

TwelvEighty Analysis Report

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Introduction

Currently, TwelvEighty Bar & Grill is experiencing a negative gross profit margin at the end of each term. This occurs when total costs exceed total revenue. In the past five years this negative number has been steadily increasing for TwelvEighty, raising concerns for many in the McMaster community.

Background

TwelvEighty Bar & Grill is a student run restaurant conveniently located at the lower level of the McMaster University Student Centre. The majority of the staff consists of McMaster students with the exception of the full-time managers and chef. During the daytime TwelvEighty operates as one of the two sit down restaurants on campus providing students and faculty with high food quality and an enjoyable atmosphere. Special events are often held at the venue, but TwelvEighty's catering service is available to be booked for outside events as well. The Bar & Grill is arguable best-known campus wide for their 19+ student club nights held on Thursday evenings. These club nights exist to provide a safe and familiar environment for students to experience going out and partying. According to TwelvEighty Food and Beverage Manager Richard Haja, to ensure student safety there are more security staff per person scheduled to work these student club nights compared to the average club in the surrounding Hamilton area. Additional staff training and precautions are taken to ensure student enjoyment and student safety are the top priorities.

Purpose

The purpose of this analysis is to determine the reasons for the negative gross profit margin TwelvEighty is experiencing and to provide recommendations on how minimize it.

Limitations

The quantitative data for this current 2016/17 term is projected based off trends from previous years and data from this current term September to December of 2016. The cost analysis has not been finalized with data from January to April, hence the need to use

projected data. Since I am using projections, this contributes to limitations in the accuracy of the analysis.

