

Energise Accounting

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The Pub Trade



Introduction

There is much doom and gloom surrounding the pub trade. However, a well run pub can be quite profitable and supply a good quality of life. Ask yourself the following questions.

Are you a happy, out going, chatty sort of person who holds very few strong opinions?

Pub drinkers don't like to see miserable, retiring people who won't give them a conversation whilst they're having their pint, likewise they don't want your opinions rammed down their throats all the time either.

Are you strong willed and can you cope under pressure, which may come from many directions all at once?

Pubs can get very busy very quickly, your change gets short, staff don't pull their weight, drunks arrive from nowhere, the police pop in out of the blue, the kitchen can't cope and the real ale is almost certain to run out just when all this is going on.

Do you love late nights followed by early mornings?

Pubs are not like shops; you don't just turn the key, turn the lights on, put the till in and open up. Often you won't go to bed until the small hours and even then you may not unwind enough to go to sleep for hours, then it's up early to see the delivery in, let the cleaner in, dash to the cash and carry or just let the dog out!

Have you got confidence in yourself?

When you run a pub you suddenly become responsible for the safety and comfort of hundreds of people, you have to be firm and confident to deal with this, all eyes are on you, at all times and your confidence will be tested to the limits.

Are you prepared to live in a bar and not in a pub?

There is an old saying in the trade that your bar is your front room, and it's true, most of your day will be spent in it. And most of that time, if you're a good landlord, will be spent chatting to your customers. You will also find that even when your family and friends visit they will spend most of their time in your bar. Very rarely does anybody get to see your real front room.

If you have looked at any of the questions above and thought I don't like the idea of that, do not proceed any further.

Trading styles of pubs

Community

The community pub can be found in high residential areas such as housing estates. This type of pub will have a focus on big screen sports, pub teams, regular entertainment and will normally be predominately wet led. However, most community pubs will have a value food offer, accounting for up to 30- 35% of its total trade in some circumstances.

Destination pubs

The destination pub can be found in rural areas or small villages. The main source of income is normally food, accounting for up to 70% of the total trade. The type of landlord required must have very strong catering skills. Although all pubs must concentrate on customer service it is vital that anyone taking on this type of pub has a very keen eye for detail. Normally the people best suited to these types of pubs are former chefs or pub managers experienced in running pubs in this sector.

Town Centre

These types of pubs as the name suggests can be found in town centres and can be very fast paced offering food and drinks in the day to shoppers and visitors, and at night come alive for young people and students. Food will normally be around 40% of the total trade commonly sold from 12pm to around 6pm Monday to Saturday. The weekend is normally very busy and any potential landlord can expect to work a 14 to 16 hour day.

Types of pubs and agreements

Freehold pubs

This type of pub is normally owned by the landlord and is totally free of tie. A freehold pub will nearly always make higher gross profits than a pub that is tied .

There are huge benefits of owning a freehold pub as the cost of your wet products will be up to 50% cheaper than a tenancy or leasehold agreement, and the mortgage repayment in some circumstances can be lower than the rent charged by the Pub Co, however, you will require much more capital to buy a freehold pub.

Lease agreements

Lease agreements can be fully tied or part tied. The pub is owned by the Pub Co or Brewery and the landlord will have to pay a weekly rent as well as being tied to the Pub Co or brewery for the supply of products, which will be sold to the landlord at a premium.

A lease agreement can be assignable which means the landlord can sell it on at a profit for all his or her hard work. Non assignable means the agreement can not be sold on and the landlord has an obligation to run the business for the entire agreement.

Leasehold agreements tend to be of longer term, normally 10 years or more. It is almost impossible to compete on price on the wet side of the business as you will have to buy all your products from the Pub Co at inflated prices. Although some Pub Cos will give you the option to buy out of certain ties.

The benefit of a leasehold agreement is that you tend to need less capital in order to enter the pub trade.

Tenancy agreements

Tenancy agreements are pretty much the same as lease agreements however, they are generally for shorter periods, normally 3,5 or 10 years and in most circumstances are non assignable. Another thing with tenancy agreements is that the Brewery or Pub Co will state the rent for year 1, year 2 etc within the agreement.

