license if the operation refuses to correct deficiencies or is not up to minimum level of sanitation standards. These inspections are public records and will have a related sanitation score posted within the foodservice operation. There are no national standards safe food handling and what constitutes violations. The handling and sanitation requirements and that which may constitute a critical violation in one state may not be one in another.

### ***Covid-19 and the Food and Beverage business***

It's an understatement to say that the Covid-19 global pandemic has had a meaningful impact on the food and beverage business within venues. Aside from the ever-changing operating and service criteria, the devastation of the skilled workforce has been monumental. According to Fortune magazine, more than 110,000 eating and drinking establishments closed in 2020 leaving a disaffected workforce to seek alternate means of support. Consequently, venues and more specifically food service operators have found themselves in a staffing position that is well below industry standards. Additionally, operator's heavy reliance on not-for-profit groups to fill the voids left by hourly employees has been largely decimated. As a result, operators have become acutely focused on finding ways to reduce the reliance service staff including:

- Self-service grab and go models
- Kiosk ordering
- Automation through robotics
- Outsourcing core production to suppliers ( Should I slice my own onions vs buy them sliced?)
- Better heat and serve technology
- Innovative approaches to the traditional approach to operations

It is paramount that venues partner with their operators to develop a workplace environment that attracts and sustains their workforce.

Through the International Association of Venue Managers (IAVM), venue professionals can access a wealth of information including, but not limited to:

- The online forum, *VenueNet*
- [The IAVM textbook](#), Public Assembly Venues Management: Sports, Entertainment, Meeting and Convention Venues
- [Venue Professional Magazine](#)
- The annual conference and trade show, *VenueConnect*, where fellow venue managers and many of the nation's top providers of foodservice are present (as Allied Members).

As professional venue managers, it is incumbent upon you to become informed about how to better manage and promote quality and cost-efficient delivery of foodservice operations to your visiting patrons and guests.

## ***References and Suggested Readings***

Mothers Against Drunk Driving (M.A.D.D.)  
<https://www.madd.org>

[Team Coalition \(TEAM Training\)](https://teamcoalition.org)  
<https://teamcoalition.org>

TIPS (TIPS Training)  
<https://www.gettips.com>

ServSafe  
<https://serveitupsafe.com>

Centers for Disease Control  
<https://www.cdc.gov/foodsafety/foodborne-germs.html>

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Mahoney, K, Eskilsen, L, Jeralds, A, Camp, S (2015) *Public Assembly Venues Management: Sports, Entertainment, Meeting, and Convention Venues*. Copell, TX: IAVM

Russo, F., Eskilsen, L., and Stewart, R. (2009). *Public Assembly Facility Management: Principals and Practices*, 2<sup>nd</sup> ed. Copell, TX: IAVM