

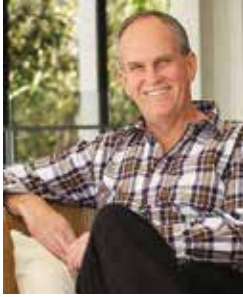


# HOSPITALITY INDUSTRY TREND REPORT 15/16

HOSPITALITY INDUSTRY SUCCESS INDEX



**silverchef**  
hospitality equipment funding  
*your recipe for success*



*Founder and Executive Chairman, Allan English*

## AS YOU KNOW, HOSPITALITY IS A FAST-MOVING INDUSTRY.

It relies heavily on intuition, innovation, and simply 'going with your gut.' However, whilst we know that nobody knows your customers quite as well as you do, Silver Chef also knows that a helping hand in navigating this tricky industry will be appreciated by all hospitality folk alike.

Welcome to the 2016 Hospitality Industry Success Index (HISI) Report. In this paper, we have broken down the industry into its four primary components: Revenue, Competition, Profit, and Expenses. These are the four critical areas that can provide practical insights into the inner workings of the Australian hospitality business; from cafés, restaurants, take-away outlets, and franchise.

Silver Chef is proud to be in its 30th year of business; operating since 1986 with the single-minded goal of acting as an industry leader, and specialist in hospitality equipment funding. Our purpose has also remained unchanged: Silver Chef is here to help you achieve your dreams. It is the fundamental core of our business that we want you to have access to the equipment you need to create a wonderful, successful business; and deliver dining experiences that are memorable to your guests. Simple.

**And yet, the secondary layer to our business is far from simple. Apart from our high level success in setting up fantastic new Aussie businesses, we have taken on a far more complex - although arguably equally as rewarding - task of managing charitable programs both nationally and internationally.**

We proudly partner with Opportunity International Australia to deliver an overseas micro-finance program that enables women in developing countries achieve their dreams. Back on home soil, we're tackling homelessness in Australia by supporting and driving our latest project with StreetSmart, DineSmart, which will be running from the 9th November to the 31st of December 2015. Please visit our website to get involved [www.silverchef.com.au/about/dinesmart](http://www.silverchef.com.au/about/dinesmart)

It is this kind of multifaceted commitment to the greater good that has earned us the esteemed B Corp accreditation. B Corp describes their accredited businesses (a mere 1,366 companies worldwide, by the way) as "a company that uses the power of business to solve social and environmental problems." We are extremely proud to have been awarded this prestigious certification.





**Despite a near-saturated market (lots of cafés and restaurants around) with low barriers to entry, nationwide business confidence is surprisingly high, with almost half of all restaurants and cafés surveyed feeling confident their business will grow, and expecting their profit to increase over the next 12 months.**

A guide for new and established businesses alike, the 2016 HISI Report worked tirelessly to provide practical and useful observations for your year ahead. We recently surveyed 409 of our valued customers, providing precious insight into the reality of an Aussie small business food operator over the previous year. Happily, the results were mostly positive.

What's more, 1 in 5 restaurant respondents and nearly 1 in 4 (24%) of café respondents are new business (less than 12 months old). This suggests there is still opportunity for industry growth. In a time where food is a hot topic across popular culture, and new businesses are sprouting from innovative new spaces, it is fair to say that now is an exciting time to be in hospitality.

And yet, the traditional challenges unique to the hospitality industry remain. Problems such as food spoilage and ever-evolving dining trends, means that the hospitality industry operates on very thin margins. It's up to you, as the business owner, to know your numbers inside and out.

Over and above knowing your own numbers, it pays to know how your competition is faring, too. Business benchmarks will help to compare your performance against similar businesses, and guide you on where you can modify your own costs and expenses. We look at this in greater detail further in the HISI Report, where we show you the annual turnover for cafés, restaurants, and fast food outlets. (All of our figures, and updated numbers are available from the ATO, should you want to stay on board during the year.) How will you fare?

From the team at Silver Chef to you, enjoy what we have put together in our report, and we wish you a profitable and exciting year ahead.

Happy Reading!

Allan English  
Founder & Chairman  
Silver Chef Limited





# OVERVIEW

## WELCOME TO THE 2016 SILVER CHEF HOSPITALITY INDUSTRY SUCCESS INDEX REPORT.

### WHY DOES SILVER CHEF ISSUE THIS REPORT?

In the hospitality industry, every business is unique, with its own personal demographic, style, and aesthetic. However, all businesses in the world of food and beverage share the same problems, and Silver Chef wants to help.

Using up-to-date statistics, and industry-specific case studies, we curate an annual report on the latest trends, challenges, and opportunities in the hospitality industry. Silver Chef has a wealth of industry knowledge and expertise, with experience spanning three decades. We've helped more than 25,000 customers follow their passion and achieve their dreams.

What else can we say? We like to help.

### WHAT HELP WILL IT BE TO MY BUSINESS?

As our studies continue to show year after year, most - if not all - hospitality businesses operate off very thin profit margins. It is our goal to assist you in leveraging the opportunities that currently exist to raise your revenue, reduce your expenses, and ultimately increase your profit.

### WHAT DOES IT INCLUDE?

The report is divided into four sections, representing the four critical areas that can provide practical insights into the inner workings of the Australian hospitality business.

1. REVENUE
2. COMPETITION
3. PROFIT
4. EXPENSES

### WHO CAN I CONTACT FOR MORE INFORMATION?

If you would like to know more about anything included in the 2016 Silver Chef HISI Report, please don't hesitate to contact us at any of the following:

All general enquiries:

1800 337 153  
[enquiries@silverchef.com.au](mailto:enquiries@silverchef.com.au)

All communication and PR enquiries:

**Anna Beresford-Smith**  
Content & Communications Specialist  
07 3335 4242  
[aberesford-smith@silverchef.com.au](mailto:aberesford-smith@silverchef.com.au)





## PART ONE: REVENUE

### TOPIC OVERVIEW

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Owning a business in the food and beverage industry can be a fun and rewarding career, but one that can be tricky to make profitable. With high product costs and an unpredictable landscape of supply and demand, generating revenue comes down to innovation, strategy, and research.

Globalisation has lifted Australia out of its meat-and-three-veg past, and into an exciting new future of diverse cuisines and tastes. In conjunction with the foodie craze sweeping the country - we can thank reality TV for that one - there is a definite optimism felt for the future of hospitality.

So, how can you leverage these conditions to boost your revenue, and turn your business from a labour of love into a profitable venture?



