

Club Minibar

Minibar Management Specialists

Club Minibar is a minibar company headquartered in San Francisco, CA. As managers of minibars, we distinguish ourselves because of our attention to detail, proactive team orientation, and our continuing efforts to improve the service we offer. Furthermore, we bring a level of experience to minibar management not otherwise available. Some of our findings are presented here.

Not all properties will support profitable minibar operations

The Environment for Success

Factors leading to successful minibar operations but beyond the control of the minibar department

High Occupancy
Rain
High consumption lifestyle customers
Credit cards
High average room rates
Honest guests who declare purchases

The Environment for Failure

Factors leading to unsuccessful minibar operations but beyond the control of the minibar department

Cash customers
Short length of stay
Room changes
Flight crews
Tour groups
Budget conscious consumers
Dishonest hotel employees

Managing Minibars

While minibar managers cannot for control environmental factors such as occupancy and average rate, there are other factors that minibar managers can control or influence. Broadly speaking these involve increasing the top line through more effective merchandising and controlling costs through reducing shrinkage and increasing productivity.

Basic Management Objectives

Merchandising	Provide a wide selection of fresh, clean, well presented products in a clean minibar.
Shrinkage	Post 97%+ of all charges accurately. Perfection is unattainable and not worth the cost.
Productivity	Service every room that needs service every day.
Inventory	Purchase high quality products at the lowest possible price from reliable distributors. Avoid out of stock situations.

Growing the Top Line: Merchandising

Our merchandising strategies are based on the following ideas

- Small increases in sales can have a significant influence on profitability**
- What sells well in one location will sell well in another location**
- The more the merrier**
- Size matters**
- Don't manage by COGS**
- Salt, sugar, fat, and alcohol represent the vast majority of sales**

Merchandising

Small increases in sales can have a significant influence on profitability

If one out of ten guests purchases one additional item from the minibar...

Assumptions	
Sales Per Occupied Room	\$2.00
Occupancy	75%
Average Price Per Item Sold	\$3.25
Cost of Goods Sold	25%

sales will increase by 16%, while...

Pro Forma Income Statement		
	Before	After
Sales (per room/yr)	\$547.50	\$636.47
Cost of Goods Sold	\$136.87	\$159.12
Gross Profit	\$410.62	\$477.35
Labor	\$200.00	\$200.00
Printed Materials/Keys	\$20.00	\$20.00
Misc.	\$20.00	\$20.00
Operating Profit	\$170.62	\$237.35

Operating profit increases by 39%.

Merchandising

What sells well in one location will sell well in another location

The top selling items are the top selling items regardless of hotel brand or location. The numbers indicate the relative sales volume rank of each item at each property.

	Boutique SF #1 ***	Boutique Chicago #1 ****	Boutique SF #2 ****	Starwood SF #3 ****	Budget SF #4 **
Sping Water	1	1	1	1	1
Coke	2	5	5	5	2
Diet Coke	4	2	3	3	7
Orange Juice	5	3	4	6	4
Domestic Beer	6	8	2	4	5
Imported Beer	3	7	8	2	3

The top selling items are the top selling items regardless of hotel brand or location. The numbers indicate the relative sales volume rank of each item at each property.

	Chicago #2 ****	Washington DC #1 ****	Florida Resort ****
Sping Water	1	1	1
Coke	5	4	2
Diet Coke	4	2	3
Orange Juice	3	5	12#
Domestic Beer	2	3	4
Imported Beer	6	6	16##

#Canned Orange Juice

Peroni Beer

Merchandising

The more the merrier

Variety and selection have significant influence on total sales. In other words, as the number of items offered for sale increases, sales will increase.

Minibar consumers have well-developed sets of preferences. Some consumers like spring water, some like soda pop, while others like orange juice. By selling all three items we offer something for each. Eliminating one of the three would result in lost sales.

Working within a 36 story hotel (31 floors with guest rooms), we expanded selection on floors 28-32 by five items.

