

# COMMUNITY CAFÉS A BRIEF FINANCIAL OVERVIEW

January 2011



# Community cafés

Many community organisations have cafés, although few are actually currently viable without subsidy. There are many reasons for this including:

- Low footfall due to location (such as deprived areas) and customer base (low income groups)
- A need for prices to be lower than high street levels coupled with the desire to offer “fairtrade”, “organic”, “locally sourced”, “social enterprise” produce.
- Employing staff with disabilities or other disadvantage (although specific income may be available to support this)
- Little former catering background or expertise amongst management plus limited financial reporting and analysis of the café performance
- On the positive side rent/premises costs are usually low

# Community cafés - a recipe for viability

- Menu pricing should be set with reference to the customer base
- The menu should reflect demand and not be too wide
- It is a volume business so focus on getting the customers in
- Gross profit should be at around 70%.
- Controlling and understanding all other costs including salaries, premises costs, marketing and overheads.
- Overall net margin should be around 10%

# Example Community café

Where is the problem in this café? Where should the focus of action be?

	£	
Takings	100,000	?
less VAT	14,894	
	<u>85,106</u>	?
Cost of sales	40,000	47%
	<u>45,106</u>	53%
Operating costs		
Staff costs	30,000	?
Rent and premises costs	10,000	?
Heating & lighting	4,000	
Direct costs (eg marketing)	3,500	?
Overheads	4,000	
	<u>51,500</u>	?
	<u>(6,394)</u>	

# Example Community café

The initial focus should be on the cost of sales and gross profit margin.

	£	
Takings	100,000	
less VAT	<u>14,894</u>	
	85,106	
Cost of sales	<u>40,000</u>	47%
	45,106	53%
Operating costs		
Staff costs	30,000	
Rent and premises costs	10,000	
Heating & lighting	4,000	
Direct costs (eg marketing)	3,500	
Overheads	<u>4,000</u>	
	51,500	
	<u>(6,394)</u>	

# Community Cafés- Gross Profit

- Gross profit is usually the major factor that needs focus and to be improved
- Gross profit should be around 70% which means the cost of ingredients should not exceed 30% of income (most community cafés seem to be at around 55%)
- It is the menu price (less VAT) that determines the cost budget for ingredients. This requires understanding the cost of each ingredient and purchasing effectively as well as control of waste, stock levels, portion control, menu range and balance.
- Regular review and monitoring is needed
- VAT is a significant cost where takings are £85k or above

# Community Cafés - Staffing

- An experienced manager can make a significant difference to overall performance
- Staffing needs to reflect the opening hours of the café taking account of peak demand periods (times of the day, days of the week and specific times of the year)
- A full time person would work about 1,600 hours per year after taking account of holidays
- The complexity of the menu can impact the staffing needs
- A manager will need to manage staff as well as planning the menu, purchasing and managing targets etc so not all of their time will be available for the kitchen or front of house
- Don't forget holidays and sickness cover when planning staff rotas
- Volunteers can be of significant value but usually a member of staff should be the manager

locality

the power of community

# Community Cafés - VAT

- Sales made by cafés are subject to VAT if the organisation is either already registered for VAT or its VATable income (across all its activities, not just the café) are or expected to be above the threshold of £70,000 for a year.
- VAT is chargeable at the standard rate (20%) except for certain items of cold takeaway food (e.g. sandwiches) which are zero rated.
- Menu prices should include VAT so make sure when pricing food this is taken account of. The price will still need to reflect the market as customers are usually only interested in the total to be paid although this may be different where business customers are paying for outside catering in which case prices can be quoted excluding VAT (although the VAT will still need to be charged on top)



# Community Cafés - VAT

- Since most purchases of food stock for a café will be zero rated there will be little actual VAT that can be claimed, so the VAT that needs to be accounted for in the sales is in effect a significant cost and hence understood and factored into overall calculations.
- The 70% gross profit should be based on net sales (i.e. after the VAT has been taken off)