## FACTS AND FIGURES

Business confidence is high, particularly in the café sector, with a growing optimism across the industry. With exciting new innovations in ordering and service technology, and new food trends being embraced across the population, now is the time to grow in the food and beverage industry.

### PRESENT

1 in 4 cafés and 1 in 5 restaurants surveyed are brand new and have been operating for less than 12 months, suggesting that there are still lots of opportunities for growth in these sectors. Take-away outlets however, only have 11% of new players on the market.

Both take-aways and cafés saw the most improvement in their businesses performance over the last 12 months.

Positively, two thirds of our survey group noted they were performing better or the same.

### FUTURE

Interestingly, half of all cafés anticipated their profit margin will grow in the next 12 months, highlighting the confidence of this group.

Indeed, the optimism is strong; 41% of restaurants and a huge 50% of cafés surveyed say their profit margin will grow in the next 12 months of trading.

Yet despite the improvements in the take-away sector, in comparison only 32% expect their business to perform better in the next 12 months.

### LONG TERM BOOM

Looking at expenditure patterns over the longer term, Australians have emerged as big spenders on eating out.

In the age of longer working hours, rising fresh produce costs, and innovative new takeaway technology (we're looking at you, Menulog!) more and more people are ordering out when it comes to their meals.

Where households spent around one fifth of their weekly food budget on eating out in 1984, today that figure is closer to one third.<sup>1</sup>

*“The next five years will herald the era of a consumer-led brand focus for the hospitality industry. Consumers are changing faster than ever before in both attitude and behaviours.” - Deloitte<sup>2</sup>*



## OPPORTUNITIES

### MORE PEOPLE ARE EATING OUT

Close to one third of Australians spend over 50 hours a week in their office. That means less time preparing their own food, and a heavier reliance on restaurants, cafés, and take-away food outlets.

With the increase in demand, has come a revision of both product and service, with the resulting improvement in both encouraging loyalty and return behaviour from the consumer.

### LOYALTY PROGRAMS

Introduce loyalty programs: it will encourage return behaviours in your consumers. Interestingly, loyalty programs did not rate well in the businesses we surveyed. Only 14% of restaurants, 11% of cafés, and 11% of take-away outlets said that they would consider introducing loyalty programs to boost revenue. This is surely a missed opportunity, as loyalty programs are experiencing a renaissance thanks to digital/app-based loyalty programs.

Some of the more popular apps in Australia include:

- Wealie
- BEELoyal
- Stamp Me
- eCoffeeCard

### USE THE RIGHT EQUIPMENT

1. Your service will be faster.
2. Your food wastage will be lower.
3. Your food quality will be higher.
4. Your value perception will allow for higher menu prices.



***Almost 2 out of 3 restaurant owners (61%) say they would improve the service speed and quality/consistency of their food and beverage offering by updating equipment in their kitchen***

## CHALLENGES

### CASH FLOW

Poor cash flow is the number one killer of small business, attributing to a staggering 90% of small business failures<sup>3</sup>. So how to get around cash flow problems? Consider reorganising the elements you can - that is, the timing when you pay your staff, staggering your food deliveries, and forecasting as regularly as possible.

### RESISTANCE TO MARKETING

Take-away outlets are the least likely from all the segments to invest in marketing to attract most customers and boost profit. Marketing is the quickest and more reliable method of drawing in a new consumer base - it opens up a conversation around your product and service that is able to be fully curated by you.

### NOT BEING PREPARED

Prepare for the black swan: that is, rare events with great impact - have you got your game plan ready for sudden loss of staff, equipment, expense increases, or product failure?

### EATING IS CHANGING

- Embrace sustainability: The global 'green movement' is only gaining traction, so make sure you're on the right side of the fence.
- Understand generational needs + values: recognise the growing demand for allergies-aware, vegan, vegetarian, halal, kosher, or organic options.

**When asked what strategies their businesses would employ in the coming year to increase income, only 70% of take-away companies said marketing, compared to 81% of restaurants, 90% of franchises, and 75% of cafés.**

**More on why that's important later.**



MOBILE MARKETING



VIDEO MARKETING



EMAIL MARKETING



DIGITAL MARKETING





## INTERVIEW

*Kieran Westlake is the National Coffee Channel Manager for Silver Chef, and is an industry expert when it comes to forecasting and reviewing trends in food and beverage.*

Given recent reports of glowing optimism on behalf of restaurants, cafés, and take-away outlets across the nation, we asked Kieran: in a congested market, why are business owners feeling so confident?

The answer, says Kieran, is a two-pronged cause and effect: a growth in disposable income and debt buffers, matched by leaps and bounds in high-quality ingredients and products, especially in weaker markets like Western Australia and Queensland.

“Innovation and further quality enhancements has driven consumer value perceptions. This has led to an ever-increasing demand for better food, beverage and coffee orderings from established businesses. To be commercially viable in this market, business owners must understand the factors at play and leverage off them.”

This upswing of growth is set to stick around, says Kieran, with many new opportunities presenting themselves for the future.

He gave us the insider tips.

### FOCUS ON YOUR WEAKEST LINK

Some people are known for their coffee, others are known for their food. The trick? Make sure you master BOTH.

### MULTIPLE REVENUE STREAMS

“Businesses need to start driving multiple revenue streams from their fixed costs, premises rent, electricity and equipment. This lowers the holding costs against their fixed assets and increases their margins per revenue stream.”

### INVEST IN YOUR EQUIPMENT

Silver Chef allows you to have the right equipment immediately in order to adapt to trends, without having to fork out at the time of purchase, removing the barrier to change.

For example, Silver Chef previously helped a bowls club diversify by adding coffee to their offering. This added revenue stream boosted their profit, and opened up a brand new client base.

Aside from the obvious benefit of an extremely high profit margin on coffee, incorporating this new area of business also meant that it attracted some younger, trendy types in addition to the base market of young families and the club's traditional member base. Coffee was something everyone could enjoy.

What does it take to make good coffee? Well, there's a few factors - the beans, the training, and the right equipment. Silver Chef can help get your coffee dream off the ground by helping you get the equipment you need quickly, and making it affordable to give you peace of mind.



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To be commercially viable in this market, business owners must understand the factors at play and leverage off them.

**Did you know:**

Just six cups of coffee covers your Silver Chef equipment rent? The rest is profit.

Yep, you can get \$10,000 worth of coffee equipment for the cost of six cups of coffee a day - it's so easy! And the rest of the coffees you sell are pure profit.

**SO WHAT IS DRIVING THIS GREAT FOOD REVOLUTION?**

Kieran points to the new and active involvement of the consumer. Thanks to the explosion of cooking shows and review sites like Zomato (acquiring Urbanspoon), everyone is an expert, and are enjoying having a voice when it comes to directing food trends.

