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Study to evaluate the cost of food preparation and service activities in the Hospitality Sector – May 2009

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1. INTRODUCTION

1.1. BACKGROUND AND OBJECTIVES OF THIS STUDY

This study was conducted on behalf of Fáilte Ireland for the purpose of analysing and evaluating the cost of food preparation and service activities in the hotel and restaurant sector.

Fáilte Ireland is the National Tourism Development Authority, established by the Irish Government in May 2003 to guide and promote the evolution of tourism as a leading indigenous component of the Irish economy. To this end, Fáilte Ireland, working in partnership with the tourism industry, provides an extensive range of support services and business solutions designed specifically to develop and sustain Ireland as a high-quality and competitive tourism destination.

Dining out in restaurants and hotels is an integral part of the tourism experience. In recent years, visitor surveys have revealed some dissatisfaction with the perceived value for money of the food offering in Ireland. Although this issue has surfaced occasionally in the national media, little empirical evidence exists around food production costs. Until now there has been very limited publicly available research in relation to the costs of food production and service. This study develops insights into the costs associated with food preparation and service activities in the hospitality sector which will facilitate evidence based debate on the subject.

The study focuses on the “production function” and related issues that characterise meal preparation and food service operations in the hotel and restaurant sector. There are three parts to the study:

1. A quantified analysis of the correlation between a unit of output and the input costs associated with that unit of output. The costs associated with State imposed regulations are also identified within the study.
2. Analysis of cost behaviour in response to changes in volume, demand or seasonality. This involves an examination of fixed

costs, semi-fixed costs and variable costs to assess the degree of cost control within the sector.

3. International benchmarking of the costs identified in the study against important tourism source and destination markets.

The study is based in the mid-price hospitality sector, encompassing restaurants and hotel based restaurants as they are the types of establishments most often frequented by tourists when eating out.

1.2. METHODOLOGY

The research for the study was carried out in the form of a comprehensive questionnaire which was discussed in detail with a sample of 26 restaurants (14 stand-alone and 12 in hotels). In addition a shorter form questionnaire was sent to a larger sample of restaurants to get a wider base for the quantitative analysis.

The hotels and stand-alone restaurants were selected to give a wide geographic mix, with both urban and rural locations represented. In total 9 participants were from Dublin with the remainder from counties Cork, Galway, Kerry, Mayo, Waterford, Westmeath and Sligo.

Figure 1.1: Research Contributors

County	Stand-Alone Restaurants	Restaurants Attached to a Hotel	Combined Total
Dublin	6	3	9
Cork	2	2	4
Galway	1	-	1
Waterford	1	4	5
Kerry	1	1	2
Mayo & Sligo	3	-	3
Westmeath & Offaly	-	2	2
Total	14	12	26

In conducting the survey it was observed that on average hotels were better placed to respond to the survey than restaurants. The factors influencing this included: better access to management information systems/IT; the presence of a full-time accountant; and, dedicated restaurant management. In general a larger portion of the stand-alone restaurants were owner managed where the time demands on the proprietor are greater.

In addition to the valuable information arising from the case studies, we applied our industry knowledge to analyse the findings.

In relation to the international benchmarking element of the study, we conducted desk based research on a number of reports, articles and statistics across the key feeder markets for the Irish tourist industry to help place the study in a wider context.

1.3. REPORT STRUCTURE

This report is structured in a manner designed to set out the analysis undertaken and the consequent findings and recommendations in a logical and accessible manner.

1.4. ACKNOWLEDGEMENT

We would like to record our appreciation to Fáilte Ireland, the Irish Hotels Federation (“IHF”), and the Restaurant Association of Ireland (“RAI”) for their support in the production of this report. The RAI and the IHF’s support and buy-in was invaluable as they allowed us access to their members and provided feedback on early versions of the case study questionnaire. We offer special thanks to the restaurateurs and hoteliers who worked with us to provide an insight into the sector.

2. EXECUTIVE SUMMARY

2.1. INTRODUCTION

The results of this study are based on interviews and questionnaires with a spread of “mid-priced” restaurants and hotel restaurants throughout the country.

Restaurants and hotel restaurants operate within a slightly different environment. Hotel based restaurants can benefit from greater economies of scale with greater volumes of business (due to captive audience requiring more meal periods and often the presence of adjoining banquet facilities). In addition, hotel restaurants have dedicated accounts and purchasing departments resulting in better support and purchase power. On the other hand, stand-alone restaurants tend to operate as smaller businesses, typically with the hands on day-to-day involvement of the proprietor.

2.2. INPUT COSTS

This report details the principal costs which are encountered by Irish restaurants and examines the relationship between these costs and the final product. These costs are influenced by regulator requirements, cost behaviour and cost controls.

The findings of this study demonstrate that the standard meal commands a price which is directly influenced by the input costs that are required to deliver the meal. We summarise in Figure 2.1 the component inputs as a percentage of the selling price of a standard meal.

Figure 2.1: Cost Components of the Standard Meal

Component	Percentage of Sales Price Incl VAT	Percentage of Sales Price Excl VAT
Raw Materials	30.8%	37.0%
Labour Costs	25.2%	30.4%
Consumables	2.7%	3.3%
Fixed Costs	11.3%	13.6%
VAT	<u>16.9%</u>	---
	86.9%	84.3%
Available for Rent / Interest / Capex / Return	<u>13.1%</u>	<u>15.7%</u>
Sales Price	100.0%	100.0%

2.2.1. RAW MATERIALS (FOOD AND BEVERAGE INPUTS) 30.8% INCL VAT

The restaurant sector prides itself on the quality of its product, which is reflected through the quality of material inputs. The vast majority of restaurants use fresh, premium foods rather than less expensive lower quality options. Suppliers are selected based on a range of factors including assurance over quality, their source and continuity of supply and price.

2.2.2. LABOUR COSTS 25.2% INCL VAT

Labour costs account for a considerable portion of the overall cost structure within a restaurant (30.4% of revenue ex VAT across all restaurants, with a figure of 29.4% for hotel restaurants and 31.2% for stand-alone sites). Labour is largely a fixed cost due to the minimum staffing requirement to cook and serve a meal. The cost of labour is governed by a large amount of legislation intended to protect the rights of employees. In addition restaurants are regulated by JLC’s who determine minimum remuneration and working conditions for the sector. The JLC regulations have set rates of pay for the sector above the national minimum wage.

2.2.3. UTILITIES, FIXED AND OVERHEAD COSTS 14.0% INCL VAT

The other significant costs borne by the restaurant sector are consumable variable costs, utility costs and administrative overheads (such as repairs, maintenance, insurance and sales and marketing). Utility costs in particular (i.e. electricity/gas, local authority rates and water charges) have grown faster than general inflation.

2.2.4. VAT 16.9% INCL VAT

The beverage element of a meal is impacted by high VAT rates (21.5%) and the highest excise rate in Europe (€2.46 on a standard bottle of wine). The food component of the meal attracts 13.5% VAT.

2.2.5. TOTAL INPUTS 86.9%

The balance of 13.1% is available to the restaurateur to fund property costs (either owned or rented), capital expenditure on equipment and fittings, taxation and provide a return. This demonstrates that, in general, the returns within the industry are relatively modest. In this study there was no evidence of excessive profits being generated. Furthermore it was found that the price of a meal is ultimately determined by the cost of the individual component inputs.

Irish restaurants operate in a highly competitive market, cost volatility and decrease in demand can quickly erode any business returns.

2.3. COST CONTROL AND MANAGEMENT

The results of the research indicate that 47% of the cost of a standard meal (incl VAT) is either fixed or semi-fixed (before taking into account property related costs and capital expenditure which are also fixed).

The restaurant sector is therefore very vulnerable to fluctuations in demand as this fixed/semi-fixed cost needs to be spread over as many covers/customers as possible. All restaurants experience variations of business within a week, with peak demand commonly experienced over the weekend. Restaurants also experience seasonal demand

which differs from location to location. Busier periods subsidise the quieter periods and taken together they give the averages shown in this report.

2.4. REGULATORY BURDEN

Contributors to this research highlighted that there has been an increase in recent years in the regulatory burden they encounter. Restaurants have embraced the stringent food hygiene requirements and there is a very high degree of compliance within the industry. However, according to the majority of respondents the increased regulatory burden has had an overall negative bearing on their businesses particularly by increasing staffing requirements and a general cost impositions.

2.5. THE INTERNATIONAL CONTEXT

Irish restaurants are subject to input costs which are higher than many of our neighbouring countries, across all cost headings. Some key variances included:

- Higher VAT charged on alcoholic products and well above the rates observed in the benchmark countries.
- Reduced VAT rates applicable to food products.
- Higher food and beverage costs than the EU average and consistently the highest such costs across the reference countries examined.
- The highest excise duty on alcoholic products in the EU which drives our beverage cost base well above the average.
- Higher labour and energy costs which again drives up our cost base.

3. INPUT COSTS

3.1. INTRODUCTION

The price of a meal is commonly associated in the customers mind with the cost of the food used to create the meal. The natural, but mistaken assumption is that the difference between the food cost and the menu cost is mostly profit. In the following Section, we will set out the costs of producing and serving a meal in a mid-price restaurant as they are the types of establishments most often frequented by tourists when eating out.

Costs in the food production and service delivery in the sector can be broadly categorised as follows:

- Raw Materials – Direct Food and Beverage Costs
- Labour Costs
- Utility Costs
- Fixed and Overhead Costs
- VAT

As restaurants may be part of a larger development (e.g. hotel restaurants), owned or leased, financed or debt free, we have adopted the approach to establish how much is available after the “normal” costs associated with the restaurant function as categorised above are disbursed.

The balance of revenue, after deduction of the above mentioned costs, is available to fund the property costs (either owned or rented), capital expenditure on equipment and fittings, taxation and provide the proprietor’s return.

We now address each cost category in turn combining the study’s research findings with our own industry knowledge.

3.2. RAW MATERIALS

The raw materials for a meal comprise the direct food and beverage inputs. We examine each of these below.

3.2.1. FOOD COSTS

The foundation of the tourism industry in Ireland is in delivering a quality product by professional friendly and attentive staff. All research demonstrates that guests are satisfied with the quality of the food offering provided by the hospitality sector. This quality is derived from quality product used by skilled kitchens and served professionally.

One of the frequent findings from our study was the sector’s commitment to quality product. Fresh, premium product is used in the vast majority of restaurants. Owners, managers and chefs recognise the merit of using quality products from reliable sources. Most respondents indicated that they could get alternative food produce (such as frozen or preserved product) at a lower price but opted not to do so in the interest of quality assurance. Where price is prohibitive for a product, the restaurant’s preference is to drop the item from the menu, rather than compromise on quality to source a cheaper product.

The majority of respondents indicated that they source products from a supplier that gives them assurance over quality, continuity and source of supply.

