



Gift Shop and Restaurant/Café Operators:

FINANCIAL HARDSHIPS: Renegotiate or Not?

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Facility rentals and catering at botanic gardens dropped 30-40 percent through 2009, when the U.S. economy began its sharpest downturn in several decades. Although reports are that facility rental sales are up 7-10 percent in 2010/2011 and Garden visitor counts are trending up, the result of this significant decline was, and continues to be, a wave of gift shop and restaurant/ café (and catering) operators asking for financial relief and contract renegotiation.

Over the past two and one-half years we have helped many clients renegotiate financial and business terms with their operators. Some of these operators had experienced such a business downturn that they threatened to cancel their contracts if they did not get contract relief and adjustments. If your operator has not approached your institution about revisiting the contract, don't be surprised if you hear from them. Some put it off as long as possible because they do not want to trigger you considering putting out a Request for Proposal (RFP).

At most Gardens the visitor foodservices are marginally, if at all, profitable. Consequently, the operator relies on catering revenue to underwrite them. When catering revenues decrease as they have, it makes the operator's request to renegotiate quite legitimate. Many foodservice operators are asking for justifiable relief—and getting it.

The store operators may be facing similar extraordinary pressure from lagging consumer confidence and price sensitivity, resulting in lower average transactions. The retail business in a botanic garden is very dependent upon impulse purchases, and capturing the visitor's attention with great displays and unusual merchandise is critical for success. But the reality is that in today's climate of economic uncertainty, store visitors are carefully considering their discretionary gift purchases, and often passing by what they once might have bought on a whim. October and November 2010 surveys tracking consumer confidence indicate a slight upswing, however, compared to several years ago, confidence is still lagging and a real challenge for any retail store operator.



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The result of this cautious consumer behavior may be that store operators are asking for a reduction in commission rate, or other forms of help.

However, there are a number of issues you should consider if your operator wants to renegotiate the business terms of a contract you thought was settled and solid years ago.

We advise our clients to first require that their operator partners with them in positive efforts to cut costs and boost visitor participation. This is what smart retail restaurant and gift shop operators have done and are doing as a result of the economic downturn.

Operators typically ask solely for financial relief rather than devise plans to increase customer count/transactions, improve service and experience, increase participation (percent of your visitors, staff, volunteers and members using the gift shop, or café/restaurant), and being more aggressive in supporting the Garden with facility rental sales and group tours.

Garden management should ask: What can your operator (with institutional support) do to improve the effectiveness of their advertising, promotions, and marketing? What plans do they have to

generate visitor excitement and perception about the gift shop and/or café/restaurant?

Make sure your conversations with your operator include ideas about operational changes, right-sizing menu items and changing menu pricing (down), product selection, mark-downs in the store, advertising, promotion, marketing, and public relations in order to increase revenue from all areas and all groups.

If, for instance, an average day sees 20-25 percent of your Garden's visitors dining at the onsite restaurant, ask your operator how they and you can boost that number to 25-30 percent. Setting and achieving that goal will provide financial relief to the operator without cutting quality or service. For every 100K annual visitors you have, if an additional 5K dine with you at an average check of \$12 per person, that adds \$60K top-line gross revenue. You should see at least \$10K of that drop directly toward bottom-line profitability.

It is essential not to overlook the importance of becoming a true marketing, promotions, and operations partner with your concession operator team. Start a promotions planning team that includes the botanic garden marketers and operators as well as the store and foodservice operators.

Concession operators report that once they are able to really engage with garden promotions and sales teams, they have seen a boost in sales results because they can align and integrate their merchandise offerings, promotional pricing, and guest services with events and garden promotions.

It is important to impress upon your operator that while some of the contract changes they are requesting may be valid, they also must make efforts to grow top line sales, change/modify internal operating processes (not to the detriment of customer service, of course), and mitigate losses in order for their operations to become more profitable.

If you agree to discuss financial relief in conjunction with improved and enhanced services, it is likely that the operator will request a reduction in the commission percentage they pay to the Garden on all sales. They may also ask for a reduction or elimination of any minimum annual guaranteed commission that applies.

Another request we have seen quite often is for contract term extensions that will change or modify the terms of the operator's capital investment amortization. For instance, if the operator invested \$500,000 at the outset of the contract for





gift shop or café/restaurant renovation/build-out, they may have originally amortized that amount over their ten-year contract with your institution. By requesting a five-year extension on that contract, they will be able to amortize the remaining balance over a longer time period, which will improve their profit and loss statement.

However, we have strongly advised our clients against agreeing to contract term extensions if avoidable. That should be the last option the Garden agrees to, particularly since there are likely other operational changes that would improve the operator's profit and loss statement (P&Ls), such as the areas discussed above. Adding three, five, or more years to the contract will likely keep the Garden from doing an RFP after about seven years of a ten-year contract. Every seven to ten years is the appropriate (and fair) time to do an RFP and look at the new, ever-changing market of gift shop and foodservice operators.

Here are some steps that your institution can take to minimize the reduction of earned income if you enter into contract renegotiations with your foodservice operator:

- Request copies of your operator's internal (and official) historical, current, and projected P&L statements as they are now, with no operational, financial or contractual changes. The projections should be based on your institution's realistic visitor attendance projections. If the right to do so is not in your contract with the operator, it should be—it's in all our clients' contracts.
- Make sure that you carefully review and evaluate every income and expense line on the P&Ls. If you do not understand what an item represents, ask for more information.
- Realize that operators sometimes have income from other sources that does not directly show up on the P&L. Ask your operator whether the P&Ls they have

given you reflect all income and expenses for their organization at your Garden. An example might be national discounts or rebates. Is there anything your institution needs to consider that is not reflected on the financial documents?

- Get a specific written proposal from the operator for proposed modifications to the contract, including changes to commissions, annual minimum guarantees, operational and service changes, and capital investment terms. The proposal should lay out what they recommend, and it should include details on how they will invest (\$) to grow participation, customer count, and average check at their foodservice sites and what support they need from the Garden and your marketing department to make it happen. The current forecasted national economic situation should be factored into their plans.
- Request projected P&Ls for the next two to three years (or longer) that reflect the changes they are proposing. Make sure that the operator includes specifics about the underlying assumptions they have made when drawing up their projections.
- Insist that their plan include clear written goals that are reflected in their projected P&Ls. For instance, if they want to improve their bottom line by \$100,000 annually, their proposal should achieve that with minimum reduction to your institution's income from commissions.
- Make it clear that any financial relief you provide will be temporary. All contract changes you agree to should include built-in triggers that reverse the contract changes so they revert back to where they are now or were when the contract was signed. Triggers can be specific events, such as reaching a certain gross sales level, visitor count, or number of facility rental events. You may need to include an amendment to the contract that ensures the changes you're making now will revert within a specific timeframe, say two to three years.

Finally, your operator should be aware that you will have to consider getting proposals from other foodservice providers (yes, use the acronym 'RFP') if you and they cannot agree to mutual terms and conditions within a reasonable time frame — say ninety days. If you come to an impasse or your operator submits a proposal that is not aggressive or responsive to your requests and is not industry competitive, they should realize that your institution needs to end up with no less than what would be competitive in today's market. Making this reality of possibly having to do an RFP crystal clear will give your operator a powerful incentive to spend the time necessary to put their best financial and operational proposal forward the first time around.

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