Australians are also a pretty inspired bunch, says Kieran, with recent spikes in overseas travels encouraging foodies to replicate their exotic meals once back on home soil. Overall, Kieran says that this 'trial by fire' environment for hospitality business has, "driven the innovation and quality of products made, driving further consumption."

In closing, Kieran says that we need to remain true to our roots.

Coffee, says Kieran, is the most exciting new opportunity space.

"The Australian coffee industry, especially in milk based espresso drinks, like flat whites and lattes, is arguably the best in the world. Due to the demand for our product and expertise, we are driving innovation in this space globally and domestically."

The equation is simple: great produce, means great value for the consumer, which encourages loyalty, which increases sales. This is across the industry, and with access to premium produce for on-trend products, the optimism in Australia is set to continue.

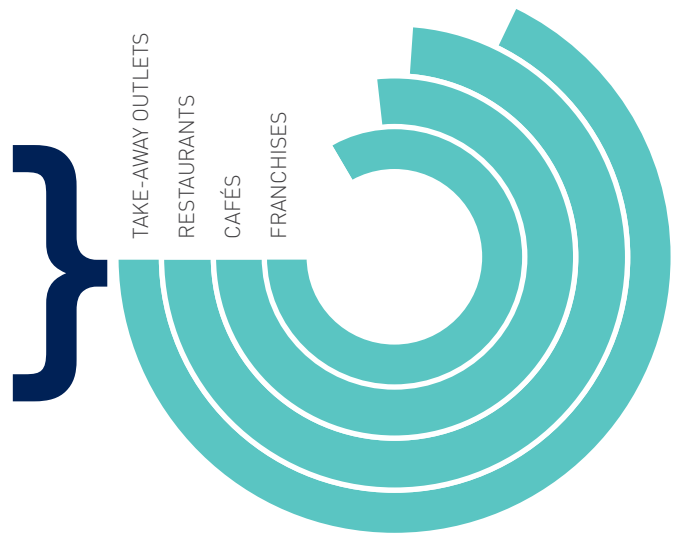




## HOW TO BETTER MANAGE YOUR CASH FLOW

Undoubtedly the greatest challenge to the hospitality industry, small business or large franchise, is that of cash flow.

Managing cash flow effectively proved to be very challenging across all industry segments. 84% of franchises, 71% of take-away outlets, 74% of restaurants, and 77% of cafés said when it came to managing their cash flow in the last 12 months, it was a **constant juggling act and sometimes difficult to keep on top of**.



*Let's look at this in more detail.*

### STEP 1: PREPARE A SALES FORECAST.

You should look to do this at least once a week, creating a cash flow projection using factors like:

- sales forecasts
- customer payment histories (if regulars, or retainer clients)
- upcoming expenditures

What you will be left with is not a full accurate prediction - none of us know the future! - but will allow you a rough idea to work around market climates, seasonal trends, or fluctuations in the industry.

### STEP 2: ESTIMATE CASH INFLOWS.

This is the list we actually enjoy writing: what are your cash inflows for the period in question? This should include money from customers, money from assets sold, interest earnings, loans received, or other sources of income.

### STEP 3: ESTIMATE CASH OUTFLOWS.

And now for the list that should be entitled 'reality'! What are your outgoing expenses? This could be

supplier payments, salaries, loan repayments, taxes, debt, or supplies. Don't forget the less frequent but equally as important costs such as insurance, rates, and registrations.

### STEP 4: CALCULATE YOUR NET CASH POSITION.

This formula is simple:

Cash on hand + estimated cash inflows  
- estimated cash outflows = **NET CASH BALANCE.**

This will give you a good picture of where you stand in terms of spendable income, as well as bringing into the spotlight your outgoing costs.

### STEP 5: SURVIVING SHORTFALLS.

This is the moment any business - big or small - dreads: being unable to pay the bills. The plan of attack should be immediate action. By regularly calculating your net cash balance, you should be able to spot the problem early, and in doing so, be in contact with your bank for assistance. Always ask your suppliers for longer payment periods, and most of all: be transparent. Hiding the problem or lying to those owed will only create more of a problem.



## TOPIC OVERVIEW

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Competition is integral to the business of food and beverages.

Hospitality has, and always will be, a fast-moving race of winning over your customers, constantly seeking innovation, and maintaining your reputation as one of the best - if not the best - in your field.

But, as with any industry, there are benefits to knowing who your competition are. Who shares your market? How do your costs compare? Is your business in a highly condensed area?

With the demand for take-away food and restaurant dining on the climb, the Australian food and drink landscape is looking to become more competitive than ever - are you prepared?

## PART TWO: COMPETITION





## FACTS AND FIGURES

A large proportion of those in the hospitality industry are old hands at the game (trading for longer than four years). Yet despite the somewhat congested market, our findings show that new players on the scene (1 in 4 cafés and 1 in 5 restaurants) are confident of their future success, entering with eyes wide open.

### YOU'RE ALERT, BUT NOT ALARMED

The general attitude is one of awareness, but not concern - 69% of cafés/coffee shops, and 65% of take-away outlets are not concerned with nearby competitors. Cool, calm, and collected - that's what we like to see.

### ALMOST HALF ARE FEELING THE SQUEEZE

Large clusters of restaurants are a great convenience to the consumer, but a concern to restaurant owners trying to mark their territory. 41% of restaurants surveyed felt the pinch, saying they felt there are too many competitors within close proximity.

### TIME TO STAND OUT FROM THE CROWD

Although competition in the industry is fierce, 1 in 5 operators say it doesn't matter because they have a niche product. The lesson here? Make sure your product is unique and high quality, and always be informed of what your competition are doing.

### RESTAURANTS FEEL SAFE

Restaurants have traditionally owned the food market, but with the rise of high-quality, healthy take-away food available, we asked: are they scared of losing their relevance? Not so. 67% of restaurant owners say they aren't concerned about the competition from nearby cafés, pubs and other venues selling meals.





## OPPORTUNITIES

### NEW TECHNOLOGY

Gain an edge over your competition by creating a fuss-free and modern environment for your customer with the latest in consumer technology.

*These include:*



**Online booking systems**



**Contactless EFTPOS systems, such as Paypass or Paywave**



**Electronic ordering, like iPads, or touch screens**



**Automated marketing via email to your loyalty database**

### DIRECT ENGAGEMENT

Now, more than ever, new pathways have been opened up between yourself and your consumer. Use these to get up-to-date responses, and create direct conversations. You can use the variety of social media channels such as Facebook, Twitter, Instagram; or EDM (electronic direct mail) to communicate new offers, news, surveys, answer product queries, or other important information.