Ranking by floor (1 to 31) in terms of sales per room

<u>Floor</u>	<u>Before Expansion</u>	<u>After Expansion</u>
28	20 of 31	9 of 31
29	12	2
30	10	8
31	7	3
32	17	5
Average	13.2 of 31	5.4 of 31

**Data derived from sampling of guest checks representing 2,000+ guest checks in each period.*

Merchandising

Size matters

Success in the minibar business comes not only from selecting the right items, but also from selecting the right sized items.

For example, everybody knows that M&Ms are a big seller. However, which size M&Ms will generate the biggest gross profit? Regular, King Size, Peg Pack, 1 lb.?

	Cost	Selling Price	Margin	COGS%	Annual Turnover	Profit per Room
King Size	\$0.60	\$2.25	\$1.65	26.6%	8	\$13.20
Peg Pack	\$1.25	\$3.50	\$2.25	35.7%	8	\$18.00

When we first tried this experiment our theory was that if volume remained unchanged, profit per room would increase by 36%. Alternatively, if volume fell by 36%, profit would remain unchanged.

In actual fact, volume increased by 17%, and profit per room increased by 60% to \$21.06 per room. Thus, size matters.

Don't manage by COGS

This example illustrates that it is a mistake to make pricing decisions on the basis of the cost of goods sold. Frequently, food and beverage directors set minibar prices by multiplying costs or by trying to achieve a predetermined cost of goods sold. This is a mistake. Price levels should be set to maximize profit per room.

Merchandising

Salt, sugar, fat, and alcohol represent the vast majority of sales.

With the exception of spring water and orange juice, “healthy” items perform poorly. Our studies indicate that the most profitable items include:

- Spring Water
- Coca Cola
- Diet Coke
- Orange Juice
- Beer
- Potato Chips
- M&Ms
- Snickers
- Cashew Nuts
- White Wine

Controlling Costs: Managing the Minibar

Once effective merchandising decisions have been made, minibar managers should turn their attention to controlling costs. Reducing shrinkage and increasing productivity are two areas where significant improvement can be made.

- **Guest disputes are a function of poorly trained & motivated employees**
- **Considerable losses occur due to inconsistent posting procedures**
- **Utilize technology to improve productivity**
- **The inverse correlation between minibar utilization and the productivity of labor**
- **Control Systems**
- **Enhance control and analysis by standardizing the collection of data**
- **More on disputes**

Managing the Minibar

Guest disputes are a function of poorly trained & motivated employees

98% of hotel guests are honest. About 2% of guests will dispute valid charges. These losses should be assumed as a cost of doing business.

Minibar operators who experience guest disputes above 2% suffer from poorly trained or poorly motivated employees.

Valid guest disputes occur for a variety of reasons including:

The minibar attendant does not check every room every day.

The minibar attendant checks the room, but fails to record all missing items.

A guest checks into a room and uses the minibar. The guest then complains about the room and is given a new room. A new guest checks into the old room.

Hotel employees raid the minibar.

The minibar attendant does not record the correct room number.

The person posting the charge posts the charge to the wrong guest.

Training combined with the development of appropriate analytical tools can prevent most of these common errors.

Well-trained and well-motivated employees can keep disputes to very low levels (less than 3%). We work with multiple properties and employees. A poorly trained and poorly motivated employee will blame high levels of disputes on dishonest guests, or on dishonest hotel employees. They will claim the problems are endemic to the property in question. When we switch the poorly motivated employee with a well-motivated employee we find the disputes return to acceptable levels at the property in question. Unfortunately, the property receiving the poorly motivated employee will experience an increase in disputes. Our conclusion is that disputes are employee related and not property specific.

Managing the Minibar

Considerable losses occur due to inconsistent posting procedures

Minibar operations frequently fail to collect revenue. As stunning as this may seem, oftentimes minibar operations under perform because charges are not posted. This is usually the case when the minibar attendant is not responsible for posting charges.

Frequently we encounter situations where the front desk employees are responsible for posting charges. Unfortunately, front desk employees and their supervisors suffer from high rates of turnover, and as turnover occurs, the responsibility for posting charges is not properly delegated. Lacking appropriate analytical tools, the failure to post charges goes unnoticed and no one is held responsible.