Results

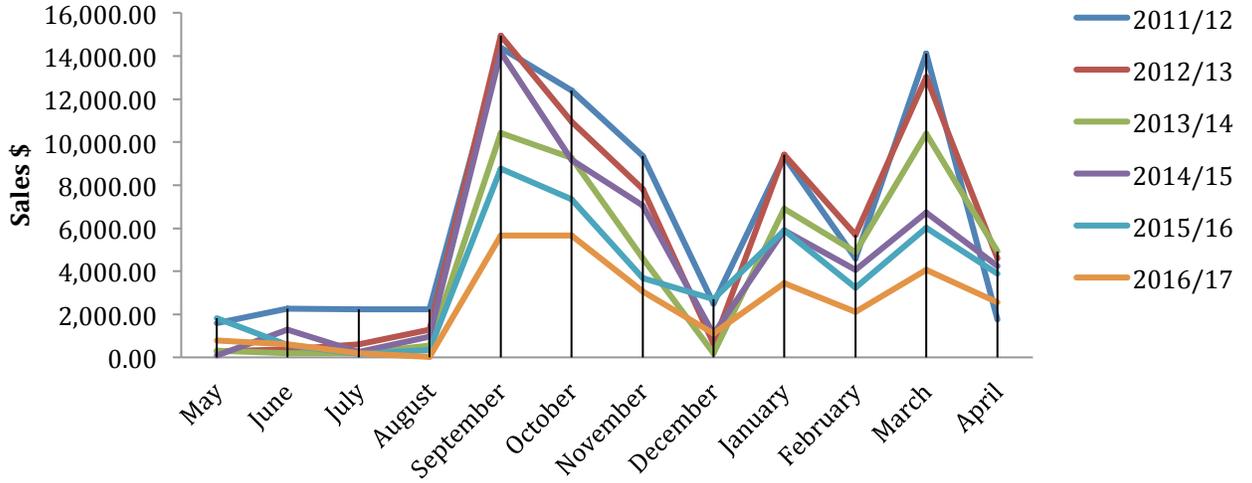


Figure 1: Bottled Beer Sales at TwelvEighty from May 2011 to April 2017

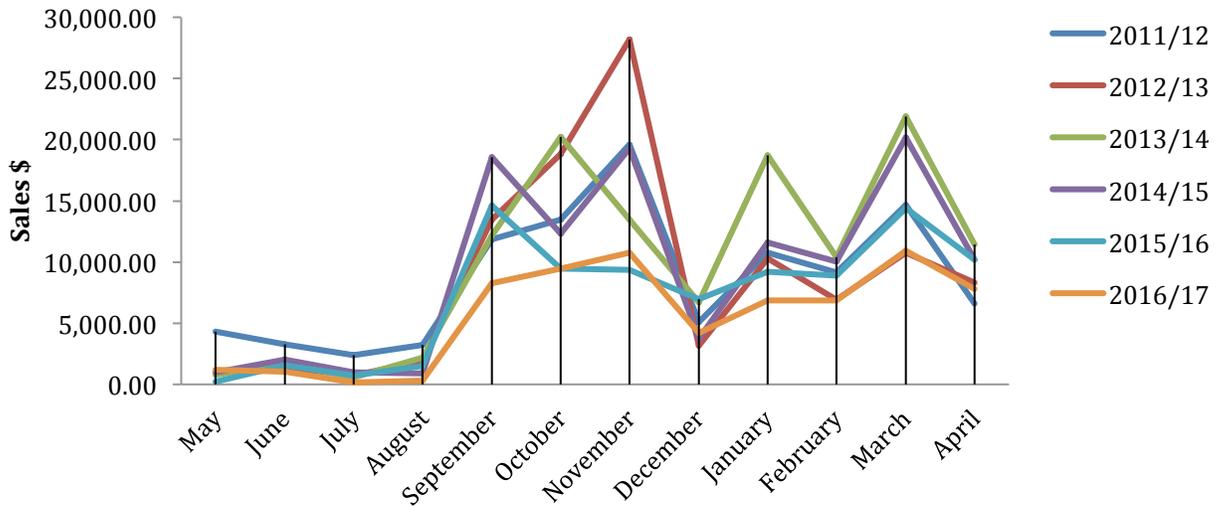


Figure 2: Draft Beer Sales at TwelvEighty from May 2011 to April 2017

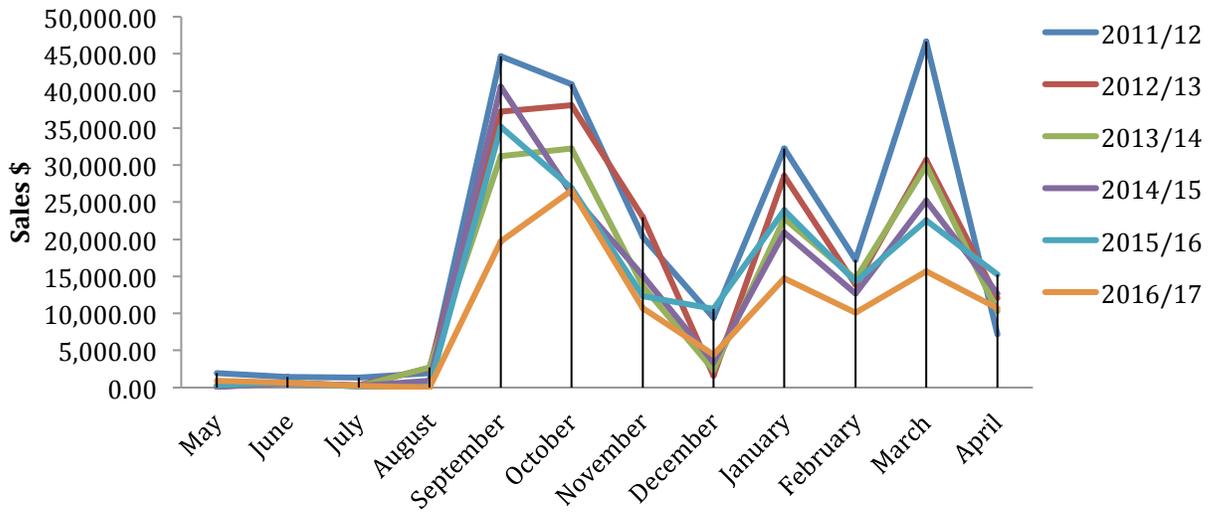