### A NEW AUDIENCE

Did you know 85% of Australians use a Smartphone? And 92% of all households have Internet access.<sup>3</sup> The demographic is shifting to an online forum - make sure you're catering for their needs.

Food preferences are changing quickly, too. The sprawling Baby Boomer population is getting older, and investing in healthy food options. In turn, the growing Gen Y demographic provide more diverse food requirements than previous generations, with a rising demand for vegan, vegetarian, halal, kosher, and allergy-specific options.

Your new audience is better educated than ever before on health and smart food options. Fast food will always have its place in Australian food culture, but ensuring you provide a diverse and interesting menu will ensure you remain relevant and popular.





## CHALLENGES

### URBAN VS COUNTRY: WHO'S DOING BETTER?

It comes as no surprise that the sentiment of optimism and excitement in new hospitality business is clustered in our nation's urban centres.

In the city, a huge 92% of publicans are feeling very confident for their futures, with A-grade investments in equipment, menus, marketing, and decor raising both volume and spending from their consumers. In comparison, with only 69% of regional pubs feeling confident about the future, is Australia's famous pub culture being replaced with its modern successor, the urban gastro-pub?

Hospitality in rural Australia is suffering, with their dwindling consumers opting for multinational fast-food take away like McDonald's, and ageing owners resistant to investing in the updates they need to ensure their future.

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"Nearly half the publicans surveyed have been in business for more than 21 years. Costs of entry, succession and the need to innovate are emerging as big challenges for the future of the sector. Capital expenditure and the need to maintain a relevant product offering is the key factor defining quality operator success amidst intensifying competition."

- Morgan Kelly, of Ferrier Hodgson, who surveyed 240 hoteliers across Australia.<sup>4</sup>

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### FOCUSING ON ONLINE OPPORTUNITIES AS MUCH AS YOU DO OFFLINE OPPORTUNITIES

As the old saying goes - a business owner must always make time to work **ON** their business, not **IN** their business. Branching out into new technology or online platforms is a pie-in-the-sky dream unless you dedicate time to the cause.

***Get your online profile started by:***

- 1. Making sure your website is up-to-date so customers can find you easily online***
- 2. Setting up social media platforms like Facebook and Instagram***
- 3. Making sure your business is on business directory listings like Zomato***

If you don't have these skills personally, seek out help from online consultants, or engage your staff - who knows what skills they can offer!



## HAVING THE RIGHT EQUIPMENT

With a slick and modern kitchen, you will be able to increase both the quantity and quality of food being produced. Don't be left behind as your competition moves ahead - make sure your kitchen is performing at the best rate it can.

## FINDING GREAT STAFF

Having a great kitchen is nothing without a solid team working in it. But finding reliable, long term staff in the hospitality industry can be difficult. To build a great team, make sure you:

- Take your time to select the right staff: look for enthusiastic, committed, and passionate people who are honest and experienced in their field.
- Correctly handle onboarding staff, training, complaints, holidays, and outgoing staff.
- Take your time: food is only part of the picture when it comes to a successful restaurant, café, or take-away shop - great service is crucial too. So take your time in the interview process to make sure you're choosing someone who fits your work culture.
- Find out their skills: people often have more to offer than meets the eye. Maybe your new waiter also happens to be a talent in online coding to help you with your website. Ask the right questions, and you can build a multi-disciplinary team.



# GROW YOUR BUSINESS THE SMART WAY WITH SILVER CHEF

## \$10,000

Coffee set-up is yours for just

6 cups of coffee per day.



Every cup after is *profit!*

## \$20,000

Combi Oven is yours for just

3 main courses per day.



Every meal after is *profit!*

## \$15,000

Conveyor Oven is yours for just

3 large pizzas per day.



Every pizza after is *profit!*

## \$2,500

Fryer is yours for just

2 serves of chips per day.



Every serve after is *profit!*

### Coffee Equipment

Cup of Coffee Sell Price	\$4.00
Average Cost Price	\$1.00
<b>Profit</b>	<b>\$3.00</b>
SC Weekly Payment on \$10,000	\$126.92
SC Daily Payment on \$10,000	\$18.13
How many coffees to cover cost per day from profit?	6
Extra coffees required to own within a year?	5

### Combination Oven

Plated Meal Sell Price	\$20.00
Average Cost Price	\$6.00
<b>Profit</b>	<b>\$14.00</b>
SC Weekly Payment on \$20,000	\$253.85
SC Daily Payment on \$20,000	\$36.26
How many plated meals to cover cost per day?	3
Extra plates needed to own within a year?	1

### Conveyor Pizza Oven

Large Pizza Sell Price	\$13.00
Average Cost Price	\$3.90
<b>Profit</b>	<b>\$9.10</b>
SC Weekly Payment on \$15,000	\$190.38
SC Daily Payment on \$15,000	\$27.20
How many pizzas to cover cost?	3
Extra pizzas needed to own within a year?	2

### Fryer

Bucket of Chips Sell Price	\$3.00
Average Cost Price	\$1.00
<b>Profit</b>	<b>\$2.00</b>
SC Weekly Payment on \$2,500	\$31.73
SC Daily Payment on \$2,500	\$4.53
How many buckets to cover cost?	2
Extra buckets needed to own within a year?	2





# INCREASING YOUR VALUE PERCEPTION

As with any retail business, you must spend money, to make money.

In order to raise your prices for consumers (and therefore increasing your revenue) you must first work to significantly increase your value perception. Consumers in the current industry climate are prepared to spend big on take-away or eat-in food - but first you must convince them of its worth.

Here are our top tips to increasing your value perception.



## PROMOTE POSITIVE CUSTOMER FEEDBACK

Positive testimonials of your product will be the best sale point possible. Advertise positive customer feedback at every touchpoint possible - on your website, on your menu, and even on your shopfront.



## GIVE A STRONG GUARANTEE

Preaching value is only powerful when backed with confidence. Make sure you make firm and assertive statements regarding the quality of your food and service - it will create an environment of trust for your consumer.



## CREATE A NARRATIVE

Satisfy growing consumer curiosity about their meal by creating a narrative around the produce or product - is your salad using 'farm fresh' ingredients? Why did you choose that brand of coffee? Tell a story, and connect the consumer to their meal.

Start with this: what is it that makes your restaurant or café different to everyone else? Is there a story behind your name? Is your family from the Mediterranean and you have incorporated traditional elements into your venue as a homage to your heritage? It will make a huge difference in a congested and highly competitive market.