Because minibar managers rarely calculate true sales (theoretical sales), they do not understand their true losses or the source of true losses.

Results at one San Francisco hotel (September 1999)

True Sales	\$38,424.00
Collected Revenue	\$30,352.17
Shrinkage	\$8,071.83 or 26.6% of revenue

Main source of loss: Charges not posted.

At the hotel above, the reason why shrinkage is so high is that the responsibility for posting belongs to the front desk, not the minibar department.

Another hotel we were working with had average shrinkage of \$1,053 per month over a five month period. When we trained the minibar attendant how to post, losses for the next five months averaged \$397.

The solution to the issue is to develop appropriate analytical tools and to make the minibar attendant or the minibar department responsible for posting charges.

Managing the Minibar

Utilize technology to improve productivity

Labor is the single largest cost faced by minibar operators and attempts to save labor can yield substantial savings to minibar operators.

- Knocking on guest room doors is the most time consuming act in the minibar attendants' day
- 47.4% of occupied rooms will open the minibar door
- In a 70% occupancy environment, 67% of rooms do not require service.
- Learning who has opened the minibar door is valuable information.

Minibar attendants spend most of their time servicing rooms that do not need to be serviced. By providing service only to rooms requiring service, significant productivity gains can be achieved while service improves.

Managing the Minibar

The inverse correlation between minibar utilization and the productivity of labor

In conventional honor bar systems, minibar attendants spend most of their day entering rooms that do not need service. Utilizing technology to detect when the minibar door has been opened allows the minibar operator to service only those rooms requiring service. Substantial productivity gains are achieved because the number of rooms needing service is much reduced.

At 100% occupancy, the following productivity gains can be forecast

Productivity Increase		Potential Labor Savings (per room)*
◆ 400%	if 25% of guests open the minibar	\$182.50
◆ 100%	if 50% of guests open the minibar	\$121.66
◆ 33%	if 75% of guests open the minibar	\$80.33

**Assumes labor cost of \$15 per hour and initial productivity of 180 rooms per day.*

Factoring occupancy into the equation delivers even more dramatic results.

At 70% occupancy, the following productivity gains can be forecast

Productivity Increase		Potential Labor Savings (per room)
◆ 571%	if 25% of guests open the minibar	\$200.75
◆ 285%	if 50% of guests open the minibar	\$158.16
◆ 190%	if 75% of guests open the minibar	\$115.58

Depending on labor rates, savings equal to \$100+ per room per year can be achieved. New hotels and hotels being remodeled should be outfitted with hardware which will allow for a wide variety of merchandise and significant productivity gains.

Managing the Minibar

Control Systems

Minibar managers need to track true sales in order to calculate total shrinkage.

Minibar managers need to track inventory shrinkage in order to make sure that true sales are being accurately recorded and to make sure that inventory is not disappearing.

Minibar managers need to inspect rooms on a random basis to ensure products are being properly displayed and that rooms are being serviced according to established quality control standards.

By implementing these control systems, minibar managers will be able to identify problem areas quickly. Furthermore, employees will understand that their managers care about job performance.

Managing the Minibar

More on disputes

Minibar manufacturers who target guest disputes as a major problem are missing the boat.

At one 417 room hotel we measured disputes for 15 days. They amounted to \$348.44. On a per room per year basis, this amounts to \$20.33. The merchandise costs of such losses are only \$5.49 per room per year. Our conclusion is that large capital investments to prevent disputes are hard to justify.

Automation will not Necessarily Reduce Disputes

One hotel we service is equipped with fully automated minibars. The system works on levers and pads. If an item is removed for more than 60 seconds, a charge is automatically generated and posted to the guest folio.

The irony is that the system generates more disputes than any manual system we have ever implemented. Approximately 25% of all charges are rightfully disputed at check out.

The problem is that many hotel guests like to use the minibar as a refrigerator. Thus, they empty the minibar and replace the items with their own belongings. The system charges the guest for the items removed, and at check out, the guest disputes the charges.