

# Chapter 5

## Principles & Practices of Beverage Controlling

5.1 Introduction.

5.2 The reasons of Beverage Control

5.3 Calculation of Beverage Cost.

5.4 Methods of Beverage Control.

5.5 Beverage Control checklist.

Ref: Some extracts and images from google that are free/allowed for use for educational purposes



- A control system covering the sale of all beverages, specially alcohol in a catering establishment is essential to achieve maximum returns.
- The type of control system used varies from one operation to another. How this is performed depends on the management and the level of training and instruction that is given to the staff on the job. In a large hotel the Food and Beverage Controls department works in coordination with the Accounts department.
- Beverage control may be defined as the *guidance & regulations of the costs & revenue of operating* the catering activity in hotels, restaurants, hospitals, schools, employee restaurants & other establishments.
- Watch the videos below and we shall discuss the chapter further

<https://youtu.be/AQapikTfTzE>

<https://youtu.be/Fai1vN2YUtA>

## 5.2 The reasons of Beverage Control

A control system essentially monitors areas where sale/production takes place.

The control systems in an organization can be manually operated or could be electronically operated like POS (Point of Sales) Cash registers which are used very commonly throughout the world. The purpose of every control system practised in hotels can be summarized as follows:

- keep track of the daily receipts.
- find accounting mistakes and losses.
- provide sales data.
- serve as a base for bookkeeping.
- allow a quick & accurate settlement of accounts.
- comply with alcohol licensing regulations
- provide staff with appropriate pouring/measuring techniques/training
- protect your business's reputation
- improve your business, by reducing beverage ullage
- beverage cost control
- following standard recipes to ensure a standardised product and cost

# Need/Objectives of F & B Control

## Analysis of Income & Expenditure

The analysis is solely concerned with income & expenditure which is relevant to the F & B operations.

## Establishment & maintenance of standards

Food & beverage control enables in establishment of a set of standards which would be particular to an operation.

Pricing To provide a sound basis for menu pricing.

## Prevention of Waste

This can be done only by preventing wastage of materials caused by poor preparation, over-preparation, failure to use standard recipes etc.