## REVIEW YOUR LANGUAGE

Food advertising has long been considered an art: using just a few choice words, you can convince your viewer to choose you over the competition. Creative copy is everywhere, so pay attention to the language you are using, on everything from your menu descriptions to your window advertising.



## USE PHOTOGRAPHY

They say the way to someone's heart is through their stomach - well, the way to someone's stomach is through their eyes! Invest in high-quality photography of your dishes, interior, kitchen, and ingredients. A picture does indeed, after all, tell a thousand words.



## EDUCATE YOUR STAFF

A simple fact dropped by your staff to a customer at the point of sale, or whilst ordering, can shift food choices or brand awareness significantly. For example, requesting that your staff strive to make your consumers aware that you've actually switched to a premium ingredient, is a great way to upsell a product and increase your value perception.





TASSIE CAFÉ  
PROVES ANYTHING  
IS POSSIBLE



There's something special about country cafés. With the unique personality and home-made freshness that only a small business can provide, The Red Velvet Lounge welcomes you from first sight.

Nestled into the lush countryside of Cygnet, around 55 km from Hobart, The Red Velvet Lounge sits snugly between the picturesque mountain ranges and quiet streets of the small town. Famous for its cakes, biscuits, and sourdough bread, The Red Velvet Lounge is famous among locals and visitors alike - which, considering its recent turn of events, is nothing short of remarkable.

In November of 2014, the historic 100-year old building tragically caught fire, and was burnt to the ground. Believed to have started in the kitchen and spreading quickly to their famous dining area, both investigators and insurance companies couldn't offer much further explanation for the fire than this: it was just damn unlucky.

Owner Steve Cumper was devastated. The kitchen - the heart of his iconic restaurant and café - was destroyed. His dining area was unusable. He was losing money by the day as his bills ticked over. But worst of all, his insurance policy didn't even come close to covering the hundreds of thousands of dollars worth of damage the fire had caused.

"At this point, I thought the fire was a sign to pull up stumps," says Steve, a hospitality veteran of over 30 years. "But we had such an overwhelming response from the broader community who organised a fundraiser.

"Attending were a whole lot of industry people and organisations who banded together to raise \$35,000. And that really steeled our resolve to get up and keep trying."

Among the people to hoist Steve and his staff back into business were Silver Chef. Already a loyal customer of the Silver Chef brand, the equipment lost in the fire had only just been paid off for full ownership by Steve a short time earlier.



"I contacted Silver Chef," remembers Steve, "with a 'Wish List' and a 'Reality List'. Luckily, they were able to help me with both."

Indeed, the existing relationship between Silver Chef and Steve meant that replacing his kitchen was as easy as a phone call.

With an incredible \$75,000 loan from the government, Steve had only a small gap to cover when it came to setting up a new and renovated kitchen.

To preserve his cash flow, Mr Cumper decided to rent-to-buy nearly \$90,000 worth of kitchen equipment and stainless steel benches through Silver Chef, rather than buying it outright.

"I was working to an incredibly tight budget and didn't want to tie up what cash I did have in expensive kitchen equipment," says Mr Cumper, whose wages bill alone is about \$300,000 a year.

"The ability to get the equipment you want immediately without having to outlay a shed-load of cash is very attractive; renting-to-buy the equipment was a no-brainer."

Silver Chef's willingness to fund new and used equipment also helped The Red Velvet Lounge keep its costs down.

On Saturday evenings, The Red Velvet Lounge transformed from a café into a fully fledged restaurant, and the kitchen reflected this versatility. Almost everything prior to the fire was from brand 'Simply Stainless' - four work benches, dishwasher, sink benches and gantry.

Following the fire, The Red Velvet Lounge saw a whole new kitchen installed. The combination of new and second hand equipment now included exciting new options like a Robot Coupe ice cream machine and Henkleman vac packer. In addition to restocking the essentials, Steve also chose to add in a new Expobar coffee machine and versatile Mecnosud spiral mixer. His new kitchen was complete.

Steve Cumper is no stranger to the perils of the hospitality industry. Starting out at the tender age of 16, Steve overcame many hurdles to win the successful name he currently has in the Australian food and beverage industry. He was the winner of *Country Style* magazine's first ever National Country Chef of the Year award, and the iconic Red Velvet Lounge was even included in a 2014 issue of the *Wall Street Journal*.





When asked what 'Plan B' was if the café could not be rebuilt, Steve laughs.

**"There was no Plan B. I've got very strong views, and I don't think I could work for anyone else. I have extremely high standards, and I'm not prepared to compromise those things."**

He cheekily adds, "The only real back up plan was for me to go back to male modelling."

And it was this determination and passion for his work that has seen Steve rise from strength to strength since the reopening of The Red Velvet Lounge earlier this year.

One cannot help but marvel at the highly responsive and innovative era businesses are lucky enough to operate in these days. It was not long ago that losing your business meant, well, losing your business. To watch your building burn to the ground spelt the end of the road for many, as raising the cash to rebuild would have taken years.

In 2015, however, response time is the basis on which so many companies are growing their offering.

**Silver Chef knows that every moment spent waiting is an opportunity lost, a customer not served, and another cost incurred. So it is our goal to allow our clients to have their business operating as best it can, as soon as it can.**

Steve Cumper agrees. "The nature of lending money has changed over the years. Quite frankly, people could not have found the spaces in between established commercial markets to find, purchase and create a new market."

As Steve has shown, by having the right equipment, at the right time, everyone is a contender - regardless of difficult circumstances.

So, we asked - how would you describe the new and improved Red Velvet Lounge? Steve says the refurbishment has allowed him to replace an "idiosyncratic space that had patinas of interest layered over the years" with a more appealing one.

"It's a beautiful space—it's lofty, airy, light, warm and the same bonhomie we were noted for is still in the bricks—that's going nowhere."

Also unchanged will be the "frocked-up yet unpretentious" country food for which The Red Velvet Lounge is famous, including its Nanna-style cakes—"think upside down quince cake with custard".

Sounds very, very inviting to us.

A photograph of two young women in a cafe. The woman on the left, with red hair and glasses, is smiling and holding a credit card over a payment terminal. The woman on the right, with blonde hair, is also smiling and looking at the card. A white coffee cup is on the table in the foreground. The background is a blurred cafe interior.

## PART THREE: PROFIT

### TOPIC OVERVIEW

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It is the driving force behind any business: profit. Hospitality is an industry buoyed by fast-moving trends, creating an environment ripe for innovation, change, and potential profit growth. What you are doing today, can be completely different tomorrow.

