SPORTS COMPLEX BAR PERCENTAGE PROFIT MARGIN REPORT

AGENDA ITEM No. 12

MEETING: **RECREATION COMMITTEE**

DATE: **23RD FEBRUARY 2022**

REPORT BY: **HEAD OF LEISURE AND EVENTS, FINANCE MANAGER AND SPORTS COMPLEX MANAGER**

1.0 Purpose of the Report

1.1 The purpose of the report is to provide Members with information on current profit margins and pricing at the Oak Leaf Sports Complex bar and to set out options for and the impact of increasing the percentage profit margin targets.

2.0 Background to the Report

2.1 At the Recreation Committee Meeting on 12th January 2022, a motion was put forward requesting that "*this Committee agrees to a review of the profit sales percentages for drinks at the Oakleaf Sports Complex, for implementation in time for the new financial year'.*

2.2 It was resolved at the meeting that *"Officers prepare a report regarding the profit sales percentages for drinks at the Oakleaf Sports Complex for consideration at the next meeting of the Recreation Committee".*

2.3 Currently the Council's percentage profit margins for the bar are set at 55% for draft beers and ciders and soft drinks, 50% for bottled beers and ciders and wine, and 75% for spirits.

2.4 Bar prices were last reviewed by the Council pre-pandemic, although buy-in costs have remained relatively stable in the intervening period and most target profit margins are still being achieved.

2.5 In previous years the Council have stipulated that the price of soft drinks should remain substantially lower than alcoholic drinks to discourage customers from drink driving. This has resulted in variations in the actual prices charged and the profit margins achieved on soft drinks e.g. draught cola is currently sold at a lower price than the 55% target would require to keep prices lower than draft beers. Some of the soft drink purchase buy-in costs are also now higher as a result of the Government sugar tax levy.

2.6 The current bar supplies contract for draft drinks products is due to expire in Autumn 2022. Under this contract the draft alcoholic product prices have remained relatively static with only an annual inflationary increase. Spirits, minerals, and wines are not covered by the static prices as the quantities sold are insufficient to hold prices, and as a result of this the cost prices of these products may vary each time they are purchased in line with the general drinks prices.

3.0 Current Situation

3.1 The Councils' independent stock taker was approached for guidance as to what rate other bars and restaurants set their percentage profit margins at, and a comparison of the Oak Leaf Sports Complex bar with four other bar and restaurant facilities is highlighted in the table below:

Serial	Establishment	Draught	Spirits	Minerals	Wines
1	Oak Leaf Sports Complex	55%	75%	55%	50%
2	4 Star Hotel	60%	80%	76%	68%
3	City Centre Restaurant	62%	84%	61%	61%
4	Brewery Tied Pub	50%	75%	78%	43%
5	Local High-End Pub/Restaurant	63%	75%	68%	69%

3.2 Other than on soft drinks, the Council's target profit margins compare favourably with other brewery tied public houses.

3.3 The stock taker has also confirmed that the Council's contract with the current wholesaler is very competitive, and not many establishments have been able to maintain the buying in price as low as the sports complex.

3.4 The stock taker made the following comments on the current pricing at the Oak Leaf Sports Complex and recommendations for potential changes:

- *The Oak Leaf is very much a draught and soft drinks led outlet these are the two areas that you need to focus on regarding any future price increases. For example, you could put a shot of spirits up by 20p, but it will have very little impact on your overall gross profit.*
- *The soft drinks are currently 12.5% VAT, but this increases to 20% at the end of March. This means that any price increase will need to take this into account e.g. by going high now and not increasing again in April.*
- *In summary I would say that a 70% GP is not realistic and that a 55 to 57% profit margin is more achievable. To do this will require:*
    - *Better prices from the wholesaler (Matthew Clark).*
    - *Increasing your selling prices by 20p a pint or more for the premium products.*
    - *Reducing the choice - remove Bud Light as it is competing against Stella 4% and one of the beers - either Boddingtons or Goose Island. This will also save on line cleaning costs.*
    - *I would increase a half pint of post mix from £1.00 to £1.20. It has been at £1 for a long time. This would stay the same after the VAT rise in April.*
    - *Increase all other products by 10p a unit – e.g.: shot of Vodka, bottle of Newcastle Brown, bottle of J2O.*

3.5 Prices at one of the towns other establishments and a national low-price chain were also reviewed and the findings are set out in the table below. It should be noted that the local establishment is in a more convenient location for residential housing:

Item	Local Establishment	National low-price chain	Oakleaf
4% Lager	£2.80	£2.49	£2.50
Premium Lager	£3.85	£3.19	£3.50
Cider	£3.10	£2.79 other brands available for less	£2.65
Pepsi	£2.30	£1.69	£2.00
Standard Spirits	£2.65	£2.19 includes mixer	£2.20

3.6 Consideration should also be given to the following factors. This list is not exhaustive, but it all has an impact on the information in this report and any decisions around pricing and profit margins:-

