

Cracking Community Cafés

Money matters!

These fact sheets are produced by Ethical Eats, Making Local Food Work and Greenwich Co-operative Development Agency to help new and existing community cafés get to grips with the basics of running a successful enterprise.

This fact sheet looks at managing and planning finances, taking into account some of the particular challenges faced by community cafés. It suggests some simple things you can do to improve your financial position and recommends extra information if you want more detail.



The Gallery Café, Bethnal Green

Money matters

Planning for success

- ➔ Set targets for the things that are vital for your financial success such as sales turnover, the gross profit you need to make and the surplus after all costs are covered, then monitor your performance.

Keeping on top of your finances is especially important where profits and turnover are not high and cashflow is tight. You might report to a management committee and you may rely on the café's profits to fund social or environmental aims. Do you have a financial target to achieve and a budget to make that happen? A target and budget will give everyone a focal point and provide a way to measure your café's progress.

Back to basics

The key things to consider are first, the income you make from sales: your **turnover**, and second, the cost of food products and ingredients you use for your menu: your **cost of sales**.

- The difference between the turnover you bring in from sales and your cost of sales is known as **gross profit**, and is expressed as a percentage of turnover (usually around 70-75%).
- Most catering enterprises work to a target for gross profit for the whole menu – it may vary from dish to dish (see **Pricing and margins** section on page 5).
- Your gross profit is the money you have left to pay wages and all your **overheads** such as the rent, insurance and other costs. Take into account also the **depreciation** cost of the equipment and other assets you use in the café.
- Community cafés can use any surplus or **net profit** left over after all costs are covered to build a fund for a rainy day or to buy equipment.
- Building **reserves** from your net profit is usually essential to build a viable future for your café. For example, it is a good idea to work out how much you need to save for things like a new oven or crockery, and set a target for the surplus you must make to be able to afford these.
- **Cashflow** describes the money that flows in and out of your bank account – we come back to this later in **Getting organised** on page 6.
- If your turnover is over the threshold for registration (£79,000 in 2013-14), you'll need to charge **VAT** (currently 20%) on your sales prices for all food eaten in, and hot take-away food – remember that this money belongs to the tax man, not to your business!

For example, if you're working to a target gross profit of 75%, and the ingredients to make a dish cost £1, you would price the dish at around £4. See page 5 for more on pricing.

See [Trading for Success](#) p36

See the [HMRC website](#)

What do you need to measure?

In order to keep track of how business is going, you need to keep track of certain **Key Performance Indicators** and compare them to your targets. These are likely to include:

- Daily sales figures
- Weekly sales figures
- Customer numbers
- Average spend
- Gross profit.



Pie in the Sky, a FoodCycle community café, credit Lauren McLean

Money matters

Managing costs

➔ Know your costs and control them so that you really do make the money you need for a financially sustainable café. Work out the costs of providing each menu item to ensure the price is right for both you and your customers.

In a busy café, especially where you are juggling financial concerns with social aims such as training or working with volunteers, it is easy to neglect the things that can make or break the business.

Often in community cafés every penny counts, so it's particularly important to pay attention to details. For example, the gross profit you make from selling a bacon roll will depend on the type and amount of bacon you use, the type of roll and (hopefully only on a rare occasion) any waste.

To price a menu item like our bacon roll you need to know all your ingredient costs, and exactly what goes into each roll, for example:

- What type of bacon do you use, and how many rashers?
- What type of spread or butter?
- Do you offer free sauce?
- If you change the bread, how will this affect the costs?
- Any other ingredients – is it a bacon roll or a BLT?

Some costs may need more investigation than others – for example, how long does a sauce bottle last and what is the average cost of sauce for each roll sold?

The cost of the ingredients used must not be more than expected. Each bacon roll should be the same – consistency helps control costs and keeps customers happy! This is why it is essential to have standard recipes for all menu items – even simple ones like sandwiches.

Staff training is key to ensuring consistency. We will look at this in our next fact sheet.

The unit cost of a rasher of bacon is calculated from the price of the pack of bacon divided by the number of rashers. The unit cost of each gram of flour used in a recipe would be calculated from the price of the pack purchased divided by the number of grams in the pack. Review the list of unit prices at least twice a year.