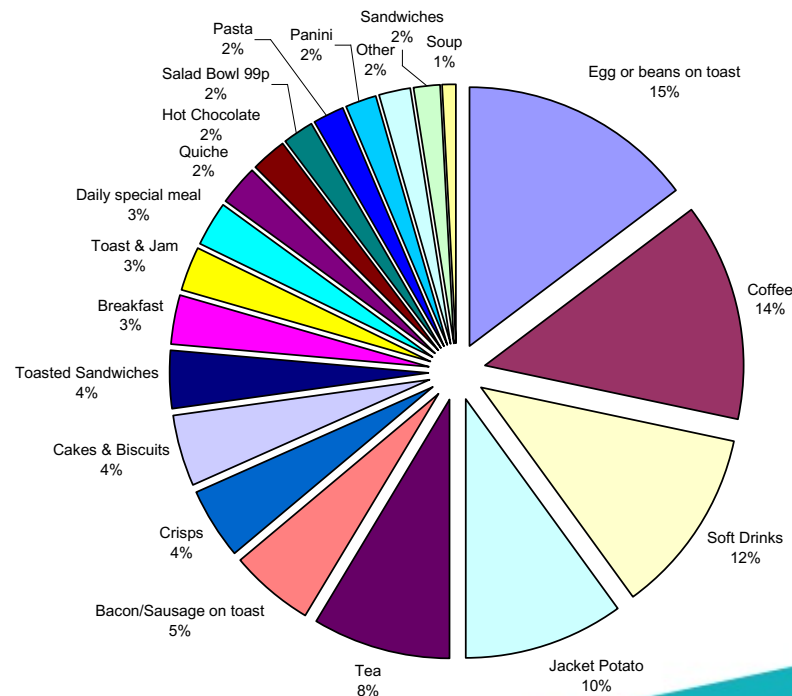
# Example Community Cafés

This shows an example of where gross profit should be.

	£	
Takings	100,000	
less VAT	<u>14,894</u>	
	85,106	
Cost of sales	25,000	29%
Gross Profit	<u>60,106</u>	71%
Operating costs		
Staff costs	30,000	
Rent and premises costs	10,000	
Heating & lighting	4,000	
Direct costs (eg marketing)	3,500	
Overheads	<u>4,000</u>	
	51,500	
Net Profit	<u><u>8,606</u></u>	

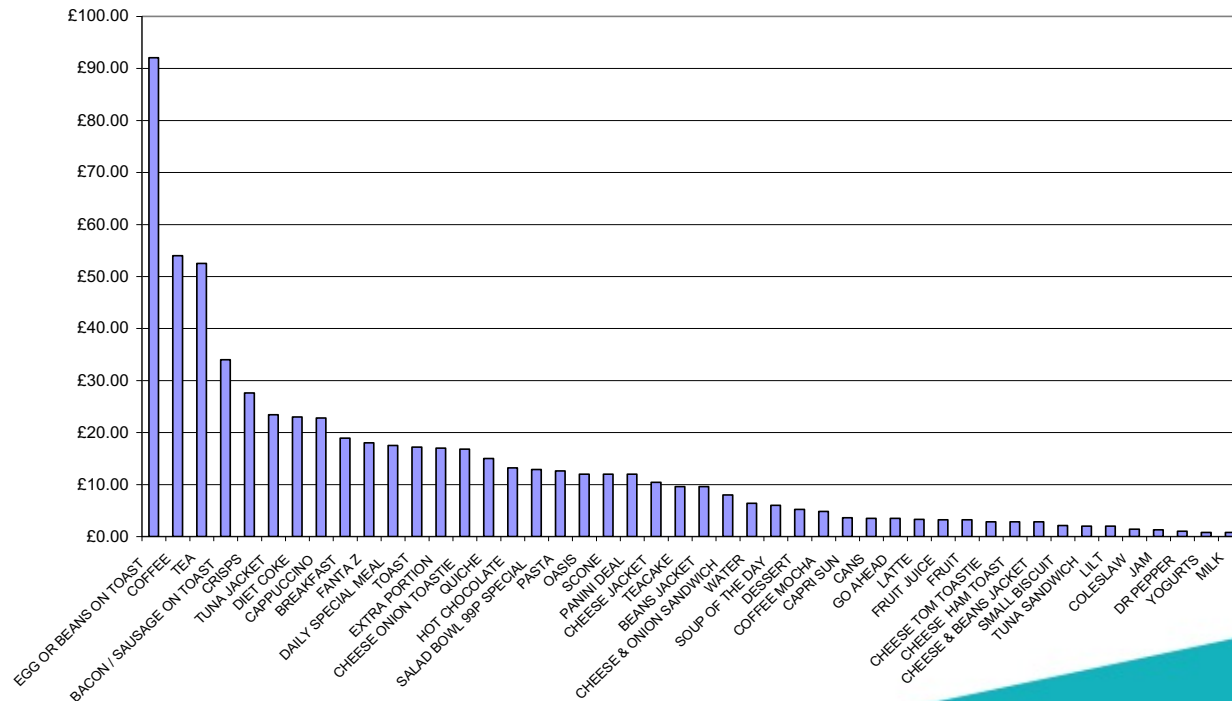
# Example Café takings analysis

This shows a typical situation where there is a large menu but most sales are from just a small number of these. Hence the importance of keeping the menu simple and focussing on the main selling items.