The main meal ingredients of beef, chicken and fish were selected for particular discussion during the study.

Sirloin of beef and beef fillet are the prime cuts used by the majority of restaurants. Most respondents identified the importance of their beef offering to the overall reputation of their establishment.

Chicken is predominantly fresh Irish product. Most restaurants studied use premium chicken breast rather than whole chickens. A number of establishments have made a feature of their chicken

offering, using organic or corn fed chicken as their raw material and describing it as such on the menu.

Fresh fish is sourced from a small number of specialist suppliers in most instances. Maintaining stock of a selection of fresh fish is a challenge for restaurants and regular deliveries of fresh fish adds to the cost of the product.

Pork, lamb, other meats, dairy produce, bakery, desserts, fruit and vegetables and dry goods are the other major foodstuff categories.

While there are large, nationwide foodservice suppliers who can offer a complete range of foodstuffs, operators retain their individualism by sourcing items from selected speciality suppliers.

Prepared foods are widely available, with the majority of restaurants using ready prepared vegetables. These products are supplied washed and prepared to specification, usually vacuum sealed. The freshness is preserved and kitchen hygiene is enhanced, however, the cost of the product increases. However, the burden of compliance with hygiene and safety standards is partly moved from the restaurant to the supplier.

A food outlet with low volume menu items such as duck, venison, fillet steak, may need to purchase this in a prepared, vacuum packed state in order to allow a longer shelf life and minimise wastage.

We asked our sample to identify their most popular fish, chicken and beef dishes. They provided the selling price and the ingredient cost (including vegetables and accompaniments) in each case. Below is the ingredient cost in relation to the selling price (excluding VAT).

- Fish Dish Cost of Sales - 30.5%
- Chicken Dish Cost of Sales - 29.5%
- Beef Dish Cost of Sales - 33%

Overall, Figure 3.2 shows a 5.8% difference between the food cost of sales in hotel restaurants and that in stand-alone restaurants.

Figure 3.1: “Standard Meal Price” versus Retail Price



Figure 3.2: Food Costs as a Percentage of Sales Price (ex VAT)

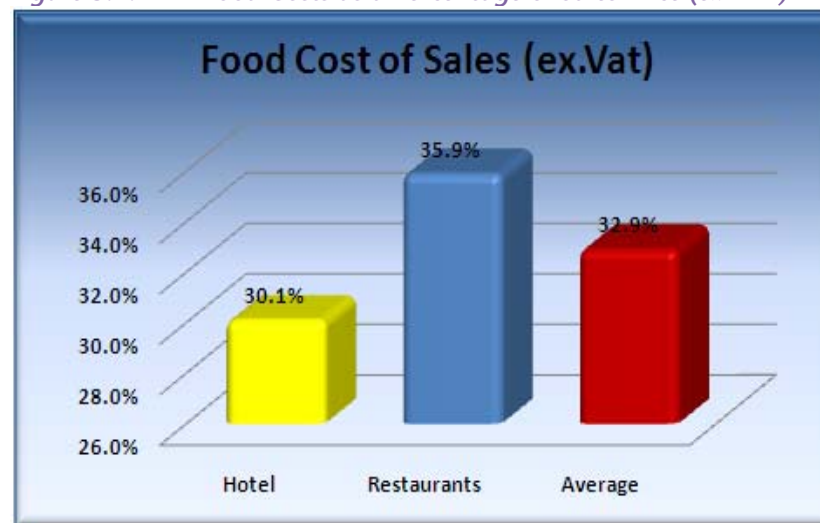


Figure 3.2 summarises the food cost percentage. The overall cost of food for the survey sample averaged 32.9%. This is consistent with

typical industry norms – Ireland Hotel Industry Survey 2008 reports food cost percentage of 33.6%.

The size of a restaurant, its volume of business and its seasonality determine its stockholding and purchase volumes. This in turn impacts purchase prices as it is standard practice within the industry to receive supplier rebates and discounts based on the volume purchased.

When the cost is analysed across establishment types, the cost ranges from 30.1% for hotel restaurants to 35.9% for stand-alone restaurants. Hotel restaurants achieve a lower cost of food as they benefit from volume with banquet food sales and from having a dedicated purchasing/stock control function - the majority of restaurants would not have the required scale to warrant this manpower commitment. Hotels are also able to predict their business volume as food sales are somewhat linked to bedroom occupancies such as where guests are staying on a dinner, bed and breakfast package.

Stand-alone restaurants survive on the quality and reputation and the value they offer and consequently their cost of sales, as a percentage of the menu price is higher.

3.2.2. BEVERAGE COSTS

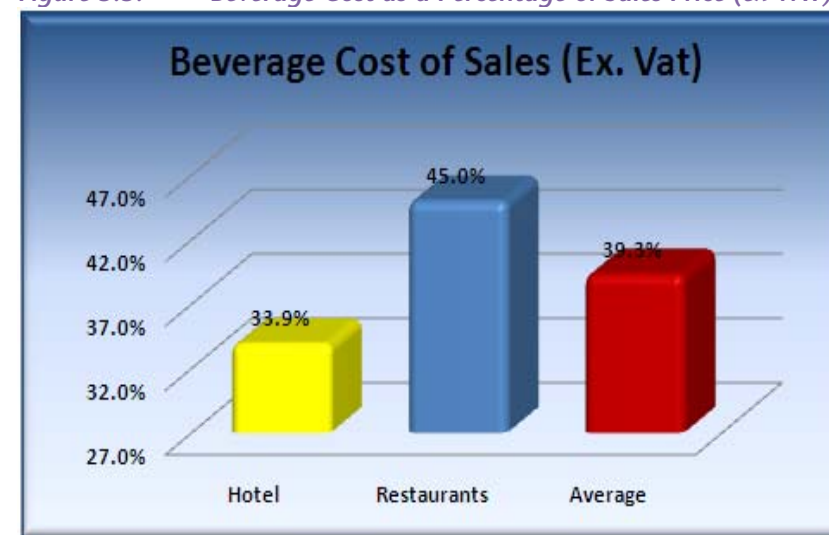
Beverage is the accompaniment to a meal. Soft drinks, mineral water, beer, spirits, wine, etc are all stocked by restaurants, subject to the licensing laws.

With the exception of wine, drink prices in restaurants are similar to prices in bars. Wine tends to be priced at similar margins of around 60% depending on location, product offering, product range and the availability of economies of scale. Restaurants seek to offer wines that are not widely available at retail outlets, particularly “reserve” quality wines.

Our research shows that “house wine” is generally priced in the range €16.50 to €22.50 (including VAT at 21.5%) This gives a net sales price of between €13.58 to €18.52 per bottle.

A significant amount of wine sales will be derived from the “house wines”, with sales variations existing between hotels and restaurants. Other wines are offered to meet the demands of guests. Premium wines cost more. These wines sell in lower volumes and are therefore in stock for longer periods. Distributors sell wines by the case of six or twelve, meaning that the stock holding of a comprehensive wine list can become a significant cost. Premium wines will be priced to achieve a higher profit per bottle to reflect this cost.

Figure 3.3: Beverage Cost as a Percentage of Sales Price (ex VAT)



Beverage cost of sales percentage in the restaurants surveyed averaged 39.3% (excluding VAT) with a pronounced difference between hotel and stand-alone restaurants. The cost of sales of “house wines” was reported in the range 45% to 32%. These margins are consistent with industry norms and those expected by the Revenue Commissioners in VAT reviews/audits. The Ireland Hotel Industry Survey 2008 reports beverage cost percentage of 34.7% (excluding VAT).

Stand-alone restaurants, in particular, are conscious of the price they charge for beverage. On the other hand, they are not buying wine in

sufficient volume to get discount prices. Customers demand quality wines.

3.3. LABOUR COSTS

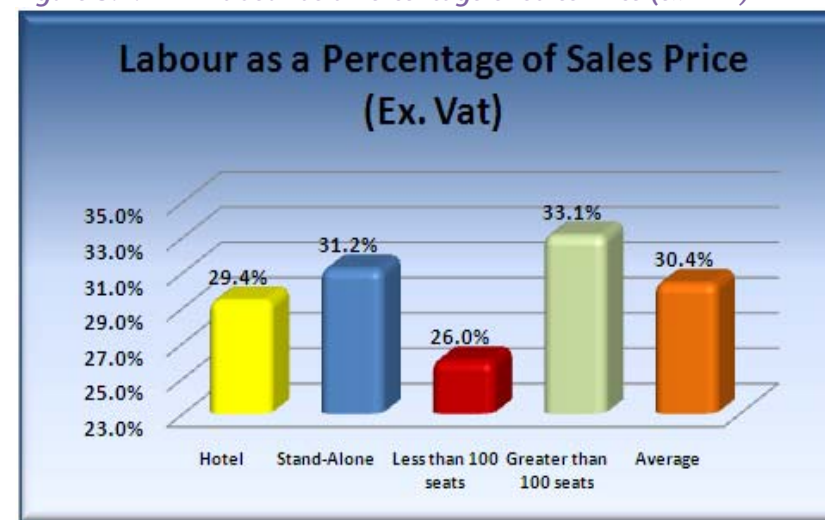
Payroll costs are widely debated in relation to the restaurant sector. The restaurateurs constantly state that the payroll cost in the industry is unsustainable, while the other side of the debate is that the sector is criticised for having low wages and poor conditions. We will attempt to summarise the position, the regulatory framework and the typical operation of a restaurant.

Our research findings for payroll costs in proportion to revenue are displayed in Figure 3.4. Just over 30% of the price of a meal (excluding VAT) is spent on payroll and related costs. However, anecdotal evidence suggests that labour costs may be even higher than this study indicates once supervision and oversight is taken into account

Terms and conditions of employment, including pay, are governed by legislation. The following pieces of legislation apply:

- Payment of Wages Act
- Organisation of Working Time Act
- Protection of Young Persons Act
- Minimum Wage Act

Figure 3.4: Labour as a Percentage of Sales Price (ex VAT)



In addition to the aforementioned legislation, the restaurant and hotel industries are regulated by Joint Labour Committees (“JLC’s”). While JLCs are established by means of a statutory order made by the Labour Court, they are independent bodies which determine minimum rates of pay and conditions of employment for workers in their respective sectors. The pay and conditions agreed by the JLCs are given the force of law in Employment Regulation Orders (“ERO”) made by the Labour Court on foot of proposals made to the Court by the JLCs.

The following JLC’s exist with respect to the hospitality sector:

- Catering (Dublin and Dun Laoghaire)
- Catering (Other)
- Hotels (Dublin and Dun Laoghaire)
- Hotels (Other excluding Cork)

The minimum wage was set at €8.65 with effect from 1 July 2008. Figure 3.5 sets out the basic rate of pay provisions as per each applicable JLC.

