

CARIBBEAN BEACH CLUB RESTAURANT PROPOSAL

JULY 2012

1. INTRODUCTION

The restaurant contract with the current service providers expired at the end of June 2012. A proposal was presented to the service providers which required a service level agreement that would improve quality, hygiene and affordability of alcohol and food. Negotiations to renew the contract were rejected by the current service providers.

The Board reviewed the situation and has decided to send out a tender document offering the following two options:

- 1) To totally outsource the management of the restaurant to new service providers;
- 2) To enter into a joint venture arrangement with an individual to operate the restaurant.

Should Caribbean Beach Club receive no tender offers for the above two options then CBC will consider employing a Food and Beverage Manager to run the restaurant under the control of our Estate Manager and the Restaurant Committee. Our Estate Manager, Kevin Nicholson has been directly involved in the hospitality industry for the past 24 years.

2. CURRENT SITUATION

The current service provider had no capital expenditure investment nor any maintenance cost in the restaurant, fixtures & equipment, as all facilities including the bar, dining room; private lounge and kitchen are provided by CBC. No allowance was made for the current service provider to contribute to the replacement of old and damaged equipment. It is estimated by the Board that an amount of at least R300 000 (Budgeted for by the Board) will be necessary to replace this equipment in the kitchen.

This subsidy was granted to the current service provider in order to ensure a high food quality and that the price of food and alcohol would remain lower or at least competitive with other restaurants in the area.

CBC Home Owners Association receives a monthly rental amounting to R10 000 per month (Annual Rental R120 000) and in addition a commission on turnover amounting to 10% on the first R100 000, 8% on the next R200 000 and 7% on all turnover exceeding R400 000.

The total income received by CBC during the year ending 29 February 2012 amounted to R367 223 as recorded in the Audited Annual Financial Statements, this however does not take into account the marketing and entertainment costs which meant that CBC in effect received a return of less than R300 000.

3. CBC PROPOSED FUTURE INCOME CALCULATIONS

For transparency purposes Annexure "A" attached sets out the anticipated income forecast based on the restaurant's January 2011 to 31 December 2011 (actual 12 months) sales income of R4 117 602 (Annexure "B").

The CBC Board has conservatively forecast income based on an annual turnover of R4 000 000 for the 2 options plus the managed restaurant position as set out in the Introduction and in Annexure "A" which is summarized as follows:

Net CBC Income:

1) Restaurant Outsourced to Service Provider	R500 000 (Based on 12.5% of turnover)
2) Restaurant 50% Joint Venture	R550 180
3) Restaurant In House Operation	R736 331

4. CONCLUSION

As part of the evaluation of the three options the Board has conducted a 'SWOT' analysis to weigh up the advantages and disadvantages under the following headings:

- 1) Estate Managers Involvement
- 2) Financial Control
- 3) Effect of Conferences, Golf Tournaments and Special Functions
- 4) Staff Training
- 5) Staff Uniforms
- 6) Security
- 7) Members Loss of Exclusivity of Premises
- 8) Capital Expenditure

A summarised SWOT analysis is presented herewith in Annexure D

ANNEXURE A

1.) RESTAURANT OUTSOURCED TO INDEPENDENT OWNER

Revenue Sales Income		R4 000 000
<u>DEDUCT</u> Cost of Sales (F&B Cost)	36.5%	<u>R1 460 000</u>
Gross Profit	63.5%	<u>R2 540 000</u>

CBC Rental based on 12.5% of Revenue Sales Income R 500 000

The successful service provider will need to invest a R1 000 000 as well as supply any additional equipment and fittings that they may require to secure a 5 year contract.

2.) RESTAURANT "JOINT VENTURE" PROJECTED ANNUAL PROFIT & LOSS

Revenue Sales Income		R4 000 000
<u>DEDUCT</u> Cost of Sales (F&B Cost)	36.5%	<u>R1 460 000</u>
Gross Profit	63.5%	<u>R2 540 000</u>
<u>DEDUCT</u> Total Operating Cost	43.5%	<u>R1 739 640</u>
Net Profit	20%	<u>R 800 360</u>
<u>ADD</u> Partners Salary Advance		<u>R 300 000</u>
Adjusted Net Profit		<u>R1 100 360</u>
Adjusted Net Profit Distribution as follows:		
CBC Share		R 550 180
<u>ADD</u> 50% Partners share		<u>R 550 180</u>
		<u>R1 100 360</u>

The partner will need to invest R500 000 upfront for this opportunity to secure a 3 year contract. (This was the offer to the current service provider)

3.) RESTAURANT MANAGED "IN HOUSE" PROJECTED ANNUAL PROFIT & LOSS AND INCENTIVE SCHEME

Sales/Revenue Income		R4 000 000
<u>LESS</u> Cost of Sales (F&B Cost)	36.5%	<u>R1 460 000</u>
Gross Profit	63.5%	<u>R2 540 000</u>
<u>LESS</u> Total Operating Cost – Annexure "C"	43.5%	<u>R1 739 640</u>
Net Profit before distribution	20%	<u>R 800 360</u>
Net Profit Distributed as follows:		
CBC	92%	R 736 331
Incentive Scheme	8%	<u>R 64 029</u>
		<u>R 800 360</u>