Most caterers use a menu costing tool to help with these calculations. There is web-based software available, but a simple spreadsheet can do the job just as well and most cafés build their own:

- The easiest way to use a costing spreadsheet is to create a sheet at the front of the file to calculate the **unit cost** for each ingredient.
- You can then use formulae to carry the ingredient cost to a separate sheet for each menu item.
- The advantage of this structure is that you only need to change one figure when the cost of an ingredient goes up or down.
- Download our [example Excel spreadsheet for a chocolate brownie](#) (sheet 1 on unit costs, sheet 2 is a brownie costing) and adapt it to suit your café.



Some key things which will affect your costs are: ingredients, portion size, labour and waste.

See our fact sheet on [Getting the food right](#) for tips on how to balance costs with sustainability issues.

Ingredients

If you don't ask, you don't get! Use your supplier relationships to explore deals and alternative ingredients to help you make more profit. As their customer they want you to succeed, and their knowledge and ideas could be a big help.

For example, could you use class 2 veg in some cooked dishes, or could you use streaky instead of back bacon as an ingredient in a dish?

- Check that the ingredients you're buying are right for the purpose you're using them for.
- Review costs regularly, so it becomes a habit. Introduce a routine check at least twice a year (ideally four times to take into account seasonal changes), taking the time to investigate better deals on ingredients, supplies and services.
- Always check that you are being charged the price you expect. Sometimes increases come unexpectedly (especially on fruit and veg) and, if not addressed, can mean you lose money.

Portion size

Good portion control is about having a clear portion size in mind and being consistent when serving. Simple steps can make a big difference:

- Ensure you have standard recipes for every menu item, and train your staff in how to make each item.
- Use a cake divider template to get the same number of slices from each cake you purchase.

- Decide on a specific ladle or spoon for serving particular menu items.
- Think about the right plate size for the menu item - an oversized plate may encourage servers to provide more than you can afford (and more than will be eaten!).


Labour

A lot of community cafés employ a chef or other staff who work alongside a pool of committed volunteers, while others rely entirely on volunteers.

- Keep on top of the hours worked each week (including overtime) for each member of paid staff. Time spent on things can sometimes drift, causing unnecessary costs for the café.
- Work out the time required to produce a menu item, including preparation and cooking time, and use this as a standard to assess what is actually happening.
- You may find it more cost-effective to buy some things ready-prepared (but check for artificial additives or anything else unwelcome), or find that the menu price does not reflect the real cost of making the dish.
- Think about writing a detailed daily task sheet to allocate time to each task that needs doing in the day – this can also be a great training tool.

Waste

No-one likes waste. It drains hard-earned money you could be investing in your café or in social or environmental projects. Waste can happen in the storeroom if stock goes out of date because it isn't rotated properly, in the kitchen if ingredients aren't prepared efficiently, or on the table if customers do not eat what is served. There are lots of tips for reducing waste in our [Getting the food right fact sheet](#).



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Money matters

Pricing and margins

➔ Make margin where you can. Review your prices regularly. Every extra penny will help to keep your café open and serving your community.

Don't underestimate the value of your community café to customers. Having worked hard to keep costs under control, the wrong price could undo the gains. It's a balancing act. Price your menu items too high and you risk losing customers. Price them too low and you lose an opportunity to make more money without any more hard work! Do you want to be the cheapest in the area? For many community cafés this is not the case, and there is often room for a price increase.

How to price a menu

Time spent on getting your pricing right is a good investment. Adding a few pence to the price of a cup of tea may not cost anything and could make a big difference to the finances. Making pricing decisions is about looking for the *optimum* price for the café as well as its customers. Here are three different approaches:

- **Cost plus:** This is a calculation based on the cost of ingredients multiplied by a factor, for example x4. A lot of cafés start with this approach but it's a blunt instrument and may generate some odd prices. Some menu items like tea or coffee present an opportunity for higher margins (perhaps allowing you to keep prices of other items down); while for others larger margins may lead to a price that is too high, compared to local competitors.
- **Your competition:** Check out what the competition charges for similar menu items. Be realistic about who is really a competitor and the value of your product in comparison: superior ingredients, a pleasant café environment and social or environmental aims are valued by customers. Is being the cheapest critical to your survival?

- **What the market will bear:** Having identified the value you add for customers, consider what people may be prepared to pay for it. Be confident about the worth of your menu and be assertive with your pricing!