Figure 3.5: Summary of JLC Basic Pay Rates

Summary of Basic Pay Rates as per current JLC provisions	Hourly Rate
Catering JLC	
<i>County Borough of Dublin and Borough of Dun Laoghaire</i>	
Effective 1 November 2008	
Trained Chef (Cook)	€9.51
Waiter/Waitress/Barperson/Clerical/General Assistant	€9.27
<i>Areas other than areas known, until 1 January, 1994, as the County Borough of Dublin and the Borough of Dun Laoghaire</i>	
Effective 1 December 2008	
Cook	€9.38
Short Order Cook/Counter Assistant/Waiter/Barperson/Clerical/General Worker/Cleaner/Wash Up	€9.27
Hotels JLC	
<i>County Borough of Dublin and Borough of Dun Laoghaire</i>	
Effective 1 November 2008	
As the JLC has not yet made proposals to the Labour Court, no ERO has been made.	
In the absence of an ERO, minimum rates of pay for the sector are as specified in the National Minimum Wage Act, 2000.	
Hotels JLC	
<i>Areas other than areas known, until 1 January, 1994, as the County Borough of Dublin and the Borough of Dun Laoghaire</i>	
Effective 16th October 2008	
Experienced Adult Hotel Worker	€9.09

The effect of the JLC's provisions is to set a rate of pay for the sector that is higher than the minimum wage.

Hotels in Dublin are not governed by the provisions of a JLC, as there has been no ERO. In the absence of this, hotels have recruited at market rates, but above the minimum wage. As hotels compete for food production and service staff with restaurants, hotels must provide similar terms and conditions, including pay rates.

Premium payment for Sunday work is required under the Organisation of Working Time Act 1995. The act says there should be a premium, but does not set out a minimum level of premium payable and any conditions that might apply. The JLC is left to make this determination.

The provisions regarding Sunday premium payment vary by JLC and are summarised on Figure 3.6:

Figure 3.6: Summary of Current JLC Sunday Premiums

JLC	Payment for Sunday Working
Catering JLC (Dublin)	Time plus one third for hours worked on Sunday
Catering JLC (excluding Dublin)	Double time for hours worked on Sunday
Hotels JLC (Dublin)	n/a - Organisation of Working Time Act applies, under which there must be a premium for Sunday work, but is not specified
Hotels JLC (excluding Dublin)	Double Time for full time workers (defined as employees who work a 78 hour rostered fortnight). Part-time workers are to be paid 20% of total hours worked in the week.

A recent development has been a joint meeting of the Catering JLC's. This was convened to address the difficulties faced by the industry in

the current economic climate. Resulting from this meeting, it is anticipated that the two Catering JLC's will work together as one body to seek to protect business and employment in the restaurant sector.

If the current preliminary agreement is accepted it will mean that all restaurants across the country will be required to pay staff a common premium based on the daily rate for working on a Sunday.

3.3.1. KITCHEN STAFF

We asked our case study subjects to indicate the pay level for chefs. The term "chef" is used here to describe a competent/trained chef to work as part of the kitchen team, under the supervision of the head chef/executive head chef. The average hourly rate was €11.67.

Hotels tend to hire at a slightly lower hourly rate, but as part of a typically larger team as the employee can progress to a higher rate in a reasonably short space of time. Stand-alone restaurants will seek chefs with more training and competency, as they will be required to perform to a higher standard, typically in a smaller team with a more diverse menu.

Figure 3.7: Hourly Pay for Chefs



Kitchen porters provide the back-up to chefs in a kitchen, fulfilling the cleaning and some basic preparation duties the work is largely unskilled. The job carries a JLC determined hourly rate which is at a premium over the minimum wage to attract employees to take this role. In many cases, a kitchen porter may gain a basic proficiency that will allow him/her to progress to a chef training programme. Work as a kitchen porter can be attractive because of the ability to enhance overall pay with Sunday premium, which is not available in many other unskilled types of work.

Figure 3.8: Hourly Pay for Kitchen Porters



3.3.2. WAITING STAFF

Waiting staff are the employees with the most customer contact. The quality of the food and service combine to deliver the dining experience. Trained, friendly and efficient staff are required and the hourly rates paid fell into a tight band in our research, with an average of €9.78. Dining room staff can reasonably expect to receive tips/gratuities to augment their pay. This provides the incentive for them to provide the customer with friendly and efficient service.

Figure 3.9: Hourly Pay for Waiting Staff



3.4. UTILITY COSTS

Energy, local authority rates, waste disposal and water charges are major costs to the sector.

Energy costs have become volatile in recent times. Over the last 18 months, the sector, as with all energy users, has had to face the prospect of increasing energy prices. Many businesses have begun to look at alternative energy sources, but the restaurant sector does not typically possess the scale to deliver significant savings. At the same time energy management systems are expensive and are mostly designed for larger applications.

The businesses surveyed indicated that energy costs have increased by approximately 40% over the last five years. At the time of writing, world energy prices have abated: businesses will benefit from planned price increases being postponed, rather than cost savings. Economic recovery will increase demand for energy and the price will very likely begin to increase again.

We asked restaurateurs if they had embraced alternative energy. A number of hotels are considering installing solar panels. Three hotels have installed combined heat and power or wood pellet burners.

Stand-alone restaurants do not have the scale for these applications, or the detailed knowledge of the technology. However, lighting is an area that restaurants have begun to embrace with energy efficient lighting being introduced in more establishments.

Local authority rates are a fixed charge on a business, regardless of volume of business. The rates bill is one of the largest bills faced by businesses annually. Local authorities “recover” the cost of providing water and most have commenced to charge for waste water. The two-way water-in and water-out charges have led to water charges more than doubling for many businesses.

Waste disposal costs have also increased significantly in recent years. Increased regulation, separation of waste and recycling have all increased the direct cost and added to payroll costs. Our sample respondents were unanimous in this regard.

Figure 3.10: Utility Costs as a Percentage of Sales Price (ex VAT)



3.5. OVERHEADS COSTS

We have analysed fixed and overhead costs between variable consumable items and fixed overheads. These are discussed in further detail below.

3.5.1. CONSUMABLE VARIABLE COSTS

In this cost category, a restaurant business will have the following significant costs:

- Laundry and Linen Costs
- Tableware/Cutlery/Glassware
- Cleaning Costs
- Paperware and Disposables
- Candles

Figure 3.11: Variable Costs as a Percentage of Sales Price (ex VAT)



These variable costs are generally incremental in line with the level of business. Because the items are used to create the atmosphere of the establishment, quality products are essential.

Linen is hired from specialist linen suppliers in the majority of restaurants. In some cases, where the restaurant is part of a hotel, the hotel may perform its own laundry function, subject to space constraints and volume throughput. A Stand-alone restaurant will invariably use a linen hire service to guarantee supply and quality - the volume of linen would not justify the capital cost, space used and the payroll/consumables cost to provide the service in-house.

Tableware/Cutlery/Glassware are all of catering quality to allow for use in industrial dishwashers and for more robust use. Consequently they are more expensive than domestic quality similar products. Continuous supply is an issue that requires consideration. Restaurants can buy an "end of line" range, or can source/import its own items, but runs the risk of not being to replace on a like for like basis as required. There are specialist suppliers to the sector who guarantee supply, subject to reason.

Paperware, principally serviettes, coasters etc. are sourced from specialist suppliers. While generic, non-branded items can be used, restaurants often opt for the more expensive branded product, to enhance their image and quality of offering.

Candles are a standard feature of restaurants. Volume usage leads to significant cost. Quality items must be used, given the high usage, to reduce toxicity.

3.5.2. FIXED OVERHEAD COSTS

The principal fixed overhead costs are:

- Repairs, Maintenance and Renewals,
- Administration Expenses,
- Insurance, and
- Sales and Marketing Costs.

Hotel restaurants do not generally allocate their utility or overhead costs against specific departments, such as the restaurant. For this reason it is more difficult to quantify overhead costs for hotel restaurants. Our research revealed that stand-alone restaurants have a much stronger appreciation of the effect of the cost of utilities on food and beverage profitability, due to the greater accountability.

Repairs, maintenance and renewals are the expenditures that keep the business operational. Kitchen equipment, plant, heating systems, computer equipment and other systems require maintenance and renewal on an ongoing basis. Preventative maintenance needs to be carried out routinely, while ad hoc expenditure tends to involve significant expenditure.

Kitchen equipment is expensive and technical by nature. Cooking and refrigeration must operate efficiently but more importantly, at the correct temperature. As well as the food safety and quality aspects, non-maintenance of kitchen equipment will lead to failure and most likely early replacement of equipment.

Administration costs in the restaurants surveyed were quite low. Dedicated administration is kept to a minimum in restaurants, usually carried out during non service times by management/proprietors. In hotels, the administration expense is shared with the accommodation administration, eliminating the need for dedicated administration for the food operation. Most respondents said that the administrative requirement has increased in recent times with increased regulation in the areas of hygiene, payroll record keeping and general record keeping. The impact of regulatory considerations is discussed further in Section 4.

Insurance costs increased substantially in the period from 2001 onwards. While insurance premiums have scaled back somewhat, many operators find that claims against them continue to affect their premium adversely. The insurance premium remains one of the biggest bills to be faced by the business.

Sales and marketing expenditure is significant. Hotels and restaurants need to have a presence in the various media. Local and national

newspapers and radio stations are all used. The competition in the media means that having a presence in the media means spreading the advertising and marketing spend over a broad number of media vehicles. Hospitality businesses provide valuable support for community groups, clubs and charities in the form of sponsorship and free services. The business depends on the goodwill generated through these donations for ongoing support and referral. Looking to capture tourists, the number of media channels that the restaurateur has to consider is significant. Outdoor advertising, festival and event sponsorship, travel magazines, tourism organisations, internet activity etc. are a small sample of the expenditures incurred in an attempt to engage with tourists who may visit their area and favour their establishment.

Figure 3.12: Fixed Costs as a Percentage of Sales Price (ex VAT)



3.6. VALUE ADDED TAX (VAT)

While VAT is ultimately paid by the consumer, the distribution of the burden falls between the consumer and the restaurant. For example,

the restaurateurs we surveyed have not increased their selling prices to recover the increase in VAT on beverage, which increased from 21% to 21.5% with effect from 1 December 2008.

The VAT included in a restaurant bill is not immediately obvious to the diner. Even when it is itemised on the bill, the menu price remains to mind. We have shown the VAT element of a standard meal as a cost to demonstrate the portion of the meal that is attributable to VAT. VAT is currently charged at 13.5% on food and 21.5% on beverage.

3.7. BREAKDOWN OF THE AVERAGE MEAL IN UNIT FORM

Figure 3.13 summarises the breakdown of a standard meal in percentage terms, across the cost headings we have used in our research.