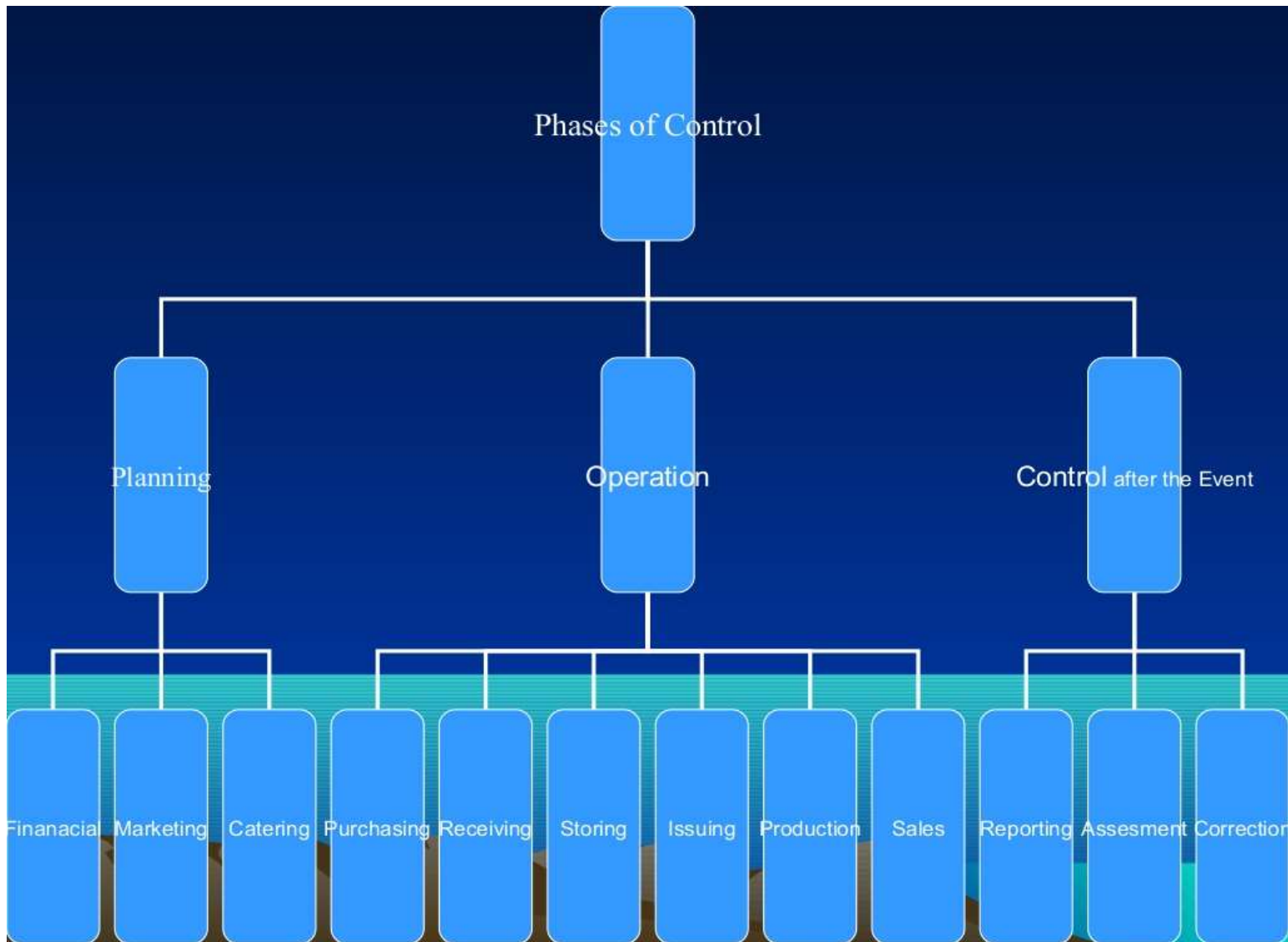
## Prevention of Fraud

Food & beverage control enables in prevention of or at least restriction of possible areas of fraud by customers & staff. Typical areas of fraud by staff are overcharging or undercharging for items served & stealing of food, drink or cash.

## Management Information

Accurate up-to-date information will enable a complete analysis of performance for each outlet of an establishment for comparison with set standards previously laid down.

# The phases of control cycle – Planning, Operational & Post Operational.



The development of an effective system of beverage control resolves itself into three distinctive phases

## PHASE-1

### Basic policy decisions – i.e. PLANNING

Dealing with basic policy decisions. This constitutes of basic policy decisions in relation to financial and catering policies in the establishment.

#### Financial Policy

This is where setting of profit targets are done, planning for profit margins for menu or wine list.

#### Marketing and catering Policy

This deals with the market to be aimed at, the market you are going to cater for in order to satisfy it e.g. you have to identify the customer, his average spending power, decide what menu will satisfy the spending power, decide what menu will satisfy the customer, determine the type of service determine the portion service and choose the appropriate décor or atmosphere.

## PHASE-2

### Operational Control

Cycle e.g. quantity inspection of incoming good, technological procedures i.e. use of written store requisition this should be planned so as to cover the cycle of food and beverage preparation, operational control in relation to the control cycle is.

- Buying
- Receiving
- Storing and issuing
- Preparation
- Selling

## PHASE-3

### After Event Control – Post Operational

- There must be food and beverage report: For reasons of the specific character of food and beverage operations, food is highly perishable cooked form or raw and always unpredictable trend and unexpected change in order to control a food operation effectively, the manager must have a daily, weekly and other reports covering longer periods.
- Assessment of results: It is concerned with an appreciation of how far the actual results of food and beverage results correspond with expected results.
- Corrective action where appropriate: Any action that is taken following the receipt of food and beverage report e.g. malpractices on the part of the staffs must be corrected.



## 5.3 Calculation of Beverage Cost.

Costing is an integral branch of accounting process.