- The location of the sports complex and demographic of the user.
- The Chancellor's Budget is due, and this may impact on the prices as well as percentage profit margins.
- The current contract for draught bar products expires in the autumn.
- The annual increase from the wholesaler in relation to product costs is due and currently unknown. These increases will be implemented at the start of the next financial year (April).
- The impact that increasing percentage profit margins may have on the users of the bar when households' bills are rising. This will impact upon the disposable income for socialising and leisure activities.
- The effect of the pandemic on the ability to socialise, meet people and take part in recreational activities has impacted on mental health. Increasing the percentage profit and subsequently prices will remove the ability for users to frequent the establishment to fulfil their social needs.
- Users of sporting activities at both the sports and golf complex often visit the bar for refreshments and changing the pricing mechanism may deter this type of secondary spend.
- Any increases in wet bar prices may adversely affect catering income at the facility as users visit more convenient establishments closer to their home.
- More than 400 pubs closed in England and Wales over the course of 2021, at a rate of roughly 37 per month being demolished or converted for other uses.

3.7 A cross selection of bar products currently sold at the sport complex bar has been taken from the product range with analysis of the current selling price, current buy in costs, current profit margins, current target profit margins, what the selling price should be at the current approved target profit margin %, and analysis of the impact of increasing the percentage target margin at various levels from 1% through to a 10% increase. This information is attached at Appendix 1.

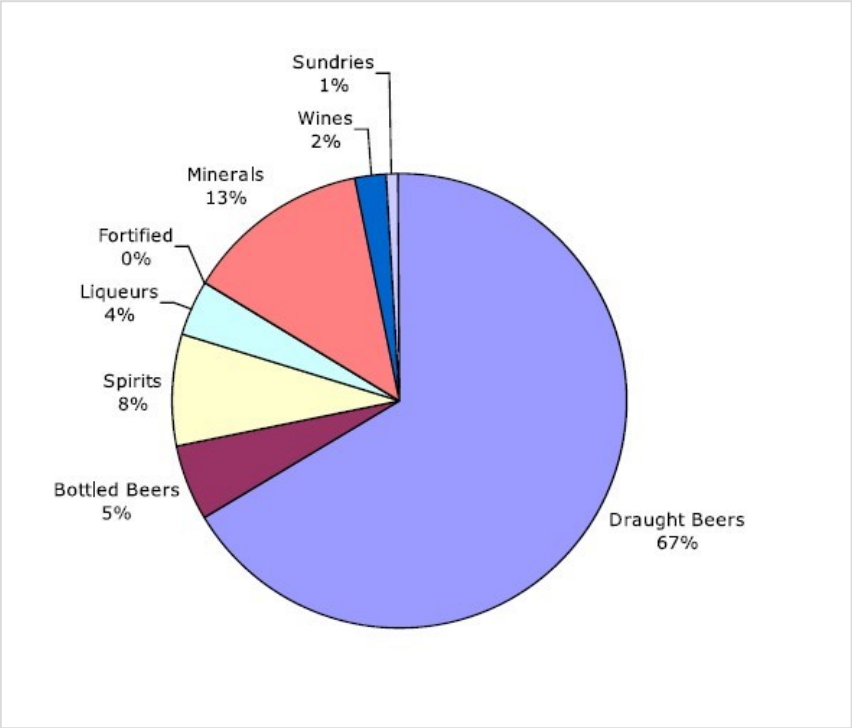
3.8 For ease of reference, set out below is a selection of a number of the higher selling products along with the relevant data identified above:-

Product	Measure	Current Selling Price	Current % Target	Current Target Price	1%	2.5%	5%	7.5%	10%
Stella 4%	Pint	£2.50	55%	£2.54	£2.60	£2.69	£2.86	£3.05	£3.26
Boddingtons	Pint	£2.30	55%	£2.38	£2.43	£2.52	£2.68	£2.86	£3.06
Stella Cidre	Pint	£2.65	55%	£2.96	£3.02	£3.13	£3.33	£3.55	£3.80
Pepsi	Pint	£2.00	55%	£2.26	£2.31	£2.39	£2.54	£2.71	£2.90
Lemonade	Pint	£1.60	55%	£1.56	£1.59	£1.65	£1.75	£1.87	£2.00
J20	Bottle	£1.95	55%	£2.13	£2.18	£2.25	£2.40	£2.55	£2.74
Magners Cider	Bottle	£3.70	50%	£3.75	£3.83	£3.95	£4.17	£4.41	£4.69
Vodka	25ml	£2.20	75%	£1.68	£1.75	£1.86	£2.10	£2.40	£2.80
Standard whisky	25ml	£2.20	75%	£2.34	£2.43	£2.60	£2.92	£3.34	£3.89
Zinfandel	Mini bottle	£3.35	50%	£3.37	£3.44	£3.55	£3.74	£3.96	£4.21

3.9 It should be noted that while a number of the products do not currently achieve the target percentage profit margins, these are generally products that are sold in low quantities, and therefore the main factor for consideration is the selling price. Setting prices at the percentage profit margin in some cases would mean the product would potentially not sell.