Figure 3: Liquor Sales at TwelvEighty from May 2011 to April 2017

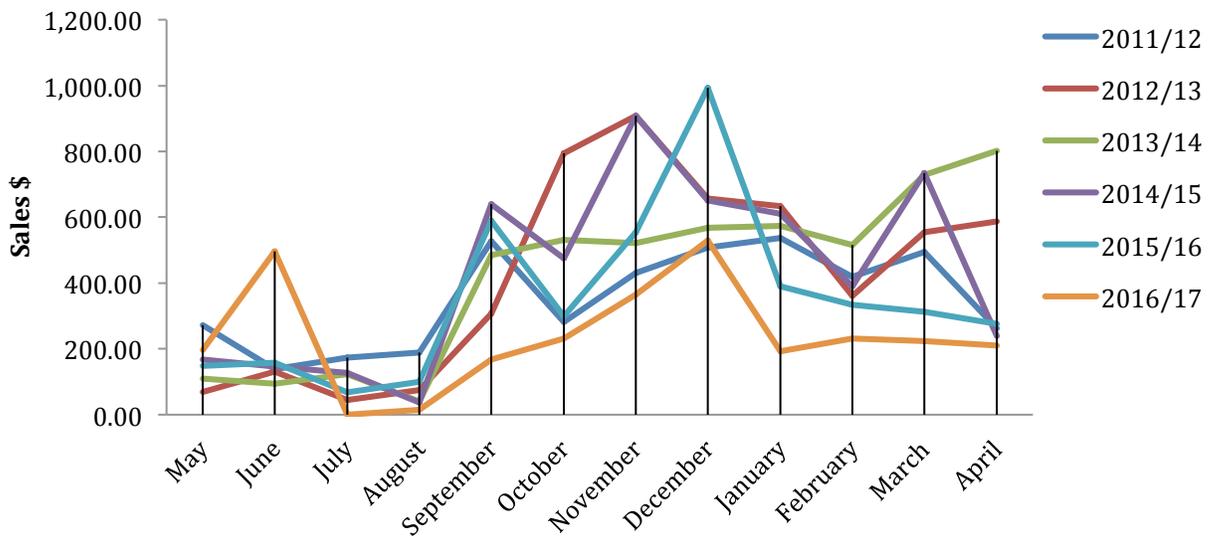


Figure 4: Wine Sales at TwelvEighty from May 2011 to April 2017

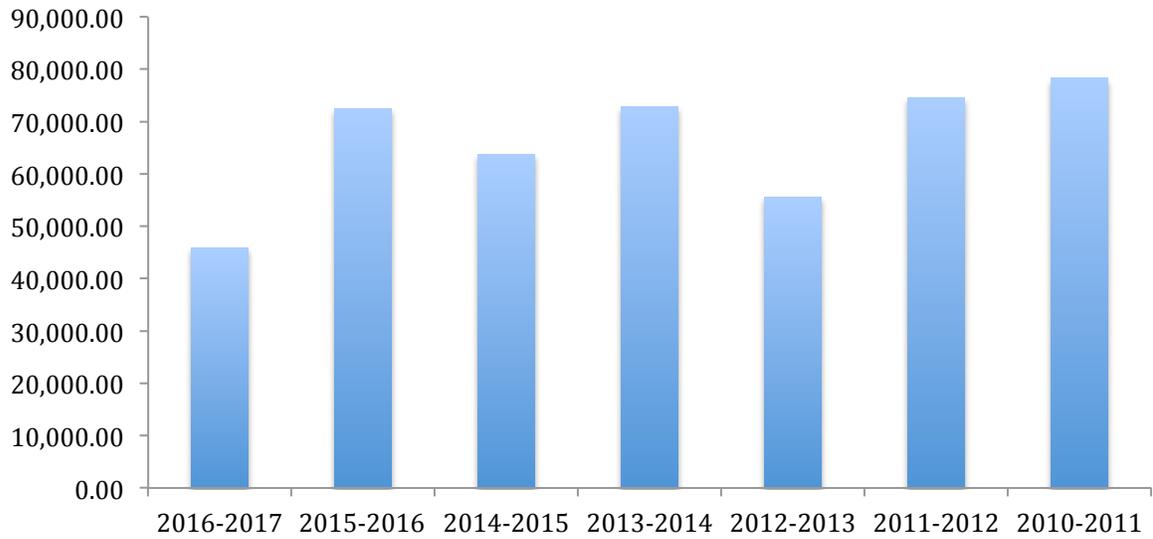


Figure 5: Annual Revenue from Admission Fee on Club Nights from 2010/11 to 2016/17