It provides management with cost data relating to products, processes and operations as well as helps to appraise the actual costs against predetermined budgets & standards



The pricing of issues for beverages is different from that for food in that two prices are recorded, the cost price and the selling price. The cost price is recorded to credit the cellar account and for the trading account and balance sheet purposes. The selling price is recorded for control purposes to measure the sales potential of a selling outlet using the basic formula:

**Beverage Cost** = Opening Stock + (Cost of Purchases- transfer to departments & complimentary drinks) – Closing Stock



## Basic Concept of Profits

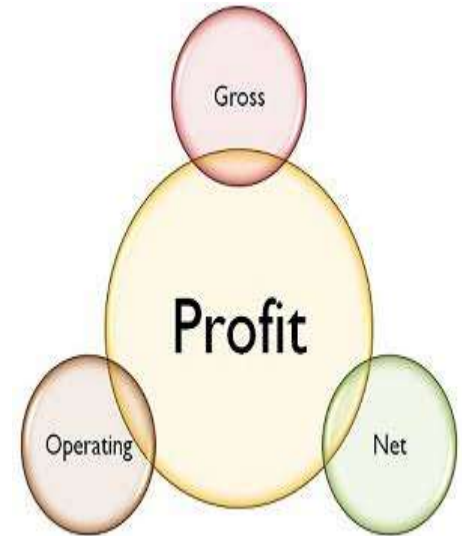
For any organisation, profit is the most important motivating factors. All organizations aim at maximizing their profits consistently. Following are the important concepts of profits.

**Gross Profit:** It is defined as excess of sales over the cost of material also known as Kitchen or Bar profit.

Gross Profit = Total Sales - Cost of materials / Food cost / Bar cost.

**After- wage/operating Profit:** It is defined as excess of sales over the cost of materials and labour costs. Usually used in establishments where the current control of labour costs is as important as the control of materials.  
Total sales – material + labour costs.

**Net Profit:** It is defined as excess of sales over total cost i.e. Material + Labour + Overhead cost.



There are many different methods in use today to control costs, the various methods depending on the size of the operation, the volume of business, the owner or managed operation, etc., and the level of sophistication and control required. Each of the different methods in use could be classified under one of the following six basic types of beverage control systems. Whatever method is adopted, it would be of little value unless the previous steps of control cycle had been effectively implemented and enforced, that is, the control of purchasing, receiving, storing, and issuing; production planning; the establishment of standard yields, standard recipes, standard portion sizes and inventory.



## 1.Bar Cost System

This system is similar to that for the basic food cost report. It may be produced for each bar separately or for all of the beverage operations.

## 2.Par stock or bottle control system

This is a simple yet effective method of beverage control and is particularly useful for the smaller type operation where there are full-time control staffs. The following points should be noticed:

1. The level of par stock is established for each bar, that is, to establish for each beverage the number of bottles required for a busy day plus a small safety factor. This number is determined to be the stock level to be held in the bar at the beginning of the service each day. To simplify the system only full bottles are counted.
2. The number and type of empty bottles are noted each day, this being the amount and type to be requisitioned for the day.
3. The potential sales are based on the quantities issued at selling price and are compared to actual revenue received.
4. Adjustment to be made to the initial selling price if many mixed drinks are sold. This may only be necessary if the difference between the potential and actual sales figures gives cause for investigation.

The particular advantages of this system are its simplicity and ease of operation.

### 3.Potential (or standard) sales value system

- This system is designed to control beverages sales and therefore beverage costs by setting a sales value on each bottle item carried in stock.
- The revenue value of each bottle is based on the standard size of the drink.
- The sales value of each drink is called the potential (or standard) sale value.
- The system requires as a basis for its operation, established standards for a bottle code number system, drink recipes, drink sizes, glassware and par stocks.
- Whenever the bottle sizes, drink size or recipe change a new calculation must be made and recorded, as this can affect the price of a drink and should require the price to be reviewed.

#### 4. The inventory or 'ounce' or millimetre system

This method is recognized as the most accurate (non-automatic) method of determining the amount of beverage sold. It is used at times when investigating the cause of un-acceptable difference recorded between the actual and potential results in a beverage report. It is, however, a complicated and difficult system to operate for large units with a full range of beverage services unless aided by a mini computer.