Hospitality businesses can often operate on thin profit margins - but how can you increase yours? We look at the profit growing opportunities and challenges for your business.





## KEY FINDINGS

The formula for better business has always been very simple: increased profit must come from increased work. Whilst many of you are still prescribing to that mentality, it would seem the adage of 'work smarter, not harder' is also coming into play with profit-boosting schemes like add-on purchases at ordering or POS, liquor licences and decreasing wastage.

### THE BUCK STOPS WITH YOU

Some things never change in small business, right? Nearly 1 in 3 restaurant owners (28%) have said that they will work longer hours themselves in a bid to keep wages at bay. Wages costs are the biggest expense for a hospitality business, so business owners try to cap these themselves by working longer hours. Not an ideal scenario, right?

### FRANCHISES ARE KING OF THE ADD-ONS

Not surprisingly, franchise models ranked the highest at (63%) to promote add-on items – e.g. combo meal deals, upsizing, fancier meals ('create your own'), or better quality ingredients. In the age of reality-TV food obsession, it would seem the average person is no longer content with, well, average!

### TAKE-AWAY SAY NO TO ADD-ONS

Interestingly, only 35% of take-away outlets said they would use this tactic in the next 12 months to boost profit. For an industry personified with 'Would you like fries with that?', it was a surprisingly low figure. Take-away outlets would do well to take some pointers from the franchise business model and incorporate some of their tactics to boost profit.

### THE OPPORTUNITIES ARE ENDLESS...

Other tactics supplied to boost profit were as follows:

- Get an alcohol licence
- Actively seek more ways to save on costs
- Re-invent the business model
- Open more days/hours
- Improve quality
- Reduce wages
- Cut cost of sales.

### CUTTING DOWN ON UNNECESSARY WASTAGE

Minimising wastage was the most popular method to increase the business' profit – 69% of restaurants, 80% of franchises, 75% of cafés/coffee shops, 60% of take-away outlets.

### TAKE-AWAY ARE QUICK TO ACT

Take-away has the highest proportion to increase prices to boost profit (41%). Take-away venues are also the most likely of all the segments (at 38%) to use cheaper products and ingredients. They were again the most likely out of all the sectors (1 in 4 - 24%) to reduce their portion sizes in efforts to offset purchase cost increases.



### FOOD FOR THOUGHT:

Using cheaper products and ingredients, reducing portion sizes and increasing prices have long been the take-away sector's 'go to' methods, but in the current climate, does this mean they will lose relevance in the market? Are they actually giving customers what they want, and will this ultimately signal a downturn for this sector if things don't change?

Take-aways need to be more flexible and adapt to the market. Do an audit of your menu and keep the items that are selling well and profitable and remove the non-performers. Look to diversify and add another element (revenue stream), like coffee or ice-cream. Silver Chef allows you to feel comfortable and concentrate on running your business while you trial the equipment to see if it's right for you.





## OPPORTUNITIES

It's the secret code that every small business owner wants to crack: how can I increase my profit margin?

The answer comes down to one simple thing: **being organised**. Allowing yourself sufficient time within your business for both planning and review, will allow you to take on profit-increasing activities, research the latest in innovative strategies, and find out what profit stream is suffering the hardest.

Here are some other opportunities for how you can increase your profit margin, and start working towards your business goals.



### BUILD YOUR TOP-LINE REVENUE

That's right - sell, sell, sell! Did you know that a 2% increase in sales is equivalent to a 10% reduction in food costs? Be aggressive in your selling strategies. Aaron Allen + Associates encourages you to ask yourself:

"Can you refresh the sales skills of your front of house staff? Can you get your servers to sell more beverages? Can you put together some creative specials or fixed price options that will get people in the door? Before you start cost cutting, make sure you're doing everything you can to creatively and energetically sell your restaurant's offerings." <sup>5</sup>



### RE-ENGINEER

The landscape of take-away food, restaurants, and cafés in Australia has changed irreversibly over the past decade. Competition has increased with high-end urban grocery stores now offering fresh, pre-packed meals; restaurants are learning to specialise, whilst centralised ordering systems like Menulog and Delivery Hero are killing local take-away outlets by opening up a world of endless options, delivered to your door. Now is the time to take your current profit-making strategies and adopt them to the modern industry attributes.



### FOCUS ON YOUR GOOD STAFF

Between unpaid training hours from management, uniform costs, onboarding programs, human error and education; it is estimated the average Australian business spends up to \$1,500 training a single member of staff. So, before considering terminating a contract: what are your other options? Can you offer paid leave, holiday leave, or training programs? Hang on to your good staff - they underpin your business in both service and reputation.



### MARKETING

As we will touch on more later, marketing your business is the most effective way to bring in more customers. With major developments in the online sector, advertising your business is now much cheaper than the traditional print advertising of days gone by. You can isolate certain demographics - such as age, or what postcode they live in - so your local catchment can be targeted.



### FOCUS ON THE MAJORS, NOT THE MINORS

Looking at every single opportunity to increase your profit can be completely overwhelming. Adopt the 80/20 rule: what are your priorities? What is achievable in the next 3 months? What would you like to achieve in the next year? What are your long-term opportunities? Take it one step at a time, and cross off all the 'can-do' activities to start seeing immediate results.



## EQUIP YOURSELF WITH THE RIGHT TOOLS

Setting yourself the goal of increasing your food production, or reducing your wastage, cannot be achieved without first creating an environment that will make this possible. Can you reconfigure your seating plan? Is your kitchen using the best equipment possible?



## PASS ON SOME OF YOUR PURCHASE COST INCREASES

It's an unpopular option, but one that more people must consider.

Do your current prices reflect the stock costs, wages, rent? 27% of restaurants and 20% of cafés we surveyed admitted to not passing on growing business costs onto their consumers. Are you selling yourself short for premium ingredients being sold at an average price-point? Consider when you last set your prices, and work backwards to calculate how your expenses have increased since then.





## TOOLS OF THE TRADE

Having the right equipment for your business is paramount to the success of both service and product. In a fast-moving industry that is known for its ever-evolving trends, the food and beverage market requires very specific equipment.

Silver Chef understands that start-up businesses require the right equipment, at the right time. That's why our innovative system allows you to rent and try the kitchen equipment you need, before moving on to purchase if you decide it's right for you. It also provides you with the ability to have your business up and running, creating an environment in which eventual ownership is made possible if that's your ultimate goal.

## CASE STUDY

Recently, Silver Chef had a young couple from Korea open a gourmet pizza store on the Gold Coast in Queensland.