ANNEXURE B

Revenue 2009 – 2012

Restaurant Revenue Comparison

<u>Month</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2011 vs 2012</u>
January	0.00	241 657.50	305 752.50	429 251.38	123 498.88
February	0.00	277 585.00	291 648.50	311 128.18	19 479.68
March	0.00	276 071.00	315 537.98	353 762.50	38 224.52
April	0.00	316 601.00	400 994.50	449 081.00	48 086.50
May	0.00	233 623.10	281 632.42	262 137.50	-19 494.92
June	0.00	240 187.00	271 961.40	239 898.00	-32 063.40
July	195 183.50	239 290.50	270 948.52	275 000.00	
August	245 783.50	308 323.50	308 166.36		
September	277 972.50	369 260.50	361 416.48		
October	267 840.80	397 504.00	393 413.84		
November	275 966.00	295 444.28	375 627.78		
December	467 612.50	561 825.50	540 502.00		
	1 730 358.80	3 757 372.88	4 117 602.28	2 320 258.56	177 731.26

ANNEXURE C

Projected P&L Incentive Scheme

**Projected P&L
Incentive Share**

12-Jul

Line Item	Month	Year	12-Oct	12-Nov	12-Dec	13-Jan	13-Feb	YTD
Revenue			354071	338064	486451	386325	280015	1844926
Salaries	96000	1152000	96000	96000	96000	96000	96000	480000
Over Time	9600	115200	9600	9600	9600	9600	9600	48000
UIF	960	11520	960	960	960	960	960	4800
WCF	600	7200	600	600	600	600	600	3000
SDL	960	11520	960	960	960	960	960	4800
Uniforms/PPE	1500	18000	1500	1500	1500	1500	1500	7500
Cleaning	2000	24000	2000	2000	2000	2000	2000	10000
Water & Lights	7800	93600	7800	7800	7800	7800	7800	39000
Subscription M-Net	1250	15000	1250	1250	1250	1250	1250	6250
Bank Charges	1500	18000	1500	1500	1500	1500	1500	7500
Maintenance	2000	24000	2000	2000	2000	2000	2000	10000
Rental Equipment	7000	84000	7000	7000	7000	7000	7000	35000
Gas	4000	48000	4000	4000	4000	4000	4000	20000
Telephone/IT	5500	66000	5500	5500	5500	5500	5500	27500
Marketing/Printing	1500	18000	1500	1000	2000	1500	1500	7500
Admin Fees	2800	33600	2800	2800	2800	2800	2800	14000
Total OPS Cost	144970	1739640	144970	144470	145470	144970	144970	724850
GP			209101	193594	340981	241355	135045	1120076
F&B Cost 60%			125460.6	116156	204589	144813	81027	672045.6
Net			83640.4	77437.6	136392	96542	54018	448030.4
CBC Profit 92%			76949.17	71242.6	125481	88818.6	49697	412188
Incentive share 8%			6691.232	6195.01	10911.4	7723.36	4321.4	35842.43

**2011
Revenue
less 10%**

ANNEXURE D

1. OUTSOURCING TO A SERVICE PROVIDER

STRENGTHS

- 1) Trained staff to improve standards.
- 2) Staff outsourced. HR problems limited effect on CBC.
- 3) Enforced staff uniforms and dress code.
- 4) IT Management system addressing purchases, costs & turnover
- 5) Strict management of service level agreement

WEAKNESSES

- 1) No CBC financial control
- 2) Reduced management control by Estate Manager
- 3) No control over staff

OPPORTUNITIES

- 1) Weekdays: Catering for Conferences, Golf Tournaments, Special Functions and Events.
- 2) Service Provider to provide R1 million as well as finance specialised CAPEX for restaurant improvements
- 3) Less menu fatigue & boredom.

THREATS

- 1) Reduced Member Exclusivity of Club Premises.
- 2) Security control for external visitors to the Estate.
- 3) Loss of institutional knowledge & management of facility
- 4) Estate management time commitment.

2. JOINT VENTURE PROPOSAL

STRENGTHS

- 1) Total CBC financial control.
- 2) Staff training under control of CBC.
- 3) Maintaining a high standard of service as required by CBC.
- 4) Improve food quality & hygiene standards
- 5) Cash flow & banking under CBC control.

WEAKNESSES

- 1) Not fully in control
- 2) Loss of partner may create vulnerability for CBC.

OPPORTUNITIES

- 1) Weekdays: Catering for Conferences, Golf Tournaments, Special Functions and Events.
- 2) Proper staff training to satisfy CBC standards.
- 3) Staff uniforms and dress code.

THREATS

- 1) Estate Manager becomes too involved.
- 2) Reduced Member Exclusivity of Club Premises.
- 3) Security control for additional visitors to the Estate.

3. IN HOUSE PROPOSAL

STRENGTHS

- 1) Total CBC financial control.
- 2) Staff training to satisfy CBC standards.
- 3) Staff uniforms and dress code.
- 4) Food quality & Hygiene to CBC standards.
- 5) Control prices of food & alcohol to home owners.
- 6) Greater control of purchases, stock, wages.

WEAKNESSES

- 1) CBC at risk of losses

OPPORTUNITIES

- 1) Weekdays: Catering for Conferences, Golf Tournaments, Special Functions and Events.
- 2) Loyalty Card discount

THREATS

- 1) Estate Manager's involvement.
- 2) Reduced Member Exclusivity of Club Premises.