Fully repairing lease or tenancy agreements

This is pretty much as the name suggests. It means that the tenant is responsible for all the repairs to the building if they have signed a full repairing lease.

In most cases with tenancy agreements it is up to the Brewery or Pub Co to do the repairs.

The Brewery or Pub Co are normally never responsible for repairs to fixtures and fittings, and with some agreements you will own the cellar cooling equipment which makes you responsible for the servicing and repairing of this equipment.

Guide rent

This is the amount of rent the Brewery or Pub Co would like to achieve for a particular pub. However, this does not mean this is the amount of rent that should be offered. You will often see in the particulars of a pub what the Pub Co or Brewery expect the pub to turn over. As a word of warning, this is normally well overstated and this is how they justify the guide rent.

You have found your dream pub what next?

Before rushing into anything, read the particulars of the pub to make sure you can afford it. Now for the next two weeks go and visit the pub on different nights of the week to see what is going on. Do not tell anyone you are viewing the pub, just sit and have a few drinks and try and blend in. This will also help you with your business plan later on down the line.

Still interested?

Now it is time to phone the area manager and express your interest. He or she will normally send you an application form and ask you to prepare a business plan. It is a good idea to get a licensed trade accountant to help you with this as any mistakes could be costly. Once you have appointed your accountant he or she will deal with all the financial stuff and just ask you to fill in some forms.

When the accountant has finished, he/she will come up with a rent offer for the pub based on the facts they have gathered or they may say to leave this one alone and look for a more suitable pub.

If you decide to take the pub, your accountant will go through all the main points of your contract with you, however, it is still a good idea to get a solicitor to have a look through your agreement and make sure you understand what you are signing.

Most Pub Cos and Breweries have a 6 month cooling off period so at any point within that 6 months you can terminate the agreement and walk away after a notice period.

The Business Plan

Quite often a business plan is forgotten about once it has been submitted to the Area Manager. The business plan is a live document and constantly needs updating. It is used to set your monthly and annual budgets - ignore this at your peril.

Stocktaking

Stocktaking should be done at regular intervals in order to make sure you are achieving the correct margins and that your staff are not stealing or passing off drinks. Stocktaking is also required in order to produce accounts.

Accounting

It is imperative that you are aware of your financial position at all times in order to know if things are heading on the right track or things are going off course. This way we will be in a position to address any potential issues and get ourselves back up to speed. After all you are running a business and expect to get some rewards for all your hard work

The Area Business Manager (ABM)

A good ABM can be of great help to licensees, keeping you in the loop of industry changes, up and coming promotions the Pub Co or Brewery can offer, marketing techniques and so on. However they must be treated with a pinch of salt. The bottom line is, however nice he or she seems, they act for the company and you pay for the privilege. This is why Energise remains totally independent from any Pub Co and we will give our clients the best advice at all times.

Another key thing to remember is that the ABM will want you to sign on the dotted line as soon as possible. PLEASE, PLEASE do not rush and do this until all your issues have been sorted out and any offers made are in writing. Your accountant will also act as your business advisor so if you have any concerns get in touch straight away.

Maintaining high profits

Introduction

For this section we will be concentrating on leaseholders and tenants, however the most of the rules still apply to freeholders.

When the agreement is finalised with the Pub Co or Brewery, you must remember the cost of an 11 gallon barrel will be at least £60.00 more than what say a freeholder would pay. And quite a bit higher on bottled beers, normally nearly twice the price. However, we must still try to maintain an overall Gross Profit of 50% on wet sales or our business could fail.

Gross profit

Here are some guidelines to gross profits :

- Draught beer and cider between 40 and 45% GP
- Bottled Beer 50% GP
- Spirits and wine between 65 and 70% GP
- Soft drinks between 70 and 80% GP

The margins are dependant on where you trade in the country, for example in the Midlands you would keep to the lower end of the GP%. However, in the south you would aim for the higher end as things like business rates and waste collection can be more expensive.