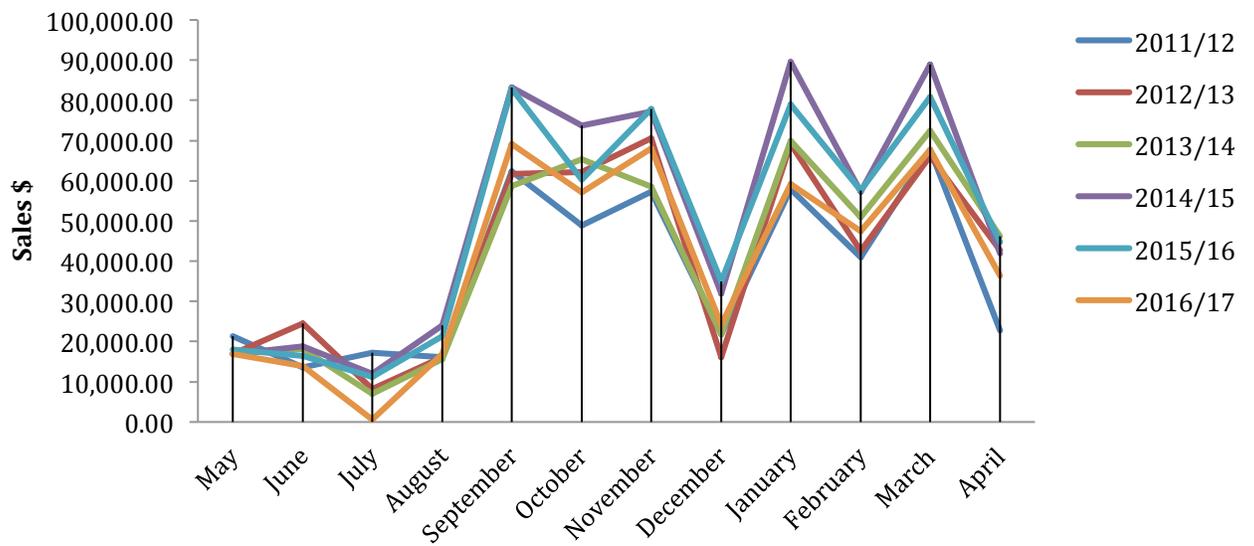


Figure 6: Food Sales at TwelvEighty from May 2011 to April 2017

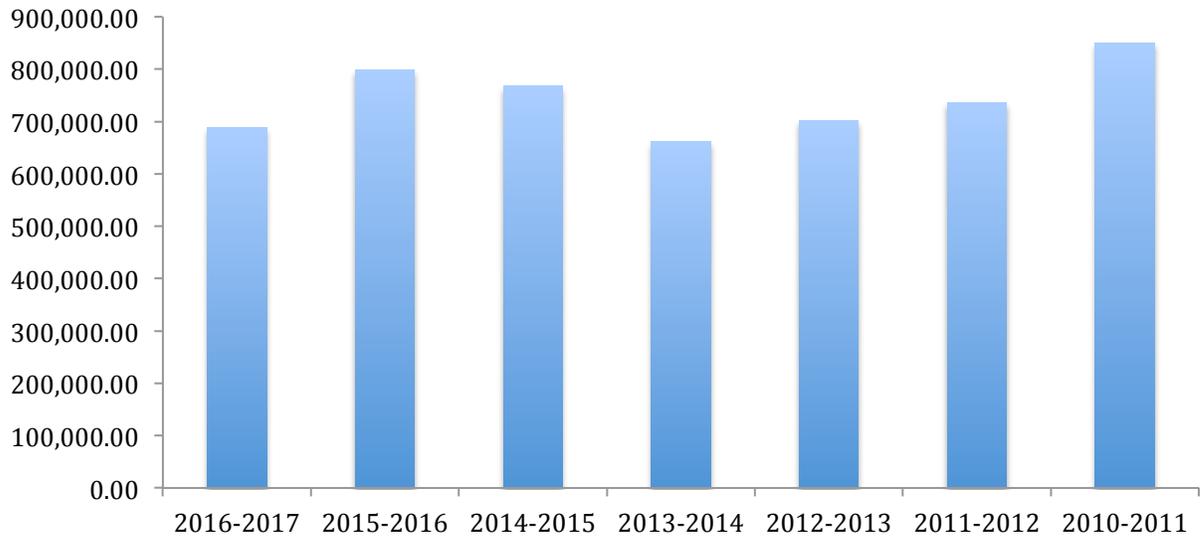


Figure 7: Total Annual Expenses (office supplies, telephone, cleaning supplies, small ware supplies, bar supplies, delivery charge, kitchen supplies, insurance, repairs & MTCE, rent expense equipment, meal card, subscriptions, socan