Figure 3.13: Cost Components of the Standard Meal

Component	Percentage of Sales Price Incl VAT	Percentage of Sales Price Excl VAT
Raw Materials	30.8%	37.0%
Labour Costs	25.2%	30.4%
Consumables	2.7%	3.3%
Fixed Costs	11.3%	13.6%
VAT	<u>16.9%</u>	---
	86.9%	84.3%
Available for Rent / Interest / Capex / Return	<u>13.1%</u>	<u>15.7%</u>
Sales Price	100.0%	100.0%

Figure 3.14 demonstrates that after taking into account the raw materials, labour costs, utility costs, fixed and overhead costs and VAT a restaurant is left with a return of 13.1% on a standard meal. However, this is not all profit - it must go towards funding property

costs (rent where leased or interest where owned), capital expenditure on equipment and fittings, taxation and provide the proprietor's return. This therefore represents a modest return for proprietors in the restaurant sector

As restaurants may be part of a larger development (e.g. hotel restaurants), owned or leased, financed or debt free, it has not been possible to break the 13.1% down further to derive an overall profit percentage.

While we requested information regarding rent/interest, depreciation and capital expenditure, the information we received was so varied and incomplete to make any meaningful comparison impossible. However, it can be surmised that more established restaurants, that own their own property have lower debt levels and therefore generate a greater return for their proprietor.

We examine in Section 5 the relationship of the various components in a meal and the level of control operators have over them.

Figure 3.14: Breakdown of Average Meal (incl VAT)

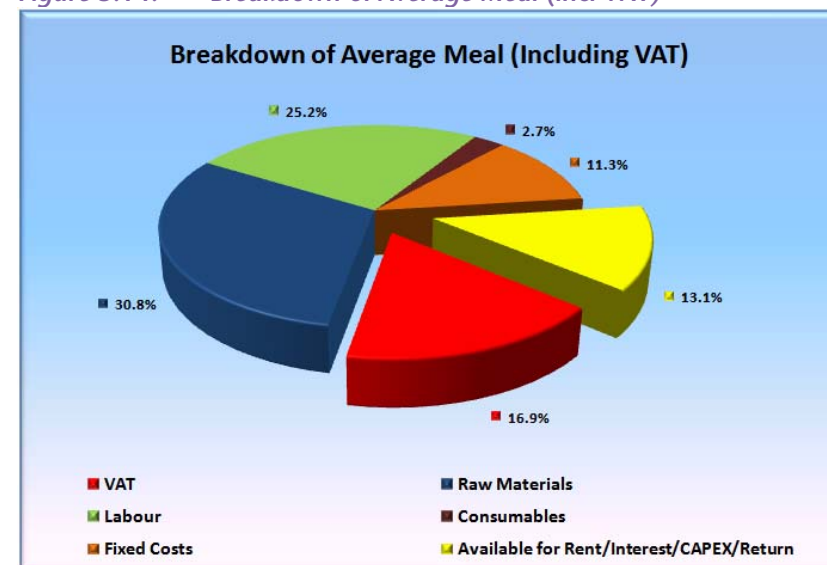
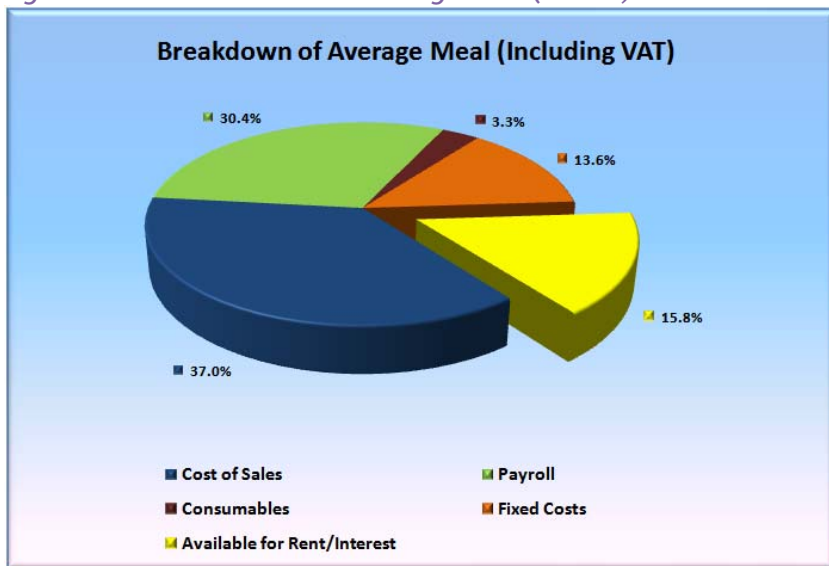


Figure 3.15: Breakdown of Average Meal (ex VAT)



The next box includes out some illustrative examples as to how the unallocated share of a meal's price may be apportioned.

Illustrative Return

To illustrate the diverse nature of the profit attributable to an average meal we offer two hypothetical cases of stand-alone restaurants. These examples do not reflect or suggest a standard trend for a restaurant.

Restaurant A

Restaurant A operates in a rural town. The property has been owned and managed for the past 18 years by a married couple. The restaurant benefits from a strong tourist trade during the summer months and relies heavily on loyal local customers throughout the year. The interior decoration of the restaurant was redone within the past 3 years.

Restaurant B

Restaurant B is located on a busy street in a large city. The property is owned by three investors. The restaurant is managed by a strong management team. The restaurant is leased and has recently had investment funded the chic interior and the newly expanded kitchen area.

Return

	<i>Restaurant A</i>		<i>Restaurant B</i>	
	<i>Incl VAT</i>	<i>Ex VAT</i>	<i>Incl VAT</i>	<i>Ex VAT</i>
■ Annual Revenue)	<u>€850k</u>	<u>€706K</u>	<u>€2,250k</u>	<u>€1,870k</u>
■ Rent	-	-	5.0%	6.0%
■ Property Loan Payments	4.0%	4.8%	-	-
■ Capex	2.0%	2.4%	3.0%	3.6%
■ Managers Profit Share	-	-	1.0%	1.2%
■ Taxation	2.0%	2.4%	1.0%	1.2%
■ Owner's Return	5.1%	6.0%	3.1%	3.6%
■ Total	<u>13.1%</u>	<u>15.7%</u>	<u>13.1%</u>	<u>15.7%</u>
■ Total	<u>€111k</u>	<u>€111k</u>	<u>€295k</u>	<u>€295k</u>

4. REGULATORY CONSIDERATIONS

4.1. INTRODUCTION

Ireland operates to very high standards of food hygiene. Foodstuffs, particularly meats and fish, are high risk inputs from a hygiene/food safety perspective. The restaurant is responsible to the customer and, as a result, must have proper hygiene/food safety systems and procedures in place. This incorporates the storage, preparation and service of food, but also ensuring that the supplier of the foodstuffs has the requisite hygiene/food safety systems and procedures in place.

The hygiene and food safety regulatory system is known as Hazard Analysis Critical Control Points (“HACCP”), which is regulated by the Environmental Health Officers. Regular inspections of food outlets are performed, including audits of the records in relation to food safety and hygiene.

When a product is altered and stored, the traceability is reduced and as a consequence, best practice is to purchase the foodstuffs in a state most conducive to the product offering. As a result of these HACCP requirements, it can be less burdensome for restaurants to use ready prepared foods. However, due to the restaurants’ preference for quality input ready prepared foods are kept to a minimum (as noted in Section 3.2).

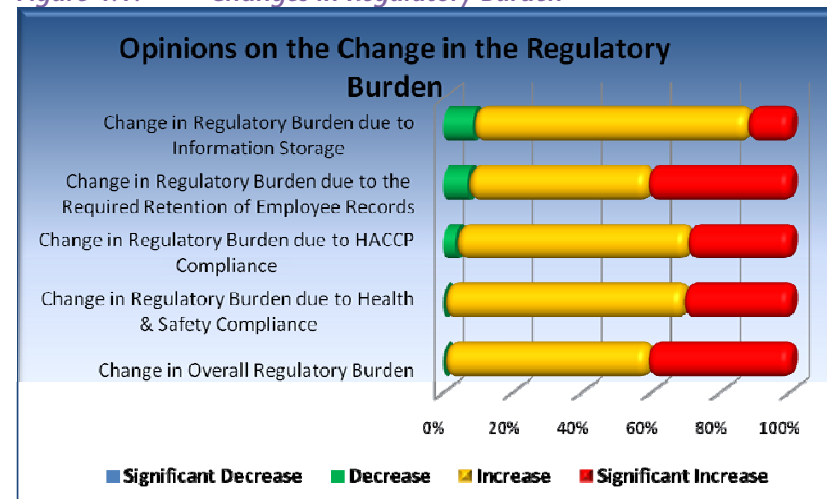
Restaurants confirmed that compliance with food safety is strong as is monitoring and enforcement, with Environment Health Officers regularly inspecting establishments.

The majority of respondents indicated that the HACCP system and procedures has an impact on the cost of a meal. This is due to the level of control and administration required to ensure food safety and compliance with the systems.

4.2. CHANGES IN REGULATION

We asked if operators have noticed a significant change in the regulatory burden in recent years. Figure 4.1 summarises their responses.

Figure 4.1: Changes in Regulatory Burden

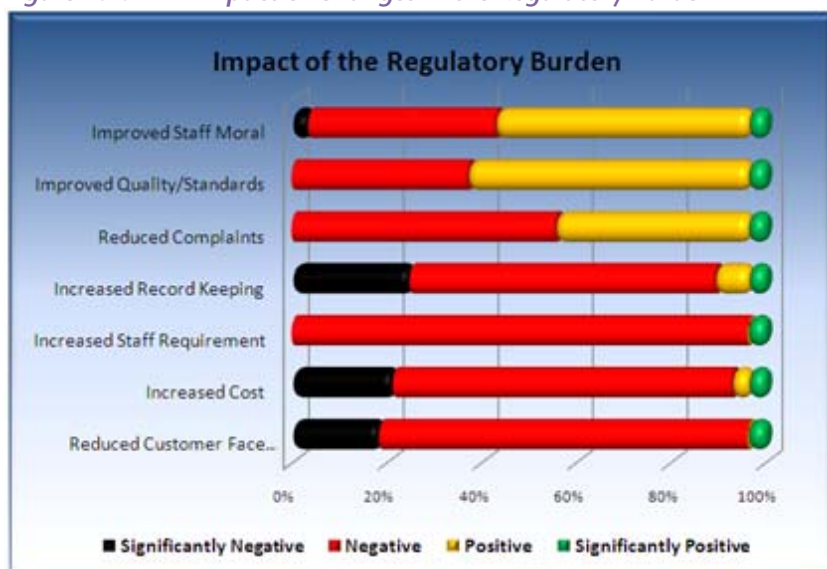


It should be noted that while the majority of operators indicated that they have noticed an increase or a significant increase in regulation, they largely acknowledged the reasons for the introduction of the particular measure.

4.3. IMPACT OF REGULATION ON BUSINESS

We enquired about the effect that some specific regulatory changes have had on business. Figure 4.2 summarised the responses.