Here are some tips and tricks to increase your GP even further:

- For example, a pint of carling is £3.70. You would sell half a Carling for £1.90
- A bottle of wine, say you sell it for £15.00
- A 250ml glass of wine would be £6.00 (£3.00 per bottle extra)
- A 125ml glass of wine would be £3.25 (£4.50 per bottle extra)

Post mix is a great way of up-selling.

- For your regular coke you charge say £1.60 for a half pint
- Spirit (medium dash 6oz) you charge £1.20
- Spirit (small dash 3oz) you charge £0.65

Another way of up-selling is, for example, a dash of cordial is £0.40 if you sell half a orange squash for £1.00

Add two or three pieces of ice to each drink and increase your margins even more.

When a customer orders a shandy, you always charge the same price as a pint, again increasing your margins.

Glassware

What you don't want when you take over your pub is glasses with marked out guidelines on them as staff tend to over pour this and will have a significant effect on your profit margins

If you have a free flow system in your pub, buy pint size stamped glasses and the same for halves.

If your system is metered you buy oversized glasses however, never have a mixture of both.

Staff often get confused about the difference between a small dash and a medium dash. This is where your glasses help you.

Buy yourself some:

- 250ml wine glasses
- 125ml wine glasses
- 6oz slim jims for medium dashes with sprits
- 3oz sprit glasses for small dashes with sprits.

This way your staff cannot over pour and it will save you a fortune in the long term as glassware is not too expensive.

Optics

Use optics on all of your products, even for cordials and wines. Try to avoid using any type of freeflow measuring glass as your staff will overpour in busy periods costing you money.

Wine

Invest in a wine chiller that you can attach to the wall so you can attach an optic. This again will pay for itself as it will stop staff over pouring. They are not expensive and the pub you take over may already have one so use it.

Cask ales

Cask ales are now becoming extremely popular, however, they can be a source of waste and can take a bit more time keeping the ale in perfect condition, so I would work out the selling price slightly different for this type of product.

A 9 gallon barrel holds 72 pints so the selling price would normally be worked like this assuming it is £3.70 per pint - $72 \times £3.70 = £266.40$ for 9 gallons

However, a better way to work it out would be $£266.40/67$ which this means you would charge £3.97 per pint for the extra work involved.

It is a good idea to buy some Race Real Ale Cask Ventilators, a device that extends the life of the beer once vented by 3-6 days keeping it in prime condition. It is screwed into the shive once the cask has been broached and left there until the cask is finished. A non return valve keeps the CO2 generated by the secondary fermentation of the beer in the cask. Air is only drawn in when the hand pull is used.

I can supply customers with these upon request.

Understanding barrelage

One beer barrel is equal to 36 gallons. Many Breweries and Pub Cos use composite beer barrels in order to calculate a pubs barrelage. Here are some examples:

1 barrel is equal to 36 gallons of draught beer or cider

1 barrel is equal to 163.6 litres of spirits

Pub Cos will also use the calculation on bottled beer etc.

You will also normally receive discounts once you have reached the required target which can be found within your agreement.

Tills

It is a good idea to have an itemised till. This helps in all sorts of ways, for example it will identify any gains and losses on a particular product in conjunction with my stocktaking software and this way we identify any unusual discrepancies and get them put right.

If you use Energise Accounting for your stocktaking and accounting we can advise you on a low cost state of the art system specially designed for the pub and restaurant trade and we will configure and supply training for a small fee.

Cash drawers

It is a good idea to buy a spare cash draw and at periodic times of the day swap them over and do a till check. Never do this at the same time each day and this will let your staff know you run a tight ship.

The safe

Never give your staff access to the safe. It is a sure fast way of losing money. Always make sure the tills are well stocked with change in your absence or leave a small float.

Machine income

With most tenancy and leasehold agreements, the machine income is split 50/50 between you and the Pub Co after the machine rental costs.

Staff meetings

Have a staff meeting once a month and go over any concerns they may have and it is also a good time to do some training and go through the stock sheet again. This re-enforces you are on the ball.

Training

Now you have implemented all the changes above it will be time to train your staff. Don't assume they will just work it all out, the previous person who was running the pub may not of had such strong controls.

The changes mentioned above will not cost you too much money and if done correctly could save you quite a bit of money.