The system requires:

1. An accurate and detailed analysis of all sales by type and brand of drink sold, for each selling outlet.
2. The calculation of the actual consumption of each type and brand of the drink based on the daily physical stock-take, giving opening and closing stock levels of bars, plus any issues, and minus any transfers out to other bars. All drinks sold are converted back to the number of ounces of each type and brand of drink sold using the standard beverage recipes. The total consumption of each kind of drink per sales bill has then to be compared with the actual consumption determined from the physical inventory and any adjustments.

## **5. Banqueting and function bar system**

Should the banquet department have its own storage and bar areas it can operate and be controlled in the same way as any other bar. If, however, a bar has to be set up for each separate banquet or function, it will be necessary for an authorized person to requisition for each event from the main cellar and then immediately at the close of the event to return all unsold beverages. Bottles issued would be the quantity issued from the cellar for that function. Bottles returned are the bottles and part bottles (calculated in tenths of a bottle) unused and returned to the cellar. The number of bottles issued minus bottles returned should be equal to the number of bottles and part bottles used. The actual cost is the purchase price paid per bottle, or half or split. The potential sales per bottle would be the selling price per drink multiplied by the standard number of drinks per bottle.

## **6. Automated beverage dispensing system**

The use of automated beverage dispensing systems is becoming more and more of a norm. As the cost of technology drops these systems can be afforded by medium-sized operations and when linked to an EPOS system inventory control reports can be compared to sales reports and discrepancies of actual stock can be identified much easier. The bottles of beverage are inverted and connected with small bore pipes within a locked storeroom, to each selling outlet. Large operations that may often use casual staff (e.g. food and beverage operations in stadia) will normally invest into such technology.

The management techniques used in beverage production planning are therefore very similar in concept and method to the techniques used for food production planning; if anything even tighter standards may be laid down for beverage production for the reasons already discussed. A similar recipe file for beverages may also be produced – either manually or by use of a computer and again the use of a computer for beverage planning should be seriously considered for the long-term cost savings and tighter control it can offer the establishment.



## 5.4 Methods of Beverage Control

Controlling your expenses is essential if you want to run a profitable bar.