Figure 4.2: Impact of Changes in the Regulatory Burden



Operators were particularly strong in their responses in relation to increased administration in relation to employees and associated costs. In most cases they are finding it more difficult to spend as much time as they feel they should engaged with the operation during service as a result of the regulations. Stand-alone restaurants were more animated in expressing their frustration regarding increases in the regulatory burden.

Restaurant managers and owners were mixed in their opinions of the implications increased regulatory requirements had for their businesses. Over half the respondents acknowledged that the increase in regulatory requirements had a positive impact on staff moral and product quality, although this may represent a transfer of responsibility from owners to manager.

A sizeable amount of contributors were of the opinion that complaints may have reduced in certain elements of their businesses due to increased regulatory requirements; however, other elements of the business suffered as a consequence of dedicating more senior

manpower to administrative functions rather than customer service, resulting in no overall reduction in the volume of complaints.

There was strong agreement amongst respondents that the increased regulatory burden had resulted in increased record keeping, staff requirements, and costs and reduced customer face time.

According to the majority of restaurant owners and managers the increased regulatory burden has had an overall negative bearing on their businesses, as is illustrated in figure 4.2.

4.4. OTHER REGULATORY ISSUES

In Section 3.2 we summarise the regulatory framework with regard to labour, which has a significant impact on the restaurant sector. This includes:

- Minimum Wage
- Joint Labour Commission
- Working Time Act
- Work Permits
- Local Authority Licenses

Elsewhere in the report we refer to the regulatory burden in relation to VAT and excise duty.

5. COST BEHAVIOUR AND COST CONTROL

5.1. INTRODUCTION

In this Section we examine and classify the behaviour of the component parts of a meal in response to changes in the number of meals produced.

5.2. BREAKDOWN OF THE COST BASE

Based on our interviews with respondents we classified the various component costs as either fixed costs, semi-fixed costs or variable costs. Costs have been categorised based on the level of control that can be exerted over them. The resulting breakdown is shown in Figure 5.1.

Figure 5.1: Cost Categorisation

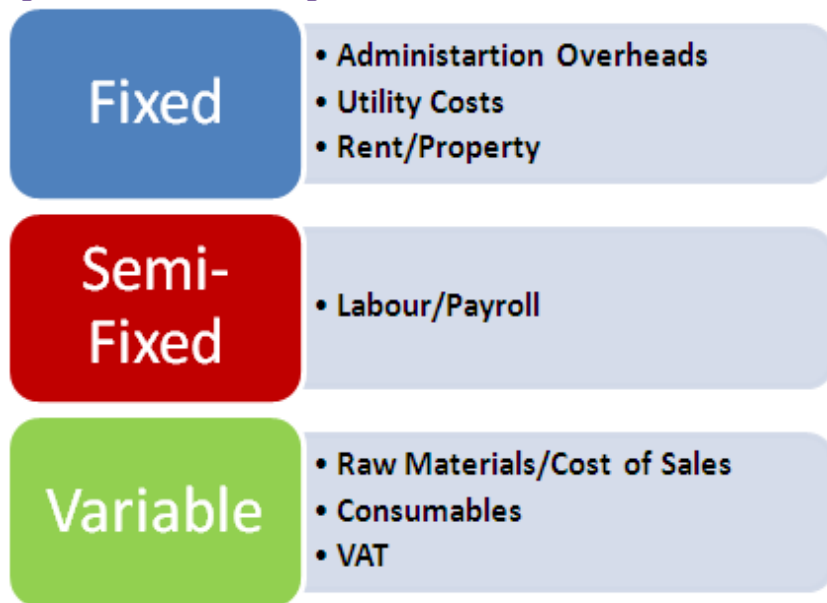


Figure 5.2 quantifies the split between fixed, semi-fixed and variable costs based on their relative input to the standard meal. Both stand-alone restaurants and hotel restaurants face similar cost structures.

Figure 5.2: Controllability of Costs

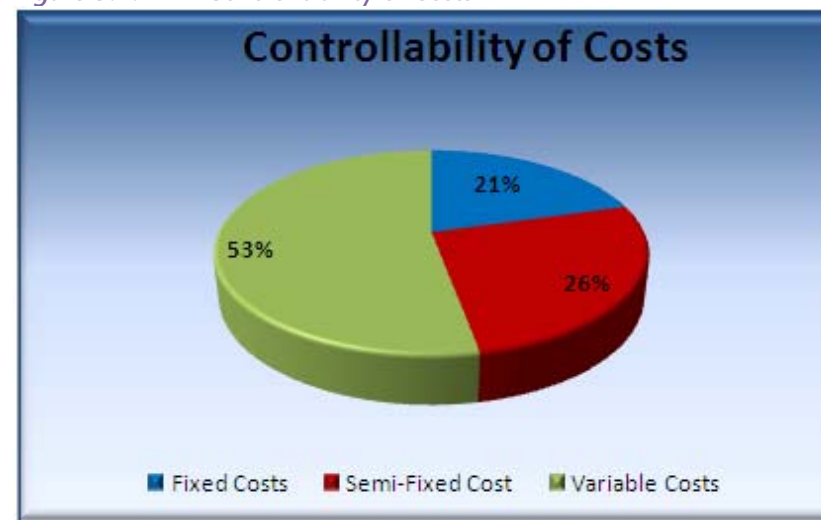


Figure 5.2 does not take into account property costs (in the form of rent or interest), or capital expenditure as it was not possible to separately identify this data during our research due to the dissimilarity between restaurants in terms of being part of a larger development (e.g. hotel restaurants), owned or leased, etc.

5.2.1. FIXED COSTS

Overheads, Utility Costs and Rent/Property related costs are considered to be fixed. These costs are unavoidable and there is no variation in these costs in response to changes in the number of covers/customers served. Busy restaurants which are able to spread fixed costs over a greater number of covers benefit from larger economies of scale.

In recent times some fixed costs have increased at a considerably faster rate than general prices, most notably local authority imposed costs such as rates and water charges. In some counties rates have increased at rates of 5%+ p.a. in recent years. Since 2005 water rates have increased at a rate of four and half times inflation.

5.2.2. SEMI-FIXED COSTS

Respondents considered payroll costs to be semi-fixed. There is a minimum staffing required to open a restaurant including management, host/hostess, kitchen staff, wait staff and bar staff. The number of wait staff is variable to the volume of business provided this can be accurately predicted. By and large, the kitchen staff expense is fixed although some variation exists for the volume of business.

Consequentially, during high volume trading periods, restaurants benefit from a greater return due to scale economies. In reverse, restaurants find themselves burdened by this element of the cost structure during periods of depressed demand. Restaurants indicated that there are significant demand variations during the week, with Monday to Wednesday being low demand periods and greatest demand occurring on Fridays and Saturdays. Restaurants are also subject to seasonal variation, which can be more acute depending on their location.

Hotel restaurants are somewhat more fortunate than their counterparts in stand-alone restaurants as they can reallocate labour resources to different elements of the operation during periods of depressed demand. This is illustrated in Figure 3.4 which displays hotel restaurants as having lower labour cost percentage (29.4% versus 31.2% for stand-alone restaurants).

5.2.3. VARIABLE COSTS

The raw material cost of food and beverage is regarded as variable. Respondents noted that there was a certain fixed element with food cost, due to wastage, but this is modest in an overall context. Consumable and VAT are the other variable elements.

5.3. SENSITIVITY OF COSTS TO VARIATIONS

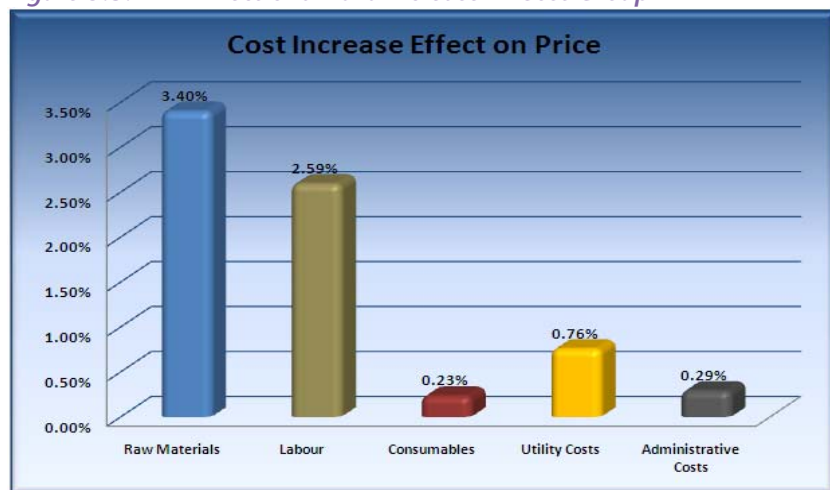
Respondents indicated that they have experienced cost increases above inflation on many of their inputs in the recent past. The dilemma for the restaurant is whether the customer will absorb the cost increases or whether the restaurant bears the ultimate cost. An example of this is evident in Section 3.7 where we reported that the restaurants we surveyed did not increase their prices to recover the increase in VAT rate in December 2008. When such increases in a component of the price are not passed on, this reduces the amount available for rent, interest and a proprietor return.

Figure 5.3 shows the impact that a 10% increase in each of the individual cost components of a meal would have on the overall cost of that meal. The opposite equally applies in the case of decrease in the components.

To illustrate if a meal previously had a price of €20.00 and there was an increase of 10% in the cost of raw materials (cost of sales) this would result in the meal price increasing to €20.76. Or alternatively if the cost of raw material decreased by 10% the price of the meal would drop to €19.24.

It is clear that the sales price of a meal is more sensitive to an increase in Raw Materials and Labour than to the other components costs as they make up a sizable proportion of the cost of producing a meal.