license, DJ service, media advertising, promotions, staff food, staff uniforms, purchased services, staff training, travel & conference, wages, benefits, bank charges, bad debts, depreciation expense)

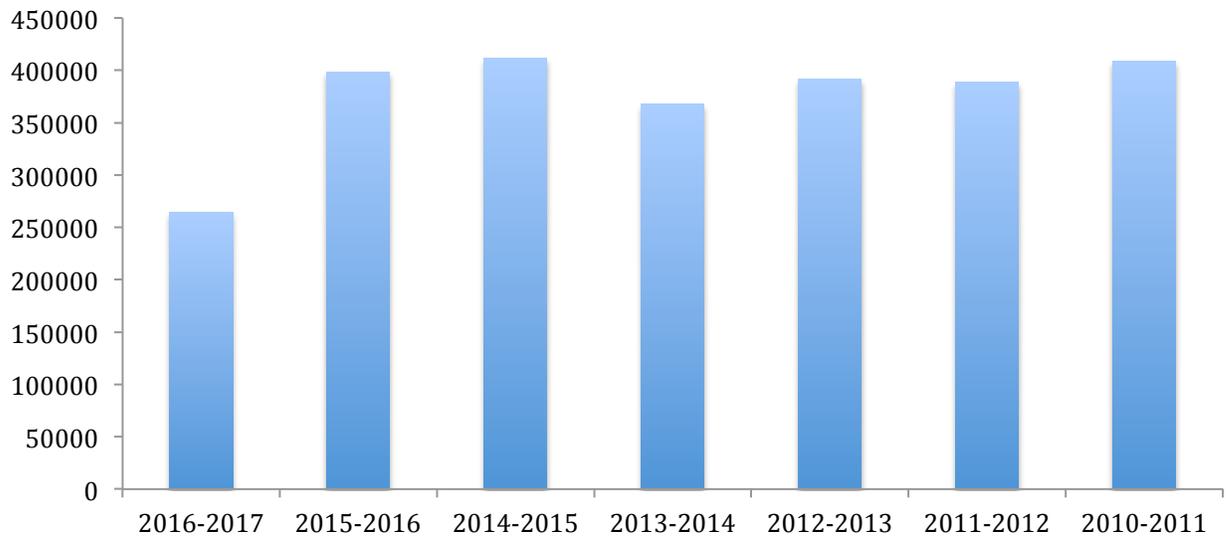


Figure 8: Total Annual Cost of Bottled Beer, Drought Beer, Liquor, Wine, Coolers, Spoilage, Non-Alcoholic, and Food from Suppliers