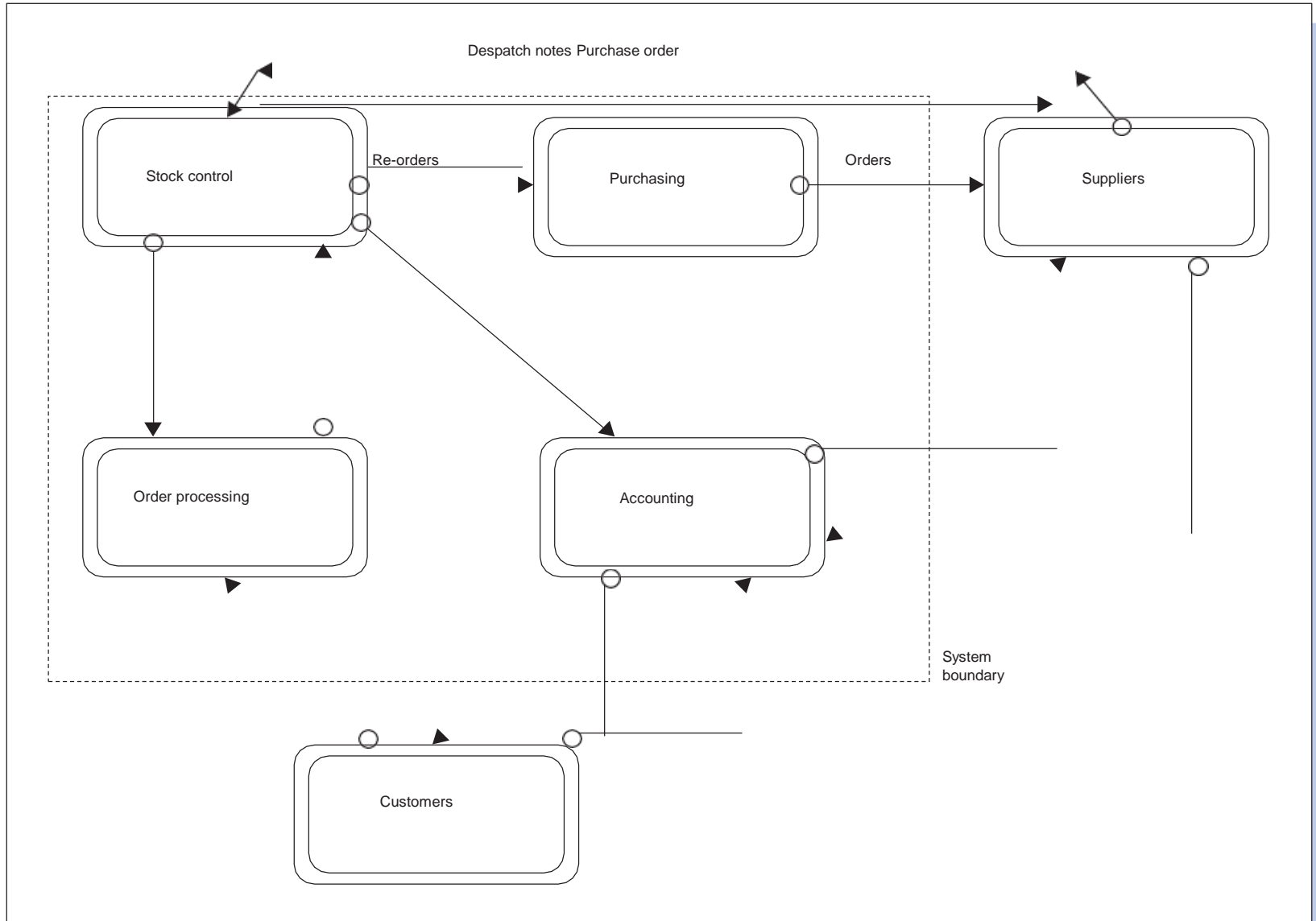
If you blindly price your drinks, lose track of sitting inventory, make inaccurate estimates of how much product to order, fail to create and enforce pour policies, or make other managerial mistakes, your costs will rise and your profits will plummet.

As a bar manager, this may seem discouraging.

But, by making some simple changes, you can effectively control your liquor costs and run a successful establishment.

The inventory control cycle is hence applicable to beverage to make financial sense shown in the figure below

# Inventory control cycle



# 1. Use pars

Pars represent the minimum amount of product a bar wants to keep in stock at all times. Accurate par setting ensures you're not purchasing excess product or sitting on too much inventory.

It can also immediately tell you when a certain item needs to be reordered. Due to seasonality and changing customer preferences, pars should be updated at least twice a year.

For more accuracy, you should consider updating them quarterly, or even monthly.



## 2. Carefully price your drinks

In the bar business, the majority of your revenue (usually about 80%) comes from drink sales. When you price your drinks, think about competition and profitability. If your drinks are too expensive, you'll drive away customers. If your drinks are too cheap, you'll go out of business. To price drinks, calculate your current beverage cost and compare it to the industry standard of 25-30%. Is your average beverage cost close to this number? Keep in mind, your establishment will likely see a variation in beverage cost across products, due to your location, client base, and client preference. You should also consider factoring in variance (lost product or shrinkage) into your pricing in order to have a cushion. With industry average shrinkage rates at 25-30%, you should really aim to bring your beverage costs to an average of 16.67%.



### 3. Establish pour policies

Overpouring is a quick way to drive up your costs. If your bartenders are frequently topping off customers' drinks with extra product, you're giving product away for free. In order to prevent overpouring, establish a set pour policy. Regardless of what method you choose (jiggers or free pouring), make sure you have an ongoing training and review process to ensure your staff is pouring accurately.

Using jiggers will make your cocktails consistent, it will ensure bartenders aren't overpouring and driving up your costs. If you'd rather have your staff use the free-pour method, make sure to teach them the proper techniques and perform routine checks to assess their accuracy. Another way to limit the possibility of overpouring is requiring the use of precision pour spouts. These specialized three-ball spouts are designed to pour a specific amount.