Figure 5.3: Effect of a 10% Increase in Cost Group



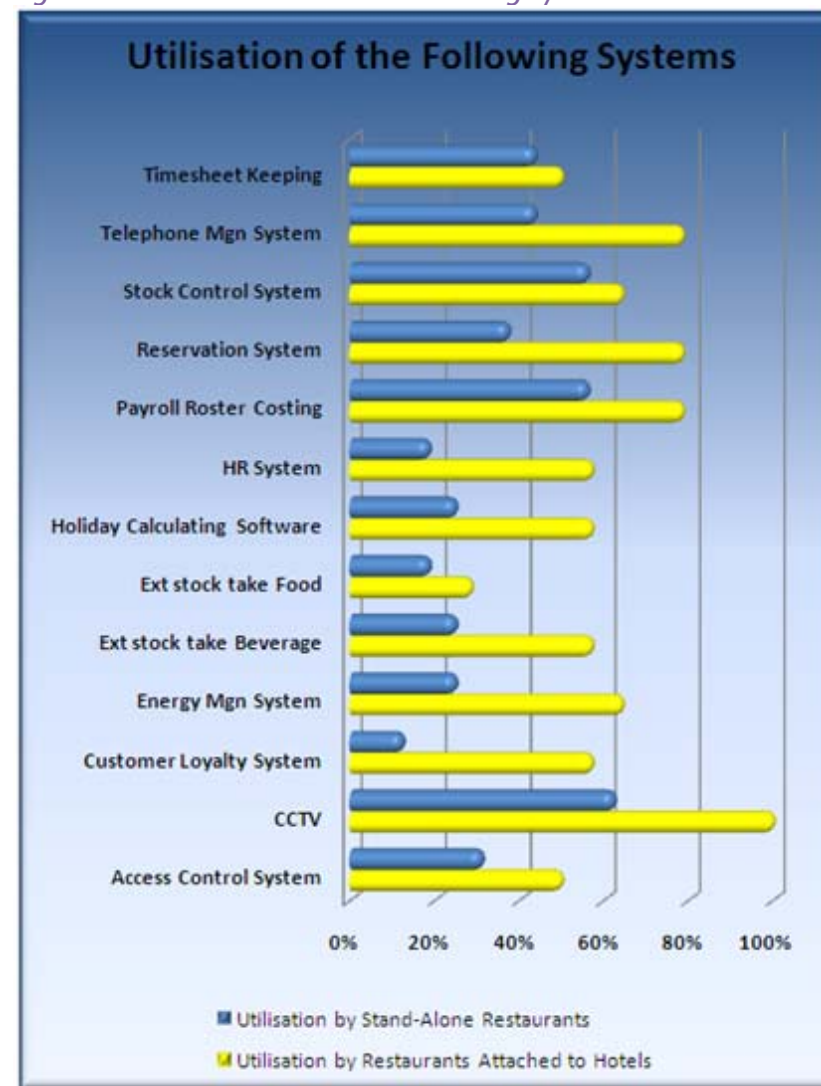
5.4. OVERVIEW OF COST CONTROL

Respondents confirmed that control of cost of sales is strong in the food preparation sector. Restaurants and hotels perform regular food and beverage stocktakes to ensure that waste and misappropriation are minimised. Payroll is also tightly controlled through rostering forecasting and scheduling. Restaurants have the advantage in this regard of being the sole focus and therefore the food operation is staffed to meet the needs of the business, subject to being able to forecast demand.

In relation to specialised systems, we found that restaurants in particular and some hotels are not taking advantage of all available management tools that can assist them to manage their systems and keep tighter control on their costs. The primary reason given by respondents for not implementing such systems was capital rationing of scarce resources. There is a very strong awareness of the systems that are available and the benefits of using them, but this is balanced against the cost arising.

Figure 5.4 illustrates the level of usage of the systems we surveyed our sample population.

Figure 5.4: Utilisation of the Following Systems

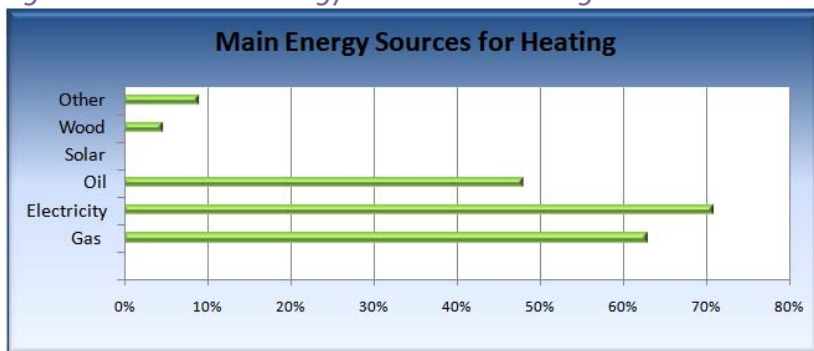


5.5. ALTERNATIVE ENERGY SUPPLIES

We asked our sample subjects about their sources of energy for heating. The majority use oil, gas and electricity as their principle energy source. The users of wood pellet burners and combined heat and power were large hotel installations. A number of small restaurants even considered the cost of switching to natural gas to be prohibitive.

Most restaurants we surveyed, particularly in urban locations, have installed air conditioning in recent years, to meet customer expectations, thereby effectively increasing their energy consumption, rather than reducing their energy bills.

Figure 5.5: Main Energy Resource for Heating

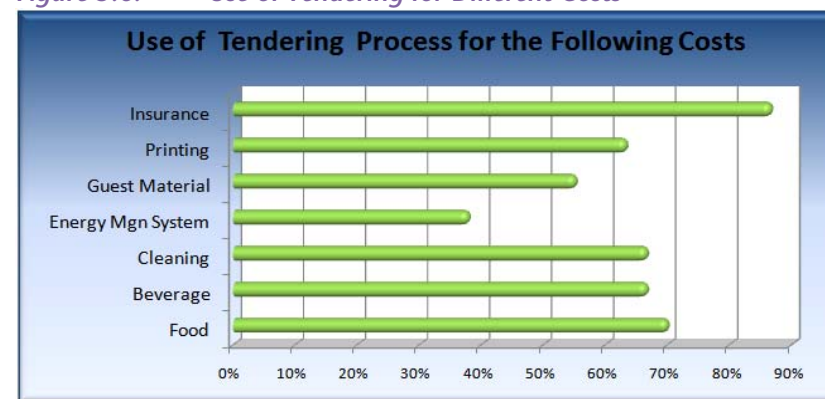


5.6. TENDERING

The majority of restaurants use tendering to get the best deal for cost items. Nearly all respondents stated that a combination of price, quality and supply assurance is the key decision factors for food and beverage supplies.

Figure 5.6 shows the percentage of our study sample who have tendered for the cost items in question.

Figure 5.6: Use of Tendering for Different Costs



6. BENCHMARKING

6.1. INTRODUCTION

This Section examines and benchmarks the components of the cost structure in the international context.

Restaurants operating in Ireland compete for various market segments and attract both domestic and foreign customers. Both of these customer sets have different experiences and have a broad variety of expectations in terms of the restaurant product itself and the price charged for it. When foreign customers are examining the price of the restaurant product on offer in Ireland they are comparing it to the price of similar products in their home nation and other countries they have visited. Similarly domestic customers judge the price of the product on offer in Ireland to comparable products on offer in other countries they have visited.

Therefore, in internationally benchmarking the costs facing Irish restaurants it is most appropriate to judge against nations which Irish residents most frequently visit and the countries whose residents most commonly visit Ireland. The following countries are considered in this benchmarking analysis:

- United Kingdom
- United States
- Germany
- France
- Italy
- Spain

These countries account for over three quarters of the visitors to Ireland and almost three quarters of the overseas visits by Irish residents.

Ultimately this section assesses the international competitiveness of the cost base faced by Irish residents by considering some of the key costs that influence restaurant prices, i.e. VAT, payroll, utilities, food and beverage cost of raw materials.

6.2. VALUE ADDED TAX VARIATIONS

Figure 6.1: VAT Comparison

Country	VAT on Food in Restaurant	VAT on Alcoholic Beverages in Restaurants
Ireland	13.50%	21.50%
UK	15.00%	15.00%
Germany	19.00%	19.00%
France	19.60%	19.60%
Italy	10.00%	10.00%
Spain	7.00%	7.00%
Sample Average	14.02%	15.35%

Source: European Commission, Taxation and Customs Union (2009)

Of the selected benchmarking countries, Ireland is the only country to differentiate between VAT rates on food and alcoholic beverages sold in restaurants. With the exception of Italy and Spain, Ireland has a lower food VAT rate than the rest of the countries benchmarked. However, compared to the other countries benchmarked Ireland has a higher VAT rate on alcoholic beverages

On 1 December 2008, VAT in the UK was reduced from 17.5% to 15%. It is intended that this reduction in VAT will remain until the end of 2009. This is in direct contrast to the increase in the relevant VAT rate in Ireland, VAT increased by 0.5% on 1 December 2008. As a result, the variance between Ireland and the UK in terms VAT on alcohol products sold in restaurants is 6.5%. This has a direct

influence on the competitiveness of Irish hospitality products, particularly in border regions. The Irish VAT rate of 21.5% on alcoholic products is the fifth highest in the European Union (EU).

In America, VAT is referred to as general sales tax. This tax rate is at the discretion of individual regions. It is most commonly around 9% which is significantly lower than the VAT rate applied in Ireland.

6.3. FOOD COST OF SALES VARIATIONS

The cost of food for Irish restaurants is considerably higher than the benchmarked countries for nearly all the main food categories. The only food category where Ireland has a lower cost base is oils and fats. Dairy, fruit and vegetables costs are particularly more costly. Italy similarly has a high food cost base.

Food costs in Ireland are on average some 21% to 30% higher than the average of the 27 states in the EU, which means that Ireland ranks as having the fifth highest food costs in the EU. Furthermore, we are above the average in six out of the seven food categories considered.

Figure 6.2: Food Cost Index

Country	Bread & Cereal	Meat	Fish	Milk, Cheese & Eggs	Oils & Fats	Fruits & Vegetables	Other Food
Ireland	121	129	123	126	98	130	121
UK	103	126	91	115	104	120	107
Germany	108	118	121	87	88	116	99
France	103	122	106	100	107	108	98
Italy	109	118	122	126	113	115	116
Spain	112	81	89	96	89	95	100
EU 27	100	100	100	100	100	100	100

Comparative price level indices for the main sub-groups. EU27=100

6.4. BEVERAGE COST OF SALES VARIATIONS

Similar to food costs, alcoholic and non-alcoholic beverage costs faced by Irish restaurants are significantly higher than in each of the other benchmarked countries. France and Germany have beverage costs which are significantly lower than in Ireland.

When compared to the other 26 states of the EU, Ireland has the third highest alcohol cost. Ireland has an alcohol cost base which is 81% above the EU average.

In terms of non-alcoholic beverages Ireland is 35% above the EU average. This places Ireland as having the fifth highest average non-alcoholic beverage costs of all 27 EU states.