They were travelling quite well until large franchise stores opened in the same complex - suddenly, they were selling \$20 pizzas against their competitor's \$5 pizzas.

**Business started to slide and they contacted Silver Chef to see what their options were. Silver Chef simply asked them if they liked the site and if so, did they think a different type of business would succeed in that location?**

They came back to Silver Chef and noted that a noodle and bubble tea bar would be fantastic - and so, like that, their business was transformed!

They returned all the pizza equipment, replaced it with

a wok table, bubble tea machines and rice cookers. This allowed them to adapt to their changing market conditions and keep the assets that were working like their exhaust canopy and cold room. The result was that their business bounced back, revenue and profit increased, and they welcomed lots of new customers into their business.

### **Hospitality businesses must be both flexible and resilient.**

They must move freely with the trends moving through the industry, but also be prepared to let go of their concepts, and adapt to what the consumer is wanting. Part of this is making sure you have the right environment to do so.

If your current kitchen is squaring you in, then take the time to review - Silver Chef gives you the freedom to try something new, without the financial burden or having depreciating equipment on your books, using up your cash flow and impacting on your business' ability to borrow from lenders in the future. Plus, Silver Chef payments are 100% tax deductible.

It's a fast industry to survive in - and Silver Chef wants to make sure you can keep up.





## PART FOUR: EXPENSES

### TOPIC OVERVIEW

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Hospitality business owners can come up short by failing to address key financial issues.

The industry allows for a higher level of cost manipulation than other industries, so it's important for business owners to react quickly to industry trends. Unlike fixed expenses, restaurant owners can control their outgoing costs by lowering expenses, changing food brands, cutting labour costs, reducing portions or raising menu prices.

So, in a realistic and achievable sense, how can you look to reduce your expenses?

## KEY FINDINGS

### YOU'RE REFUSING TO SHARE THE BURDEN

Purchase costs are going up 50% for restaurants and 58% for cafés surveyed however more than 1 in 4 (27%) of restaurants don't pass any of their purchase cost increases onto customers.

### TAKE-AWAY BUSINESSES ARE QUICK THINKING, FAST ACTING

Take-away outlets are the most likely of all the segments (at 38%) to use cheaper products and ingredients. They were again most likely out of all the groups (1 in 4 – 24%) to reduce their serving sizes in efforts to offset purchase cost increases.

### RENT IS ON THE RISE

More than half (51%) of take-away outlets' rental/lease costs increased as a proportion to revenue, compared to 39% of restaurants, 42% of coffee shops, and 63% of franchises.

### BUT YOU STILL WON'T MOVE

While nearly half of all take-away outlets (49%) consider their rent too high, only 3% will be looking to move when their agreement is up for renewal. Interestingly, nearly 70% plan to renew under similar terms. And they weren't alone: 43% of restaurants, 54% of coffee shops, and 37% of franchises also noted that they wouldn't move regardless of increasing rent.

### YOUR PROFIT IS REDUCING

The vast majority of people are not passing on all the cost increases onto customers, that is taking it as a loss, and therefore making less profit.

### YOUR STAFF AND PRODUCT ARE EXPENSIVE

Wages and costs of goods sold (food and beverage) are the highest costs of a hospitality business.

## OPPORTUNITIES

What are the main expenses to the food and beverage industry?



**Wages**



**Rent**



**Energy Bills**



**Food and produce costs**



**Equipment costs**

As an industry, food and beverage operators are under a lot of pressure to optimise production and keep their costs low. So how can you look to reduce your expenses?

**Reduce energy use.** Switch to compact fluorescent lighting to save electricity, and cut your heating bill with better insulation and windows.

**Pay your bills...early!** Don't let the cash flow fool you: paying your bills early will crunch at the time, but give you freedom down the track.

**Find other options.** Think outside the square. Clever new start-ups are always finding new ways to innovate the hospitality industry, with companies like Silver Chef reinventing how food and beverage businesses operate.

**Measure staff productivity.** With wages sitting as one of the highest expense for most Australian businesses, you want to be sure you're getting bang for your buck. Tie in rewards for achieving their targets.





## HOW CAN SILVER CHEF HELP?

Rent-Try-Buy® is our unique funding solution to help reduce your risk when fitting out your hospitality business, or updating or acquiring new equipment. There's no need for a large upfront capital outlay. We'll buy the equipment on your behalf while you decide if it's right for you.

During our short 12 month term you have the freedom to:

- ✓ Upgrade equipment at any time; or
- ✓ Purchase equipment at any time and receive a 75% net rental rebate.

At the end of your 12 month agreement, you can:

- ✓ Continue renting and the purchase price will continue to drop, or;
- ✓ Return equipment with no further obligation, or
- ✓ Work towards ownership with a 30% discount on your weekly payments with our Easy Own finance option
- ✓ Purchase anytime with a generous rental rebate.



## CHALLENGES

The expenses for the food and beverage industry are unique to hospitality only. The costs of a restaurant, café, or take-away outlet do not exist for any other industry, and provide a challenge only those with many years of experience can resolve.

It doesn't matter if you're big or small, a restaurant, café, or take-away venue, you will all deal with the same problems, with the biggest being:

- Food spoilage
- Wasted food from employees who eat on the job
- Changing dining trends that include seasonal adjustments
- Loyal customers trying new restaurants
- People who are looking for healthier food choices.

However, good financial management spots these trends and issues before they become insurmountable problems.

The solution comes in preparation - always be well across your expense figures, and be prepared to take immediate action on problem areas.



## HOW TO REDUCE YOUR EXPENSES

*Stefan Blee is a chef, consultant and contractor currently working at London Fields, a new gastropub in West End, Brisbane. He specialises in restaurant set-up and operations, menu and recipe development, and cost control.*

We spoke to Stefan about how to reduce expenses in your business. Here are his tips:

### FIRSTLY, YOU NEED TO KNOW WHERE EVERY DOLLAR IS GOING.

Look at expense reports weekly and really analyse where the money is being spent and if those expenses are necessary. Shop around for more cost effective products and compare products and services to make sure you are getting the best deal. It can be as simple as changing chemical suppliers or linen services, using a different milk company, or buying cheaper toilet paper. Also look at things like water leaks and low wattage light bulbs to save on your utilities bills, changing your printer to a model with a longer ink life, or buying flowers from a cheaper florist. Every dollar counts.

### THE KEY TO MINIMISING WASTAGE IS ORDERING CORRECTLY AND STOCK CONTROL.

Many chefs make the mistake of ordering too much and that can really hurt the food costs. Perishables that have a short life need to be ordered in smaller quantities and utilised in different ways if there has been an over order.

