

By The Numbers – Liquor Loss Prevention

By Tyler Cumberford

One good exercise that everyone should be doing in their business is evaluating numbers that affect their bottom line. Recessionary times force many businesses to re-evaluate current business models to increase efficiencies and replace lost revenues with unrealized profits. In the end, there are only two ways one can achieve growth; increase revenues or cut costs.

While most will agree it is impossible for one to cut their way to profitability (increasing sales is always preferred), cutting unnecessary expenses can increase operating cash flows without having to generate new revenues. So in tough times when sales may be lower than you are used to and can't always be counted upon, this exercise can find dollars that otherwise may have been lost.

In the area of loss prevention for restaurants and bars, let's look at the high margin product of liquor. Markups on liquor generally produce great margins and in a high volume establishment this means lots of cash flow. The problem has always been that it is a difficult product to police for shrinkage and theft. In talking to various establishments many do not know their pour cost percentage. Understanding this number is vital to knowing your profit margins, and potentially how much money you are losing. Calculating your theoretical pour cost versus your actual pour cost will determine how much money you are losing to shrinkage.

Consider an establishment that consumed 10 bottles of Smirnoff Vodka in a week where they paid \$25 for the bottle and sold each ounce for \$6. Their POS showed sales of 200 oz of Smirnoff for total revenues of \$1,200.

Example:

Theoretical Pour Cost

26oz bottle of Smirnoff: \$25.00 (Wholesale cost)

Wholesale Cost per oz: \$0.96

Retail Price per oz: \$6.00

Revenue per bottle: \$156.00

Pour Cost: 16% (Cost per bottle/Revenue per Bottle)

It should cost \$0.16 to generate \$1.00.

Actual Pour Cost

10 26oz bottles Smirnoff: \$250.00 (Wholesale Cost)

POS Revenue: \$1,200.00

Actual Pour Cost: 20.8%

In reality it is costing \$0.21 to generate \$1.00

What does this mean in dollars? Due to spillage, shrinkage or simple bartender theft the establishment collected revenue on 200oz of Smirnoff but somehow gave away 60oz in the process. That is an average loss of 6oz per 26oz bottle or a shrinkage rate of 23%. That means for each bottle 6oz is lost without recovering any cost whatsoever.

Wholesale Loss: \$57.60 (60 * \$0.96)

Retail Loss: \$360.00

If we were to take these numbers and multiply them for the year the annual retail loss would be **\$18,720** for the year simply for Smirnoff vodka! The actual wholesale loss would add up to **\$2,995.20** per year.

Since we can now see how the pour costs can add up the lost dollars, what would it mean to this establishment if they could somehow change a few policies to recover some of that lost revenue and reduce their pour cost by reducing the loss from 6oz to 4oz? Let's assume 1oz was recovered by pouring more accurately, and the second oz was recovered by reducing free drinks given away to customers and staff.

First off, they could reduce the number of bottles of Smirnoff they go through in a week by 0.77 bottles (or 20oz) per week. At \$25 per bottle they'd save themselves an expense of **\$19.25** each week or **\$1,001** per year. The reduced retail loss would add up even more and save the company **\$120** per week or **\$6,240** per year!

1oz per bottle saved by pouring more accurate: \$ 500.50 1 year

1oz per bottle saved by that extra drink paid for: \$3,120.00 1 year

Amount recovered from Smirnoff: \$3,620.50 added to bottom line!

By merely tightening up on loss prevention we've been able to increase our bottom line by \$3,620.50 for just one brand of liquor. This was accomplished by not increasing any sales above what our average already was. Now, do this for 6 other popular brands of liquor . . . you can buy me a drink 😊

If you would like some more ideas on how I can help you get these kinds of numbers for you, please feel free to contact me and we can discuss how to institute more liquor loss prevention measures for your business.