Figure 6.3: Beverage Cost Index

Country	Non-Alcoholic Beverages	Alcoholic Beverages
Ireland	135	181
UK	121	152
Germany	103	82
France	83	91
Italy	109	116
Spain	87	81
EU 27	100	100

Comparative price level indices for the main sub-groups. EU27=100

Source: Eurostat (2007)

Excise duties in Ireland have major impact on the price of alcohol in Ireland. Excise duties on alcohol in Ireland are as follows:

- €39.25 per litre of alcohol in spirits
- €9.93 per hectolitre per cent of alcohol in beer

- €109.34 per hectolitre on still/sparkling wine not exceeding 5.5% in alcohol volume
- €328.09 per hectolitre on still wine exceeding 5.5%, but not exceeding 15% in alcohol volume
- €656.18 per hectolitre on sparkling wine exceeding 5.5% in alcohol volume

Figure 6.4: Excise Duty Charged on Standard Units

Drink (Measurement)	Excise Duty per Measurement
Spirit (35.5ml)	€1.39
Beer Pint (568ml)	€0.11
Wine Bottle (750ml)	€2.46
Sparkling Wine Bottle (750ml)	€4.92
(Wine Alcohol Volume between 5.5%-15%)	
<i>Source: Revenue Commissioners, Schedule of Excise Duties (2009)</i>	

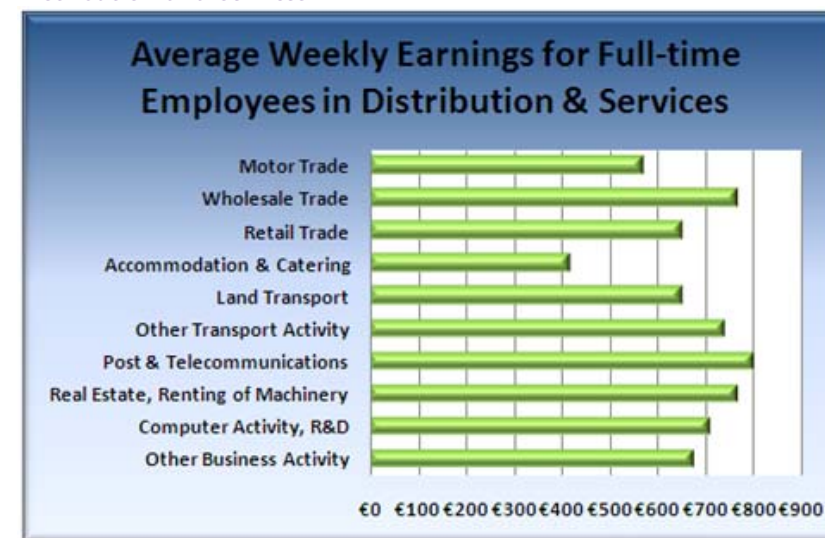
This ranks Ireland as having the highest excise duties on alcohol of all 27 states in the EU. The UK has the second highest excise duty on alcohol of all member states in the EU. The other benchmarked countries all have lower excise duties on alcohol.

6.5. LABOUR COST VARIATIONS

Figure 5.1 confirms that employees in the hospitality sector (Accommodation and Catering) on average tend to get paid significantly lower than many of their counterparts in other service sectors. This low pay is partly the result of the sector's occupational structure. The sector consists of many low skilled service occupations and comparatively very few professional and administrative positions.

The average pay received per week is similar to the minimum wage in Ireland. Therefore in benchmarking the labour costs of the industry internationally it is appropriate to compare the minimum wage agreements in the relevant countries.

Figure 6.5: Average Weekly Earnings for Full-time Employees in Distribution and Services



Source: CSO Statistical Yearbook of Ireland 2007: 310

From a tourism perspective Ireland is very reliant on the UK; this market segment makes up nearly half of the foreign visitors to Ireland, spending nearly €1.4 billion per annum. They have a minimum wage which is lower than that of Ireland. In the UK, the hospitality industry employs a smaller portion of the overall economy than in Ireland.

Up until this year restaurants in the UK were able to pay below the minimum wage on the basis of expected gratuities receivable by staff. However, new legislation introduced specifies that all restaurant staff will have to be paid at least £5.73 (€6.99)¹ per hour. It is expected that this increase in the cost of labour will increase overall restaurant

¹ 2008 average Euro Exchange Rates Applied: US Dollar €1.49 & Pound Sterling €0.81

costs by 10%. It remains to be seen whether this increase in the cost base will be absorbed by restaurants or passed on to consumers. According to PwC (2008) prior to this change in legislation, labour costs made up 35% of all costs in UK restaurants.

In the case of both Germany and Italy there is no minimum wage legislation in place to cover all industries. In Germany a minimum wage exists only for the construction and cleaning industries. Both countries have a sizeable tourism sector with dynamic hospitality industries which provide significant amounts employment.

Different minimum wages agreements exist in each of the different states of America; however, nationally there is a minimum wage which all states must comply with. Some states at their own discretion have legislated for higher minimum wage rates.

France, Ireland and the UK have some of the highest minimum wages in the EU. Ireland has the second highest minimum wage in Europe, on the basis of gross hourly pay, ahead of both France and the UK.

As the JLC rate of €9.09 acts as a minimum wage in the Irish hospitality industry, we have used this as the Irish pay rate against the benchmarked countries.

Figure 6.6: Labour Rate Comparison

Country	Hospitality Industry / Minimum Wage	% National Minimum Wage Levels fall below the Irish Hospitality Industry JLC	Hospitality Industry Percentage of Total Workforce
Ireland	€9.09 ²	---	5.80%
France	€8.71	-4%	3.60%
UK	€6.99	-23%	4.30%
US	€4.39	-52%	8.80%
Spain	€4.20	-54%	7.23%
Germany	None	None	3.70%
Italy	None	None	5.00%

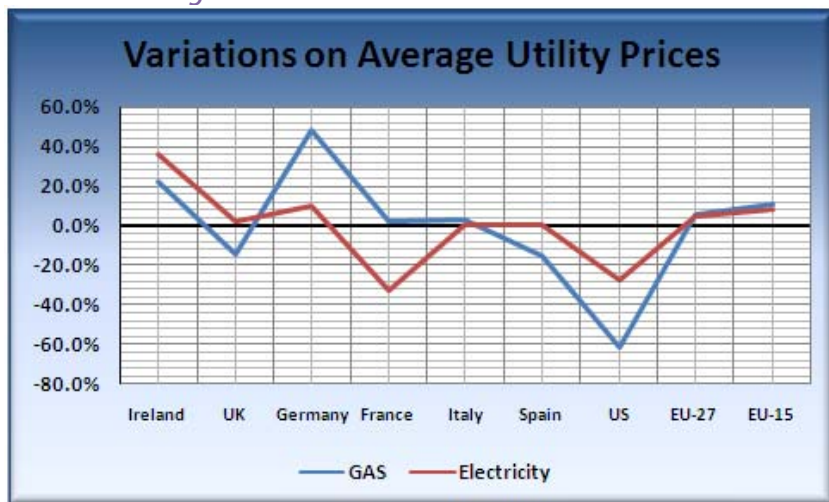
Source: Eurostat (2008)/US Department of Labor/JLC Agreement (Section 3.2)

6.6. UTILITY COST VARIATIONS

Significant variations exist in the cost of electricity across international boundaries. Variations are often as a result of respective nations reliance on fossil fuels and nuclear power in the generation of power. A greater reliance on fossil fuels in most instances translates to increased volatility in electricity prices. Ireland has considerably higher electricity costs than all of the other benchmarked countries.

² This represents the lowest hotel JLC rate, which is above the national minimum wage. The minimum hourly JLC rate in stand-alone restaurants in €9.27.

Figure 6.7: Electricity and Gas Prices Above or Below Listed Countries Average



Source: Eurostat (2008)/US Monthly Power(2008)

With the exception of Germany, Ireland has the next highest Industrial gas prices of the benchmarked sample. As the primary research indicated a significant amount of Irish restaurants rely heavily on gas. Therefore, Irish restaurants are at a disadvantage relative to their foreign counterparts who benefit from significantly lower prices.

Given the higher utility prices Irish restaurants encounter, there is an increasing awareness of the benefits that can be derived from implementing appropriate systems and practices to conserve electricity. However, Ireland still lags behind many other states in the EU in terms of conserving energy resources.

7. GLOSSARY OF TERMS

- **Benchmarking:** is a measurement process which involves comparing elements of a business/industry to similar or identical elements in competitor's businesses/industries.
- **Beverage Cost Percentage:** Beverage Cost expressed as a percentage of the Sales Price (Net of VAT).
- **Beverage Cost:** The cost of beverage ingredients within a meal.
- **Capex:** Capital expenditures on physical assets intended to create a future benefit (such as equipment, furniture, property enhancement, etc). A capital expenditure is incurred when a business spends money either to buy assets or to add to the value of an existing asset with a useful life that extends beyond one year.
- **Cost of Sales:** Food Cost and Beverage Cost.
- **Cover:** A table setting for one person. The number of covers represents the volume of customers served in a relevant period.
- **Economies of Scale:** The cost advantages that a restaurant benefits from as a result of increasing output. They are factors that cause a restaurant's average cost per unit to fall as output increases.
- **ERO:** Employment Regulation Orders.
- **Food Cost Percentage:** Food Cost expressed as a percentage of the Sales Price (Net of VAT).
- **Food Cost:** The cost of food ingredients within a meal.
- **HACCAP:** Hazard Analysis Critical Control Points.
- **IHF:** Irish Hotel Federation.
- **Input Components:** The different cost elements that contribute to the overall meal (the output unit).
- **JLC:** Joint Labour Committees.
- **Margin:** The difference between cost and the Sales Price (Net of VAT) expressed as a percentage of the Sales Price (Net of VAT).
- **Overhead:** The ongoing administrative expenses of a business which cannot be attributed to any specific business activity, but are still necessary for the business to function.
- **Payroll Cost Percentage:** Payroll expressed as a percentage of the Net of VAT sales price of the meal.
- **Payroll:** The direct cost of employing an employee, including employer PRSI costs and other employee benefits.
- **RAI:** Restaurant Association of Ireland.
- **Unit of Output:** A meal with associated beverages.

APPENDIX I: CASE STUDY QUESTIONNAIRE

Study to analyse and evaluate the cost of food preparation and service activities in the hotel, restaurant and hospitality sector on behalf of



CASE STUDY QUESTIONNAIRE

Horwath Bastow Charleton is undertaking the study on behalf of Fáilte Ireland. The objective of the study is to analyse and report on the “production function” and related issues that characterise meal preparation and food service operations in the hotel and restaurant sector. The study will examine all costs associated with food production and service in detail.

All information provided will be treated in the strictest confidence and will only be used for the purposes of this study. It will not be used for any other purpose or disclosed to any third parties.

Please print a copy and post the completed questionnaire in advance of the arranged interview. The contents will be discussed with you during the face to face interview. We will contact you by the 14th of November to arrange a suitable time.

Please return completed questionnaires to:

**Horwath Bastow Charleton
Marine House
Clanwilliam Court
Dublin 2**

**Telephone: 01-676 0951
E-Mail: survey@hbc.ie**

FÁILTE IRELAND FOOD PREPARATION STUDY - GENERAL INFORMATION

Contact:	
Restaurant Name:	
Restaurant Address:	
Telephone No:	
E-Mail Address:	
Website:	
Description:	

Seating Capacity:	
-------------------	--

Please circle as appropriate

Is restaurant connected to other facilities (hotel/bar/function room)?	Yes/No	If yes, please specify	
Is the Restaurant part of a chain or group of Restaurants?	Yes/No	If yes, please specify	
Are external charges applied e.g. Head Office costs?	Yes/No	If yes, please specify	

TRADING TIMES

Please tick the meal times you are open

	Mon	Tue	Wed	Thu	Fri	Sat	Sun
Breakfast:							
Lunch:							
Dinner:							
Last Week Daily Covers:							
Seasonal Hours	Yes/No		Details				

Financial Information

Please use the data from your most recent available financial or management accounts - if not available, please give details for a week/month, as available.

