



# Market Rent Only (MRO) Comparison Guide

We have compiled this guide comparing a market rent only and a tied agreement based on the model published by the British Beer and Pub Association of a wet-led pub turning over around £8,000 a week.

We have assumed the following:

- Tied agreements can achieve a 50% GP on wet sales
- MRO agreements can achieve a 62.5% GP on wet sales

As you can see from the profit and loss account under the MRO agreement (Annex A), a licensee is around £21,000 PA better off. However, the Pub Co claims that there are benefits of the tie which makes a licensee no worse off than a person running a free of tie agreement. From around 01/06/2016 the Pub Co will have to list these benefits. You will have to decide whether it is worth going down the MRO route or stay with your current agreement or negotiate a better one at your next rent review.

## **Where a MRO agreement may be appropriate**

You run a wet-led community pub where the area is very price-sensitive due lots of competition or due to the demographics of the area.

## **Where a MRO agreement may not be appropriate**

You have a high turnover on food and you are well supported by the Pub Co or the area is not subject to high competition or price sensitivity.

This is why from the 01/06/2016 Energise Accounting will be supplying a comparison in their financial statements so landlords who may qualify for MRO can make an informed decision or negotiate a better deal with the Pub Co when the time comes.

We will have to see how many panel accountants will be doing the same in the future.

Note

“Waste” in the profit and loss and cashflow refers to refuse collection and not beer waste.

You will need around £16,000 in week 1 to transfer from a tied agreement to MRO based on the Red Lion agreement in this guidance, to pay for stock and 3 months rent in advance. So you can see some cash planning will be needed. Both agreements assume there is a £1,500 float.

### **Comparison of overall profits between the Pub Co and the Tennant or Leaseholder on a tied agreement.**

The Machine income is only an estimate for illustration purposes. All other information is based on using the profit and loss (annex A) based on the model supplied by the British Pub Association for tied pubs.

	Pub Co	Publican
Profit share	£ 33,605.00	£ 33,605.00
Machine Income	£ 2,500.00	£ 2,500.00
Beer Tie	£ 42,478.00	
Total Profit	<u>£ 78,583.00</u>	<u>£ 36,105.00</u>

You may have to increase your bond with the pub co if you decide to go down the MRO route. This has not been allowed for in the MRO cashflow.

A reminder to all tenants and leaseholders: this is why you should always use independent advisors from the outset to give you a full picture of your business so you can make informed decisions.

If any licensee would like their own individual comparison of MRO vs a tied agreement, please get in touch.

### **Acknowledgements**

Chris Wright from the pub advisory service for all his help on MRO <http://www.pubs.expert/>

British Beer and Pub Association for their published guidance <http://www.beerandpub.com/>

Red Lion (MRO)  
Profit And Loss Account

			£
Income	Food Sales	38,896	
	Wet Sales	339,820	
		<u>378,716</u>	378,716
Cost of sales	Food Purchases	(16,244)	
	Wet Purchases	(127,432)	
		<u>(143,676)</u>	(143,676)
Gross profit			<u>235,040</u>
Expenses	Bank charges	(2,080)	
	Consumables	(624)	
	Hire of equipment	(416)	
	Insurance - other	(3,120)	
	Other Costs	(7,748)	
	Phone, Marketing and Promo	(5,928)	
	Pro Fees	(3,588)	
	Rates	(13,624)	
	Rent	(54,834)	
	Repairs and maintenance	(6,812)	
	Utilities	(15,860)	
	Wages and salaries	(62,140)	
	Waste	(3,432)	
		<u>(180,206)</u>	(180,206)
Net profit			<u><u>54,834</u></u>

Red Lion (tied)  
Profit And Loss Account

			£
Income	Food	38,896	
	Wet Sales	<u>339,820</u>	
			378,716
Cost of sales	Food Purchases	(16,224)	
	Wet Purchases	<u>(169,910)</u>	
			<u>(186,134)</u>
Gross profit			192,582
Expenses	Bank charges	(2,080)	
	Consumables	(624)	
	Hire of equipment	(416)	
	Insurance - other	(3,120)	
	Other	(7,748)	
	Phone, Marketing and Promo	(5,928)	
	Pro Fees	(3,588)	
	Rates	(13,624)	
	Rent	(33,605)	
	Repairs and maintenance	(6,812)	
	utilities	(15,860)	
	Wages and salaries	(62,140)	
	Waste	<u>(3,432)</u>	
			<u>(158,977)</u>
Net profit			<u><u>33,605</u></u>

## Cash Flow Projection Red Lion (MRO)

Starting date   
 Cash balance alert minimum

	Beginning	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Total	
Cash on hand (beginning of month)	16,000	16,000	11,431	6,070	15,209	10,639	19,778	28,917	24,348	33,487	42,626	38,056	47,195		
<b>CASH RECEIPTS</b>															
Total Cash Sales		31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	378,716
<b>TOTAL CASH RECEIPTS</b>		31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	378,716
<b>Total cash available</b>	16,000	47,560	42,990	37,629	46,768	42,199	51,338	60,477	55,907	65,046	74,185	69,616	78,755		
<b>CASH PAID OUT</b>															
Total Cost Of Sales		11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	11,973	143,676
Total Expenses		10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	125,372
Rent		13,709				13,709			13,709			13,709			54,834
Capital Repayment			14,500												14,500
<b>SUBTOTAL</b>		36,129	36,921	22,421	36,129	22,421	22,421	36,129	22,421	22,421	36,129	22,421	22,421	338,382	
<b>TOTAL CASH PAID OUT</b>		36,129	36,921	22,421	36,129	22,421	22,421	36,129	22,421	22,421	36,129	22,421	22,421	338,382	
<b>Cash on hand (end of month)</b>	16,000	11,431	6,070	15,209	10,639	19,778	28,917	24,348	33,487	42,626	38,056	47,195	56,334		

## Cash Flow Projection Red Lion (Tied)

Starting date   
 Cash balance alert minimum

	Beginning	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Total
Cash on hand (beginning of month)	1,500	1,500	4,300	7,100	9,900	12,700	15,500	18,300	21,100	23,899	26,699	29,499	32,299	
<b>CASH RECEIPTS</b>														
Total Cash Sales		31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	378,716
<b>TOTAL CASH RECEIPTS</b>		31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	31,560	378,716
<b>Total cash available</b>	1,500	33,060	35,860	38,660	41,459	44,259	47,059	49,859	52,659	55,459	58,259	61,059	63,859	
<b>CASH PAID OUT</b>														
Total Cost Of Sales		15,512	15,512	15,512	15,512	15,512	15,512	15,512	15,512	15,512	15,512	15,512	15,506	186,134
Total Expenses		10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	10,448	125,372
Rent		2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	33,605
<b>SUBTOTAL</b>		28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,754	345,111
<b>TOTAL CASH PAID OUT</b>		28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,760	28,754	345,111
<b>Cash on hand (end of month)</b>	1,500	4,300	7,100	9,900	12,700	15,500	18,300	21,100	23,899	26,699	29,499	32,299	35,105	