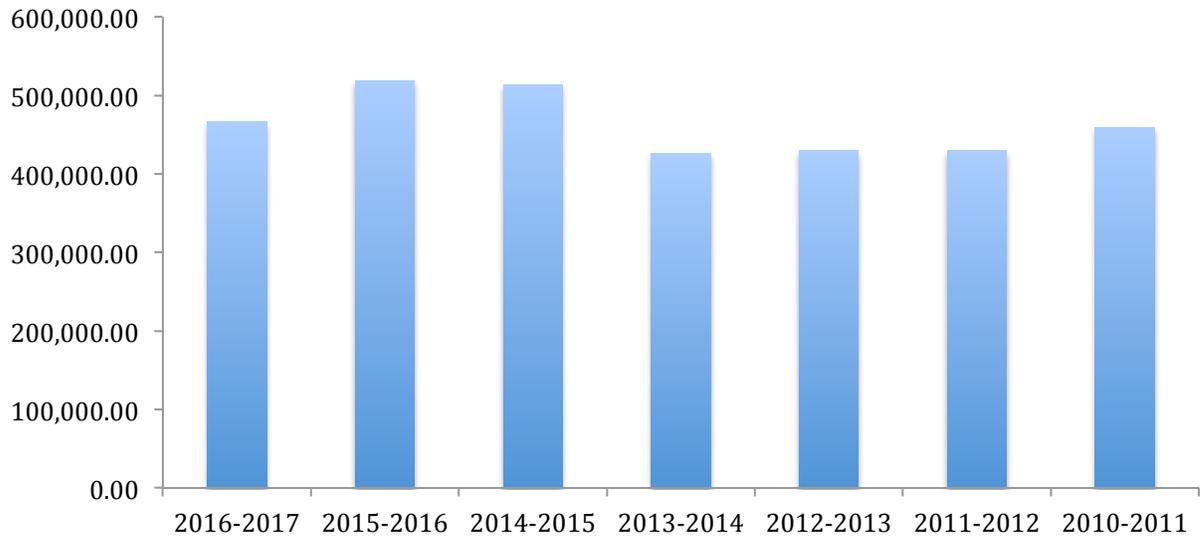


Figure 9: Total Annual Employee Wages

Discussion

There is clearly a considerable decrease in the number of people attending Thursday club nights at TwelvEighty in recent years, notably for this present year (Figure 5). Two minor factors that I have concluded influence this are: advertising and themed nights. Admittedly the managing staff of TwelvEighty has been spending less time and effort this year on advertising their club nights. Often posters or announcements on social media would appear a short day or two prior to the actual event. This does contribute to the decrease in numbers at the club nights, as some students may not be aware there is an event happening. Another factor is the club night themes. According to reviews and comments on Facebook and other social media platforms, many students were disappointed with the club night themes this year. If students are not intrigued by the themes or do not like the themes, they will not attend and it will lead to a decrease in attendance. Both of these are valid reasons for a decline in attendance; however, it cannot explain the large magnitude of the decline.

A study done by Aime Williams (2016) concluded that students are spending less money on alcohol and more on coffee as a result of rising tuition, higher living costs, and more competitive admission averages. Additionally, before the rise of social media, one of the most common social activities was to go out and consume alcohol with friends. But

now, students are socializing more electronically (Williams, 2016). When students do decide to go out and drink alcohol, Figures 1-4 show that they are spending far less money on alcohol at the bar. Pre-drinking has been an increasingly popular and more affordable trend in recent years (Leong, 2013), which is a major reason for the decline in revenue from alcohol sales.