#### 4. Record spills and complimentary drinks

Spills and comp'ed drinks increase your beverage costs. Generally, you can't prevent these events from happening. Drinks will inevitably spill, and staff members will give the occasional free drink to loyal customers.

Instead of letting these acts go unrecorded, take note of spills to keep track of what percentage of product loss it attributes. This will also allow for future training opportunities. Likewise, keep a log of complimentary drinks, or require staff to note them in the POS. To control your costs, give each staff member a limit of how many drinks he or she can comp, and keep track of the total amount spent on free drinks each month. This way, you can see when your free drink spend is getting too high and take steps to reduce it.



## 5. Take weekly inventory

Your inventory is your largest asset. It represents an investment of your business's cash, and it can't be used for other outflow purposes. If you're buying things without keeping track, you're not going to have a very good understanding of where your inventory budget/finances are going.

Remember, every bit of cash you spend on inventory is the bit of cash you can't put towards other costs. You need to keep track of how much and what variety of product you have, so you don't overstock or understock your shelves, and you do purchase product that sells.

Taking inventory will also help inform you of product loss so you can take steps to stop the problem from reoccurring. For example, if, after counting, you realize you're missing an entire bottle of Grey Goose, you can take action to see what may have happened and prevent a loss like this from happening in the future.



## 6. Set up security cameras

In order to protect both people and assets, such as product, consider installing security cameras. People, both customers and staff, are less likely to steal product if they see a camera is watching. Security cameras will also provide you with insight, which will allow you to quickly terminate staff members who are caught stealing so you won't continue to lose product. They'll also help you discover weak spots in your bar's security, such as areas of the bar that are prone to customer theft.





## 7. Lock up liquor and only give managers the key

As mentioned before, inventory is your largest asset. It represents a huge investment of your establishment's cash and, therefore, needs to be protected. Glass bottles—particularly ones containing wine or liquor—can be stolen, broken, and spilled. This method might be a little extreme, but in order to limit the amount of risk, some bar managers lock up storage rooms hosting the bulk of their product. By providing only managers with the key, you'll be able to keep tabs on who has access to your product, thus reducing the possibility of product loss.



## 8. Buy a quality draft system and keep it clean

An out-of-balance draft system can sometimes create too much foam or too little foam. If there's excess foam, you'll have to pour a good amount of beer down the drain. If there's not enough foam, too much beer is poured into the glass. Either way, it's a waste and a loss of profit.

Faulty or dirty draft lines can also make beer cloudy, mouldy, and off-tasting. This can be very off-putting for customers and, in rare cases, it can even cause them to be ill. Either way, serving a customer a tainted beer will cost you. You'll have to appease your customers with a free drink replacement, you may lose repeat business from them, and, in the worst case, they'll tell others about their negative experience and significantly cut into your business. In order to keep your costs down, make sure you invest in a quality draft system and take the steps to properly maintain it.



## 9. Buy in bulk to avoid breakage fees

If you know you're going to use product in two to three weeks, order it in bulk. Distributors want to sell more, and they don't want to break up cases. To incentivize you to order more product, they offer buy-in-bulk deals and specials. In most cases, buying in bulk is the best way to keep your costs down. The less you pay for your product, the lower your beverage cost percentage will be. However, when it comes to more expensive products that don't fly off the shelves, buying in bulk might not be the best option because it can tie up your costs.



## 10. Make sure your invoices reflect your orders

Whenever you receive a delivery, comb through the invoice while the delivery person is still present. It's important to make sure you've received all of the product you ordered. It's also important to check that you didn't receive extra product you didn't order.

You don't want to pay for products that weren't delivered. If you sign the invoice without checking the delivery, you might be charged for missing products. If you review the delivery and realize there is a product missing, make a note on the invoice that it wasn't received.

In the same sense, you don't want to pay for products you didn't order and don't necessarily need. Having extra product on your shelves can tie up your costs, leaving you with less cash flow to put toward other expenses like payroll and rent.