3.10 A key objective is to ensure the product range is kept in line with competitors' prices. For example brandy is a product that is sold infrequently, and to achieve the 75% profit margin target, the product would have to retail at £5.59 (the current selling price is £3.00). The reverse of this is vodka which due to the higher consumption and increased quantities purchased from the supplier enables the buying price to be more competitive and as a result an 81% profit is achieved when selling at the current price of £2.20 (% gross profit target price £1.78). Similarly, the current selling price for Prosecco is £15.00. However to meet the 50% gross profit target it would have to be sold at £17.74. Again this product is rarely sold, and the purchase price varies from one order to another.

3.11 The chart below illustrates the percentage volume of products sold over the recent months.



3.12 A further report will need to be brought to the Recreation Committee in April or June on bar prices following the Chancellor's Budget and the notification of the annual supplier increase highlighting the impact on the bar prices.

3.13 The Council is also in the final year of the bar supplies contract with the current supplier and officers are currently engaging the services of Durham County Council to undertake a procurement exercise for a new contract ahead of the current contract ending.

3.14 If the supplier changes when the Council enters into a new bar supplies contract later in 2022 this may impact on the products offered and the pricing. Even if the same company are successful and retained, prices may change depending upon the terms of the new contract.

3.15 The Oak Leaf Sports Complex has slowly been returning to normal trading after the many lockdowns and restrictions over the last two years due to the COVID-19 pandemic.

3.16 Trade has increased at an unexpected rate over the last two months despite the Omicron variant and the "Plan B" restrictions. Function bookings and bar usage are increasing week on week as customers are aware of the competitive prices currently charged by the Oakleaf Sports Complex.

4.0 Matters for Consideration

4.1 While increasing the current target percentage profit margins could help to increase bar income, consideration needs to be given to the following factors:

- Location of the Sports Complex
- Demographic of the user of the facility
- The forthcoming Chancellor's Budget
- The fact that the current bar supplies contract expires in Autumn 2022
- The annual brewery price increase due in April
- Increasing cost of living pressures for users
- Social opportunities for users with limited disposable income
- Secondary spend after undertaking sporting activities at both the Sports and Golf Complex
- The potential impact on catering income
- The number of establishments closing down across the country

4.2 It may be more appropriate to defer implementing any changes to bar prices until after the Spring Budget and notification of the annual supplier price increase or until the new bar supplies contract has been agreed.

5.0 Impact for Great Aycliffe Town Council

5.1 If prices are increased significantly there is a potential risk that less users would use the facility which may reduce the overall income.

5.2 Equally, increasing the percentage profit margin may provide additional revenue for the Council if the current number of users continue to frequent the establishment or if trade continues to increase.

6.0 Policy implications

6.1 Consideration of this report will assist the Town Council with the delivery of the following Strategic Aims:

No. 2 To manage the Council's finances and assets in a responsible manner.
No. 3 To provide accessible, affordable leisure facilities and opportunities.

7.0 Staffing implications

7.1 Current staffing levels at the sports complex bar have been set based on current opening hours and usage levels. A review of staffing has recently been completed and agreed by the Personnel Sub Committee.

8.0 Financial implications

8.1 To increase percentage profit margins before knowing the full impact of supplier price increases and the Chancellors Spring Budget would potentially give rise to more than one price increase to the bar user over a short period of time.

8.2 It may be more appropriate to defer reviewing pricing and target profit margins until after the annual supplier price increase and Spring Budget or even to wait until the new brewery contract has been awarded.

9.0 Crime and Disorder Implications

9.1 None.

10.0 Equal Opportunities Implications

10.1 None.

11.0 Environmental and Climate Change Implications

11.1 None.

12.0 Risk Assessment

12.1 Any proposed change to the Council's prices charged presents a small but inevitable risk to the Council's finances in terms of the impact that the increase or decrease may have on demand and usage levels.

13.0 General Data Protection Regulations (GDPR)

13.1 Is any personal or sensitive data required for this proposal which may have any implications for GDPR? **NO**

14.0 Recommendations

14.1 It is recommended that Members:

i) Consider the report.

ii) Advise Officers of any required changes to the Council's target percentage gross profit margins or current bar prices which they wish to see implemented in the short term.

iii) Consider whether it may be more appropriate to defer the review of bar pricing and target profit margins until the new brewery contract has been awarded later in the year or following the Chancellor's Budget and notification of the annual price increases.

Responsible Officers

Judith Thexton	**Tracey Woodhead**	**Andrew Clark**
Head of Leisure and Events	**Finance Manager**	**Sports Complex Manager**