Food sales at TwelvEighty on the other hand were fairly average this year. Richard Haja, the TwelvEighty Food and Beverage Manager, informed me that over the past two years the restaurant has been really focused on quality food. They have switched to more local ingredients, and are trying to shift to buying fresher foods. Studies suggest that this generation of students currently in university is spending less money on eating at restaurants (Lutz, 2015). This is again due to similar reasons: rising tuition, higher living costs, and the rise of social media. Considering these factors, the fact that TwelvEighty is making average revenue from food sales compared to previous years can be seen as a negative.

On a positive note, this year has been a record breaking for lowest total annual expenses (Figures 7). The management team has been working tirelessly to ensure the expenses are at their absolute lowest. In fact, each full time staff has taken a pay reduction to minimize expenses and bridge the gap between total cost and total revenue. The managing team was also able to negotiate better prices for draught beer and certain food products (Figure 8) leaving a decrease in annual cost of material. Additionally, the total expense for wages was lower this year than the last two years (Figure 9) due to more efficient scheduling, according to Haja.

Recommendations

I would recommend that in the beginning of the next school year, the students be surveyed asking what themed club nights or events they would like to see held at TwelvEighty. The managing staff can continue to cut down on the number of club nights held, and instead focus on nights that students are most interested in such as concerts, dirty bingo, paint nights and special occasions like homecoming and St. Patrick's Day. We have seen a shift in approach starting in January where there were less generic club

nights held and instead in partnership with McMaster campus events there were premium nights with higher cover and a higher population interest. This was a positive shift in events, and should be considered as a main course of action going forward.

An idea I thought of and mentioned to Richard was holding a yearly “Reunion” party for alumni at TwelvEighty. As mentioned, the current problem is that students are not going out as much because they are focusing on school, and when they are going out they are not buying drinks because they want to save money by pre-drinking. If we had an alumni club night and labeled it as a reunion party- they would be inclined to come and reunite with their old university friends who they do not see often. They also will likely be working for a few years and would be more likely to spend money on drinks at the bar. Tickets can be sold in advance and also at the door at a higher cost than normal student admission charges. Although this will not solve the entire deficit problem at TwelvEighty, it adds an event that has the potential to generate profit. It can even be held during a low profit month for the restaurant such as April (since students are busy with exams). If the interest and turn out for this event is high enough- it can even be held twice a year!

Summary

After analyzing financial records and consulting with management team and staff it has been concluded that the main reason for the deficit is due to low attendance numbers on club nights and low overall alcoholic drink sales. The reason for this low attendance and low alcohol consumption is due to the shift of demographic in students away from alcohol and partying and towards studying and social media socialization. Advertisements for the club nights play a role as well, however, a minor one. The food sales have been on par with previous years, and the overall annual expenses have been at a record low compared with previous years. The management staff has shifted to fewer but higher demanded “premium” club nights in attempt to save money and increase student enjoyment. Recommendations moving forward include continuing with the fewer but premium club nights, and also include an annual “reunion” club night for alumni to pre order tickets, drink, and reunite with old university friends over a night out.

References

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Leong, Melissa. (2013). Drinking away our savings. Financial Post. Retrieved from <http://business.financialpost.com/personal-finance/young-money/how-much-money-we-waste-on-booze>

Lutz, Ashley. (2015). Millennials' dining habits are different. Business Insider. Retrieved from <http://www.businessinsider.com/millennials-dining-habits-are-different-2015-3>

Williams, Aime. (2016). Hard-up students spend less on partying. *Financial Times*. Retrieved from <https://www.ft.com/content/bd634f0a-e612-11e5-a09b-1f8b0d268c39>