## 11. Hire trustworthy staff

When you hire your staff, don't hire just anyone. Your staff runs your day-to-day operations, and they're surrounded by breakable, spillable, stealable products. In fact, according to loss prevention professionals and operations managers, 20-25% of your losses are due to employee negligence, manipulation, errors, and indifference to policy and procedure. This loss can significantly jack up your beverage costs. Your employees are also the face of your business. If they're not cordial and they don't treat your customers with respect, you'll likely lose business pretty quickly.

Although some product loss is inevitable, you can combat this cost by making sure your hiring process is thorough. If you currently have some trustworthy employees, ask them to make referrals.

The referral system is the most cost-effective way to hire new employees. It's also a faster way to hire, it generally leads to better hires, and it lowers the turnover rate of your establishment.

Once you have applicants, have multiple people interview them to see if they have technical ability, but most importantly to make sure they have the personal characteristics of outstanding service providers—extroversion, agreeableness, conscientiousness, respect, and emotional stability.



## 12. Electronic tagging/apps

These days various applications use fast, durable barcode scanners, and/or smartphones and tablets, to quickly count inventory, receiving, transfers and empties. The scanners feed data to a hosted database that then produces key reports and metrics that you need to manage your bar business more effectively.



## 5.5 Beverage Control Checklist

Recent advances in technology have helped with beverage control but often one cannot understand the basics of the control system or what they should be looking for when trying to identify errors in the system.

Although it would be impossible for us to address every corrective action that should be taken when standards are not being met we can produce a control checklist that can be used as a tool to identify the weak areas of a control system

Although the checklists are not exhaustive for every type of operation, it provides a good starting point and can be adapted to fit the type of operation the reader may have in mind.

Bar procedures	Beverage control procedures
Bar stock to be replenished by written and authorized requisitions, or by using a 'full for empty' bottle system.	Check and cross-reference delivery notes, credit notes, invoices and goods received report.
Bars to use standard recipes, standard drink sizes and glassware.	Check arithmetic to all paper work.
Bars to sell 'house brands' for all drinks unless specifically requested by the customer, as they will normally give a higher gross profit.	Check correct discounts are being allowed.
Check that all bar sales are properly recorded.	Check delivery notes, etc. to cellar inwards book.
Periodically check proof of liquor in open bottles if tampering is suspected.	Maintain beverages perpetual inventory book.
Check that beverage price lists are displayed and freely available to customers.	Maintain container charges and credits for period inventory.
Check frequency of 'breakages' recorded.	At set periods complete a full inventory of all chargeable containers, for example crates, kegs, soda syphons, etc.
Check 'shortages' or 'overs' recorded by accounts department for each bar.	At set periods complete a full inventory of cellar and compare to beverages perpetual inventory book.
Check that bar staff have no access to till rolls, etc.	<p>Prepare a stocktaking report of value and type of goods, rate of stock turnover, etc.</p> <p>At set periods complete a full inventory of the stock of each bar for beverage control reports.</p> <p>Maintain daily and to-date beverage control reports, the amount of detail depending on the size of the unit and the volume of business.</p> <p>Prepare end of period beverage reports for management and highlight any problem areas for corrective action.</p>



As mentioned earlier, beverage control is not so difficult or involved as food control. What at times is a problem is the dishonest employee and this is usually difficult to detect. The typical problems are bar staff who:

1. Bring in their own bottles of spirits, etc. sell the contents to customers and then pocket the money. This results in a busy bar with disappointing cash takings.
2. Drink at work. Bar staff who help themselves to the odd drink soon get into the habit of it unless it is quickly detected. This results in lower than should be cash takings or customers having short measure drinks which 'compensate' for the bar staff free drinks.
3. Fail to 'ring-up' each drink sold and pocket the money taken from the client. This results again in lower cash taken.
4. Provide free drinks for friends, again, resulting in lower bar takings.
5. Dilute drinks. When a group of customers order their third or more 'round of drinks', they are less likely to identify weak drinks, the difference being pocketed by the bar staff.
6. Under-charge the customer. The customer, being an accomplice of the bar staff, orders a drink, pays for it and is then given change in excess of what it should be. This results in bar takings being lower than they should be.
7. Short-change customers. This is the all too common problem of bar staff giving customers less change than they should do and pocketing the difference for themselves.