Period for which information supplied (insert details as appropriate) Please choose one of the following:	Year ended	
	Month ended	
	Week ended	

REVENUE					
Revenue (Enter Revenue excluding VAT)	No of Covers	Food Revenue	Beverage Revenue	Service Charge	Total Revenue
Breakfast (Exclude Breakfast menu sold outside of breakfast times)		€	€	€	€
Lunch (If separate menus & pricing)		€	€	€	€
Early Bird (If applicable)		€	€	€	€
Dinner		€	€	€	€
Snacks (If recorded separately)		€	€	€	€
Sub - Total		€	€	€	€
Banqueting (Function and group)		€	€	€	€
Other		€	€	€	€
TOTAL REVENUE		€	€	€	€

COST OF SALES			
Food Cost of Sales (Cost of Food Purchased for resale)	€		%
Beverage Cost of Sales (Cost of Beverage purchased for resale)	€		%
Total Cost of Sales	€		%
GROSS PROFIT	€		%

PAYROLL COSTS

Basic	€	basic pay
Employers PRSI	€	ignore employee PRSI
Overtime	€	pay for working over 39 hours in a working week
Sunday Time	€	premium payment for Sunday work (additional to basic pay)
Shift Premium	€	excluding Sunday Pay (additional to basic pay)
Holiday Pay	€	payment while on holiday, or provision for holiday payment
Sick Pay	€	sick pay, net of any payments from Dept of Social Welfare
Bonus Payments	€	bonus/incentive payments
Other Pay	€	any other payments
Pension Costs	€	payments by employer to employee pension fund/PRSA
Staff Food Costs	€	cost of providing staff food
TOTAL PAYROLL COSTS	€	

BASIC HOURLY WAGE

Chefs	€
Kitchen Porters	€
Waiter/Waitress	€

FULL TIME EQUIVALENT STAFF

Chefs		please use weekly hours divided by 39 to calculate FTE's
Kitchen Porters		
Waiter/Waitress		

SERVICE CHARGE (please circle as appropriate)		
Is Service Charge Applied to All Meals?	Yes / No	Party Size
Is Service Charge Applied to Parties Over a Certain Size?	Yes / No	
What Rate of Service Charge is Applied?	%	

Variable Costs		
Laundry/Linen Hire Costs (Cost of hired linen, or cost of laundering own linen)	€	
Tableware, Glassware, Cutlery (Delph, glassware, cutlery)	€	
Cleaning Costs (Cleaning, Cleaning Contracts, Detergents, HACCP costs)	€	
Paperware/Disposables (Disposable paperware, etc)	€	
Franchise Fees & Sales Related Commission	€	
Bank & Credit Card Commission (Bank Charges & Credit Card Commission)	€	
Total Variable Costs	€	
Overhead Costs		
Rates (Local authority rates)	€	
Water Rates & Charges	€	
Waste Disposal	€	
Insurance (Total Insurance Premium)	€	
Sales & Marketing (All sales & Marketing Costs (Excluding payroll))	€	
Energy Costs		
Electricity (As billed)	€	
Gas (Gas used for heating and kitchen equipment)	€	
Oil (Oil Costs)	€	
Total Energy Costs	€	
Repairs, Maintenance & Renewals (Repairs, Maintenance work, contracts & non-capital rentals)	€	
Music & Entertainment (Live music, entertainment & IMRO/PPI costs)	€	
Rent (Rent for premises/equipment)	€	
Administration Expenses (General Management & Admin Expenses)	€	
Other Overhead Costs	€	
Total Overhead Costs	€	
Return before Depreciation & Finance Costs	€	
Depreciation	€	
Return after Depreciation	€	

Please complete the following in relation to your capital expenditure, premises, depreciation and debt servicing:

Capital Expenditure	
2008	€
2007	€
2006	€
Premises (please tick as appropriate)	
Owned	
Rented/Leased	
Rent/Lease Cost	
€	per square foot
Depreciation Policy	
Building	%
Plant	%
Equipment	%
Finance Costs	
Debt Service Costs - Bank Loan Repayments & Interest Charges	€
Contributions to sinking fund (if any)	€
Please indicate how the owner(s) take a return from the business	
Drawing a Salary	Yes / No
Share of Profits/Returns	Yes / No
Both - Salary & Share of Profits/Returns	Yes / No

Non-Financial Information

Questions	
Do you have an environmental policy?	Yes / No
Do you have a waste management programme?	Yes / No
Do you have an employee handbook?	Yes / No
Do you have an employee training/induction procedure?	Yes / No

Please indicate if you have outsourced any of the following services:

Service	
Accounting	Yes / No
Payroll	Yes / No
Human Resources	Yes / No
Purchasing	Yes / No
Contract Linen Hire	Yes / No

Do you use any of the following systems:

Systems	
Access Control System	Yes / No
CCTV	Yes / No
Customer Loyalty System	Yes / No
Energy Management System	Yes / No
External Stock taker - Beverage	Yes / No
External Stock taker - Food	Yes / No
Holiday Calculation Software	Yes / No
HR System	Yes / No
Payroll/Roster Costing	Yes / No
Reservations System	Yes / No
Stock Control System	Yes / No
Telephone Management Software	Yes / No
Timekeeping System	Yes / No

Main Heating System:

Heating Systems	Main Source	Also Used
Gas - Bulk delivered	Yes / No	
Gas - Piped	Yes / No	
Electricity	Yes / No	
Oil	Yes / No	
Solar Panel	Yes / No	
Wood Pellet	Yes / No	
Other	Yes / No	

Do you produce the following reports?

Report	
Daily covers & revenue	Yes / No
Weekly Covers, Revenue, Labour	Yes / No
Monthly Management Accounts	Yes / No

Have you gone through a tender process for the following purchased items?

Tenders	
Food	Yes / No
Beverage	Yes / No
Cleaning Materials	Yes / No
Energy Management System	Yes / No
Guest Supplies	Yes / No
Printing	Yes / No
Insurance	Yes / No

Regulatory Costs
The study will analyse the costs associated with regulations. For each of the following areas, we request as much details as you have at your disposal.

HACCP		
Estimated Cost of HACCP Compliance	€	<i>time and other expenses</i>
External costs associated with HACCP Compliance	€	<i>advice, training, consultants, testing, etc.</i>
Weekly hours spent on HACCP administration	hrs	<i>total weekly hours for all staff</i>
Do you consider HACCP to be over regulated?	Yes/No	<i>please answer yes/no</i>

Local Authority Rates / Water Charges / Waste Disposal/Environmental

Please complete, where applicable. If copies of the charges are available, please supply.

	2008	2007	2006	2005	2004
Local Authority Rates Charge	€	€	€	€	€
Water Charges	€	€	€	€	€
Waste Disposal Charges	€	€	€	€	€
Recycling Charges - Repak	€	€	€	€	€

Storage of Information

Do you store payroll, VAT and business records on-site?	Yes/No	<i>please answer yes/no</i>
Direct cost associated with off-site storage	€	<i>payments to storage firms</i>
Space used for on premises storage of information	sq feet	<i>size of storage space</i>

Fire Safety

How many fire drills do you carry out per year?		<i>average annual fire drills</i>
Cost associated with fire safety - training & fire drills	€	<i>please estimate</i>
Cost of external Fire Safety Consultants	€	<i>payments to specialist fire safety consultants</i>

Health & Safety

How often do you review your Safety Statement?		<i>average annual fire drills</i>
Do you use a specialist consultant in relation to Health & Safety?	Yes/No	
Cost of developing Safety Statement	€	<i>please estimate - payroll & external consultancy</i>
Cost of Safety Training	€	<i>please estimate cost of training</i>

		<i>courses/time</i>	
Regulatory Burden			

Has the regulatory burden on your restaurant/hotel changed over the last five years? Please tick as appropriate.

	Significant Decrease	Decrease	Increase	Significant Increase
Overall Regulatory Burden				
Health & Safety Compliance (non-HACCP)				
HACCP Compliance				
Employee Related Record Keeping				
Other Information storage				

What is the implication of the changed regulatory burden on your business? Please tick as appropriate.

	Significantly Negative	Negative	Positive	Significantly Positive
Reduced Owner/Manager Customer facing time				
Increased Cost				
Increased Staffing Required				
Increased Record Keeping				
Reduced Complaints				
Improved Quality/Standards				
Improved Staff Retention/Morale				

What are the impacts on your hotel/restaurant of the increased staff costs associated with Sunday trading? Please tick as appropriate.

	No Impact	Minor	Negative Impact
Increased Costs			
Reduced hours of operation			
Reduced level of service			
No longer trading on Sundays			

Any other comments on the increased staff costs associated with Sunday trading?

Sample Menu

The study will examine three "standard meals". Please describe three popular meals, a beef dish, a chicken dish and a fish dish. The information provided here and the financial data provided in the previous section will allow us to associate the costs with the price of a "standard meal"

Beef Dish

Dish Description:		Selling Price (incl VAT)	€
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Specification

Item	Description	Uncooked Portion size (complete oz or kg)		Portion Cost (excl VAT)	Please indicate whether - Fresh/Frozen/Ready Prepped/Organic/etc
		OZ	KG		
Beef				€	
Sauce				€	
Veg 1				€	
Veg 2				€	
Veg 3				€	
Garnish				€	

Chicken Dish

Dish Description:		Selling Price (incl VAT)	€
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Specification

Item	Description	Uncooked Portion size (complete oz or kg)		Portion Cost (excl VAT)	Please indicate whether - Fresh/Frozen/Ready Prepped/Organic/etc
		OZ	KG		
Beef				€	
Sauce				€	
Veg 1				€	
Veg 2				€	
Veg 3				€	
Garnish				€	

Fish Dish					
Dish Description:	Selling Price (incl VAT)		€		
Specification					
Item	Description	Uncooked Portion size (complete oz or kg)		Portion Cost (excl VAT)	Please indicate whether - Fresh/Frozen/Ready Prepped/Organic/etc
Beef		OZ	KG	€	
Sauce		OZ	KG	€	
Veg 1		OZ	KG	€	
Veg 2		OZ	KG	€	
Veg 3		OZ	KG	€	
Garnish		OZ	KG	€	

Beverage				
House White	Cost Price (excl VAT)	€	Selling Price (incl VAT)	€
House Red	Cost Price (excl VAT)	€	Selling Price (incl VAT)	€
Large Mineral Water	Cost Price (excl VAT)	€	Selling Price (incl VAT)	€

THANK YOU!

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