Most cafés use a combination of these approaches but the latter is a good way to build a sustainable business. It may take trial and error, but the financial return from optimising prices is a prize worth having for your community café.

Staying legal

There is legislation enforced by [Trading Standards](#) to protect the public from misleading price or labelling claims: if you display a price then you must not charge more.

If you change an ingredient or supplier to take advantage of a better price or service, make sure any product labelling or menu references are updated.

The Croft Tearoom in St Mary Cray has successfully increased the money it makes from tea sales with a clever use of different products and price points. Alongside an everyday tea at £1, they sell a leaf tea at £1.95, up from £1.30 three years ago. The leaf tea price was increased by 20-25p each time their menu was reprinted with no reduction in sales or negative customer feedback, and the extra money makes a big contribution to covering overheads.



The Gallery Café, Bethnal Green

Getting organised

There are legal and other obligations that require a good understanding of café finances, informed decision-making and robust systems to keep track of the cash and retain records. As for any business, good organisation is about people, policies, procedures and useful tools to help you monitor your performance.

- Do you have a clear policy on menu pricing for everyone to apply?
- Are your staff and volunteers aware of the things they can do to help the café achieve its targets?
- When and how often do you review costs?
- Who is responsible for the café's finances?
- Do you have a system for keeping on top of VAT returns and other tax payments?

Keeping track of your finances

Knowing where you are with money is critical. Even profitable businesses may fail if they run out of cash, go over their overdraft limit, and can't find the short-fall by getting a loan, for example.

Cashflow describes the money that flows into the bank account, and out of it, on a weekly or at least monthly basis. The key is to make sure you get paid and get the money into the bank before you have to fork out for bills such as supplies, rent and wages. Here are some useful pointers:

- Bank cash and cheques quickly, ideally every day.
- If you invoice – for an external catering job, for example – ask for payment within 7 or 14 days, and politely remind your customer if they haven't paid by then.

- Ask for credit from suppliers, for example, to pay them after 30 days.
- When making a large purchase, ask the supplier if you can make staged payments – or for one-off purchases plan ahead by making sure you have saved the money in your reserves.
- Run a simple book-keeping system – there are online systems which make this easy, or you can create your own spreadsheets.
- Plan ahead: if you realise that your bank balance is heading into trouble, go to your bank early with a plan to show how you will resolve the problem. They are more likely to give you a loan or larger overdraft if you ask ahead of time rather than at the last minute.

Cashflow forecasting is essential to all businesses. It is crucial to know when the money is coming in and when it's going out in order to control and understand whether you have enough money to continue your trading activities. If the cashflow is negative you (e.g. you are not paid on time) then you need to plan to mitigate against this (e.g. with an overdraft facility). This will help you understand the difference between profit and cash – even if you are profitable, with no cashflow you will go out of business.

Reading this on a computer?

Click on the underlined links to find out more.

Reading a printout?

Check out the 'useful links' box below.

Useful links

Ethical Eats – a network of restaurants, cafés and caterers interested in sustainability: www.ethicaleats.org

The Cracking Community Café fact sheets are downloadable at www.sustainweb.org/ethicaleats/publications/

Making Local Food Work – a project supporting community food enterprises, with a range of how-to guides: www.makinglocalfoodwork.co.uk

Greenwich Co-operative Development Agency – supports co-operatives, community initiatives and social enterprises: www.greenwich-cda.org.uk

Simply Series – a series of guides, produced by Co-operatives UK in partnership with Making Local Food Work, to provide community enterprises with financial, legal and governance support: www.uk.coop/simplyseries

Trading for Success – a practical guide to running a community food enterprise. Download from the Making Local Food Work website – go to 'How we can help' > 'Enterprise support' > 'Social Enterprise Toolbox' (or go to <http://po.st/BtumAD>)

HMRC – the government portal for tax, VAT, employment and other statutory requirements: www.hmrc.gov.uk. They also offer online training: www.hmrc.gov.uk/courses/syob2/s_e

Social Enterprise UK – offers advice and support: www.socialenterprise.org.uk/advice-support/social-enterprises

Find your local **Trading Standards** office by searching for your postcode at www.tradingstandards.gov.uk/advice/

There is **business guidance** here: www.tradingstandards.gov.uk/advice/advice-business.cfm