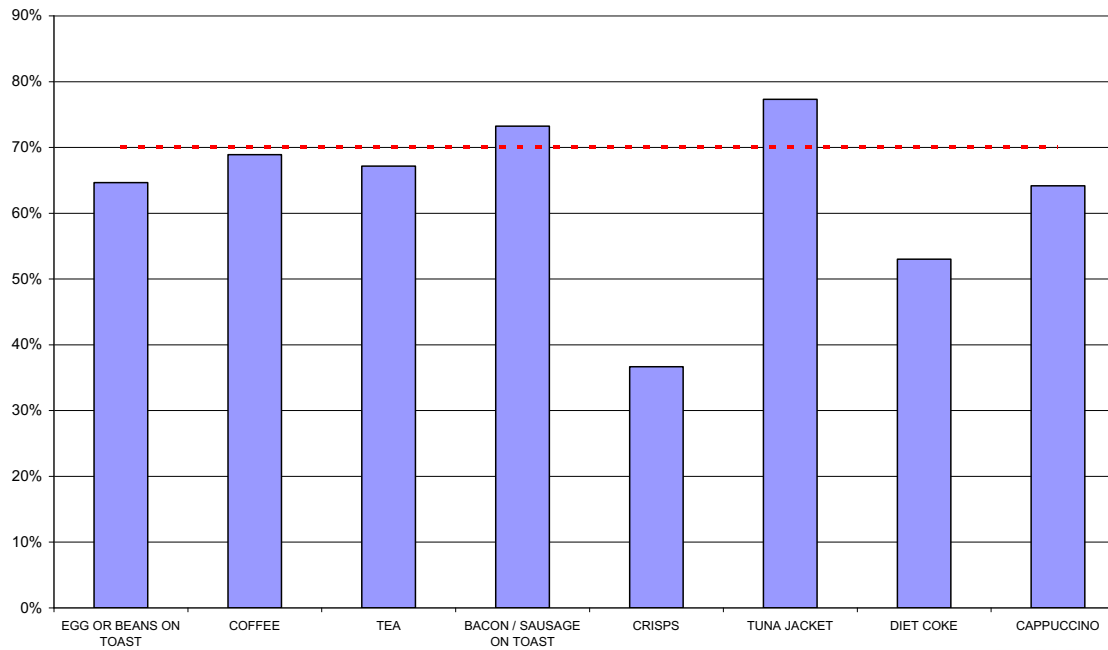
# Example Café takings analysis

As with the previous chart, this shows a typical situation where there is a large menu but most sales are from just a small number of these. Hence the importance of keeping the menu simple and focussing on the main selling items.



# Example café gross profit margins

Individual gross profit margins can vary significantly, hence the overall mix is important to achieve an overall average of around 70%



# Example gross profit for Tea

Ingredient	Menu price	VAT (assumes VAT registered)	Costs £	Gross profit £	Gross profit % (of net of VAT income)
Machine			0.07		
Tea Bag			0.02		
Milk			0.10		
Sugar			0.03		
Stir Stick			0.01		
Cup			0.05		
			0.90		

# Example for Jacket Potato

Ingredient	Menu price	VAT (assumes VAT registered)	Costs £	Gross profit £	Gross profit % (of net of VAT income)
Potato			0.12		
Garnish			0.10		
Tuna filling			0.65		
Salt/pepper			0.01		
	2.60	0.39	0.88	1.33	61%

# Example Costing of a buffet order

Typical order (net of VAT)			£45.00
<b>Menu 1</b>			
		Unit cost	Order Cost
Cheese & Coleslaw	4	0.73	2.92
Tuna & Sweetcorn	4	0.54	2.16
Egg Mayonnaise	4	0.60	2.40
Roast Chicken	4	0.45	1.80
Roast Ham	4	0.60	2.40
	20		11.68
Plates		0.02	0.40
Other packaging	4	0.10	0.40
Napkins		0.03	0.60
Garnish	4	0.40	1.60
			14.68
Gross profit			£30.32
			67%