For example: a café orders 5 trays of avocados for the breakfast menu but after a slow few days there are still 2 trays remaining and they are starting to turn. The chef should be thinking about turning those avocados into a salsa or puree and put them on a special to move the stock instead of letting them turn.

### STOCK CONTROL IS PARAMOUNT TO A SUCCESSFUL BUSINESS.

All perishables need to be labelled and dated, and correctly rotated with new stock. Correct handling, regularly changing containers and vacuum packing are all going to increase the life of those products. Savvy chefs will use techniques to minimise wastage such as bottling, pickling and fermenting.

### THERE ARE MANY WAYS TO REDUCE THE COST OF GOODS SOLD.

Firstly you need to check that the menu item has been costed correctly and that there is sufficient margin for the sale price. Know the cost of your products and shop around for a better deal - most companies will do anything to secure your business so speak with the reps about the products you are using and give them comparisons of cheaper products through other suppliers. Having multiple suppliers can be beneficial as well - cooking oil, flour and sugar may be cheaper with one company, but vinegar, chocolate and disposables cheaper through another.





For example: There is no point in selling a 200g Wagyu Eye Fillet for \$39.00 on the menu if it costs \$69.00/kg to buy in uncleaned. By the time the chef has removed the sinew and cleaned a 2kg eye fillet there are only 7-8 portions to sell which puts the cost at \$17.50 per steak or almost 50% cost of goods sold (COGS).

**DON'T PERSIST WITH CHANGES IF THEY ARE NOT WORKING, AND GET REGULAR FEEDBACK FROM YOUR CUSTOMERS TO BETTER UNDERSTAND WHAT IS WORKING AND WHAT IS NOT.**

If changes are too noticeable and the business appears different there is a risk of losing regular customers. For example, if you have been putting linen on the tables for years and decide to remove them to save money, speak with your regulars and let them know why you have removed them. Many small businesses will cut back on wages by rostering less staff, but not plan accordingly and spread the extra workload sufficiently. Make sure you have a clear plan on how the changes will affect the service and product and what will be done to minimise the risks.



# THE IMPORTANCE OF MARKETING IN HOSPITALITY

It never ceases to surprise that for such a fast-paced, cutthroat industry, hospitality has always had such a love/hate relationship with marketing. "We've got a great reputation", say some. "Our regulars will never go anywhere else", say others. In a bygone era of booming suburbia, cooking at home, and the attitude eating out or buying take-away as a 'treat'; these arguments might have been relevant. But today, more and more Australians are opting to eat out for most meals, and are therefore less about loyalty, and more about quality and price.

## GO ONLINE

Modern marketing comes in a smaller - and arguably more invasive - space than traditional media: online. Investing your marketing budget into online advertising on platforms such as Facebook will see great return. It's becoming increasingly easier for you to track your efforts and spend in this space with functionalities like free Facebook reporting tools in the back-end. On a commercial front, are you registered with one of the many online ordering apps, like Menulog?

## SAVE YOUR PENNIES

The best part about this type of marketing is that it is cheap, and accurate. You are able to target specific audiences, and establish a connection with them for future contact with promotions, new menus, or discounts.

## FIND THE RIGHT ANGLE

What should you be talking about online? Here are our recommended starting points.

- Kids and teens: make sure you are directly addressing your major audience, particularly in the take-away industry. Kids can be very persuasive.
- Photography: the proven method to get mouths watering.
- Value and affordability: 'guilt free' eating.
- Social Responsibility: green packaging, vegan/vegetarian options, and food recycling.

Don't be left behind with outdated marketing in the wrong places. Make sure your business is getting the visibility it deserves.



### SILVER CHEF TIP:

*If you are a small business who is unable to hire a full-time staff member to manage your marketing, why not hire a marketing consultant? They will be able to come in and establish your marketing strategy, whilst giving you a few tips on how to get started.*





# HOSPITALITY BUSINESS BENCHMARKS: HOW DO YOU FARE?

Just like regularly reviewing your menu offering, reviewing these numbers regularly could have a big impact on your profit.

## COMPARE YOUR BUSINESS PERFORMANCE TO A BENCHMARK

A great way to scale how your business is faring on the competitive landscape, make an effort to compare your business performance using the benchmarks across the industry on a regular basis.

They will allow you to confirm that you are performing within the benchmark range, as well as clarify what it may mean if your business is outside a benchmark range.

When reviewing your results, try to identify the reason for the differences between yourself and the benchmark.

If your business is new, you can use the benchmarks to get a better idea of what sales you should be able to expect and how much your main expenses are likely to be. This will help you in developing a financial forecast for your business.

### WHAT THIS MEANS FOR YOU

If your Cost of Goods is higher than the benchmark, it may be because you could be buying some goods cheaper, or it may be there is a high level of wastage.

If your Labour/Sales ratio is higher than the benchmark, you may need to review staffing levels, or rosters for quieter periods.

If your Labour/Sales ratio is below the benchmark, you may be losing customers because your service is slower than your competitors.

If your Rent/Sales ratio is higher than the benchmark, might you be able to negotiate a discount on the rent with your landlord, or could it be worthwhile moving to a different location at the end of your lease?<sup>27</sup>





## COFFEE SHOPS

BENCHMARK RATIO	ANNUAL TURNOVER RANGE		
Income tax return	\$65,000 – \$250,000	\$250,000 – \$600,000	More than \$600,000
Cost of sales/turnover	35% – 42%	35% – 41%	32% – 37%
Labour/turnover	17% – 25%	19% – 27%	24% – 31%
Rent/turnover	12% – 20%	10% – 17%	8% – 13%

## RESTAURANTS

BENCHMARK RATIO	ANNUAL TURNOVER RANGE		
Income tax return	\$65,000 – \$500,000	\$500,000 – \$2,000,000	More than \$600,000
Cost of sales/turnover	31% – 37%	33% – 37%	30% – 35%
Labour/turnover	17% – 26%	22% – 30%	27% – 32%
Rent/turnover	13% – 20%	9% – 14%	7% – 10%

## TAKE-AWAYS / FAST FOOD OUTLETS

BENCHMARK RATIO	ANNUAL TURNOVER RANGE		
Income tax return	\$65,000 – \$200,000	\$200,000 – \$600,000	More than \$600,000
Cost of sales/turnover	35% – 43%	36% – 45%	34% – 41%
Labour/turnover	13% – 20%	13% – 20%	18% – 25%
Rent/turnover	15% – 23%	11% – 19%	8% – 13%



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