TURNABOUT

Brian Smith. More subjective these days.

How do you keep your consultant's objectivity when you buy into the business and start running it?

Brian Smith thinks his working life is more stressful than it used to be, even though in transplanting himself to Klamath Falls, OR from the Denver area (Thornton, CO) he got away from big-city life and doesn't have to average 240 days a year in hotels any more while he travels for business.

"Owning a retail, high-transaction business and not [being] just a consultant changes your perspective," says Smith. "As a consultant we pride ourselves on being objective to a fault. When you own something you find that you become a little more subjective. You worry about things a little more personally. I try to remain as objective as I can because I think it is best for the business, but the fact is that I [have] become a little more subjective than I should be."

Smith talks in the present tense about being a consultant because he still is. His consultantcy office is upstairs from his bowling center, The Epicenter Family Entertainment Complex.

And he still travels from time to time, as recently to China, where he has several clients. All together, his consultancy has 22 active clients in seven countries including the U.S.

But he spends about 40% of his time doing the typical proprietor things – checking P&Ls, making operational decisions, pressing the flesh with customers.

He is not doing any of this by the seat of his pants.

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'Objective' is the word Smith uses repeatedly when he talks about his consultancy, Business Efficiency

Group. It's the small-business specialization of his larger consulting practice, Individual Advantages. The larger practice is an outgrowth of an accountancy Smith opened, uses proprietary software called BIZVision, and is backed by an IT firm, Envision Networks, Inc., also a Smith creation.

The objective situation for Smith the consultant in 2004 when he was approached by the owners of Epicenter was that the owners couldn't get things together. "The problem with the six partners, I believe – and I think they would agree – is that there were six partners," he says.

Of the married couple who were the managing partners, the husband was also the sales manager for another company – owned by one of his Epicenter co-partners.

His wife, who was handling the marketing and PR, was having trouble with the dense competitive situation: two other bowling centers in a town of 42,000.

Epicenter was highly leveraged when it opened.

In its first five years, it had lost $1.7 million.

The partners wanted to know whether it could be saved.

It took Smith three weeks to do the BIZVision review. It took him, hands on, another three weeks to implement the beginning changes, and another six months of off-site support. BIZVision is designed for a certain amount of consulting time on-site but clients usually require some fairly regular hand-holding for the first three to 12 months, Smith says. Then they have him back once or twice a year for reviews to make sure they're on the right path and to determine whether any recent changes in their industry require him to tweak his results.

He found, as Epicenter's losses suggested, that the center was not in outstanding shape.

"The first thing we did was break down their operations to labor distribution, cost of sales distribution, pricing, portion controls in the restaurant, portion controls in the liquor."

Epicenter did have P&Ls but they were "very convoluted and co-mingled. They weren't segregated by operational department. They did not properly convey cost of goods sold, special pricing and they didn't tell us when the core business was here or wasn't here. So we had no idea how to market to the public; we didn't know what worked or what didn't work. There was no track record of understanding. So there were assumptions made and they were bad assumptions."

Morale problems, especially high turnover, were springing from the operational control issues.

"Also, they had an image problem: how to overcome some of the stereotypes of being a bowling center so that people would [patronize] the nightclub and the restaurant – which are fairly typical problems of restaurants in bowling centers."

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Six months after his on-site work, Smith was again in touch with Epicenter. He had remarked casually in conversation one day that it would be nice to move his family out of the city and into a smaller town. "Hey," said the partner he was talking to, "how'd you like to be a partner? What you did here was great. We're having a hard time implementing it...you wanted to move to a smaller town..."

That might not have been enough to pull Smith away from Colorado but the same week, his employees in the IT company there told him they wanted to buy the business. They pointed out he was always traveling...consulting all over the world...he was never there anyway...

Epicenter would be a chance to work in two lines of business Smith already knew. He was born into a 12-lane house in West Dundee, IL, and today his family owns nightclubs and sports bars in Colorado. Epicenter would fit well with that background: 32 bowling lanes, a 2,500-square-foot arcade, and a sports bar/nightclub that is a full-service restaurant during the day and a "fairly traditional" nightclub after 9 p.m. every night except Monday.

He bought shares from each of the partners.

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After he refinanced the mortgage for lower monthly payments, Smith went to work in three areas to turn Epicenter around: P&L issues, marketing, and personnel relations.

"We did an analysis and discovered where our business was coming from. We retooled the entire company to go after that business. We changed pricing models. We lowered costs, increased revenues and refinanced our debt, and all three together made it a profitable company." See sidebar for details.

Epicenter now does a lot of in-house marketing by way of specials, but in a new style. "Every special has our break-even point factored into it – not only the overall break-even point but for that special. We've cut our prices to get a certain number of people into the building and we're counting on those people doing more than just buying that [special]."

He charts customer participation in his programs. For example, his $25 family package, running on Sundays, includes bowling, food and game tokens, but no beverage. He therefore expects to see an up-tick in beverage sales, where he makes a lot of money on the initial sell (as against refills).

If the numbers aren't where they should be, the program is dropped. If it's successful, it's put into the cycle. "This town is so small that if you run the same thing all the time, they get numb to your marketing."

He stopped treating his employees like transients. "When you think they aren't going to stay, you tend to not empower them, to not trust them. In the back of your mind, you think, 'Well they're going to leave anyway' or 'they're only a minimum–wage employee' or 'they're not a high school graduate.' You can stereotype employees a hundred different ways. I think business owners do that a lot."

Empowered, Smith's employees "feel like they can make decisions that are not only important to the company but important to what they're doing and who they are dealing with, which [makes them] feel more engaged, which makes them want to stay."

And he attacked the image problem for his business by re-branding it. The Epicenter Bowling Complex became The Epicenter Family Entertainment Complex. The Aftershock Lounge morphed and is now changing again to become the Aftershock Restaurant and Nightclub to boost the image presence of the restaurant.

"We've seen our food sales drop over the last 18 months steadily. We've also seen our nightclub business drop over the 28 months. We think [it's] because in this market people tend to get sick of a place, I guess because they go to it every day. It's not going to change a whole lot on the inside but the perception [will be], 'They have a new menu, it's now a restaurant, maybe we should go try it out.'"

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All of this is right in line with what Smith did and does in consulting. The bowling business as such, however, is a big difference – "shocking," he says.

"Touching the public at all socioeconomic [levels] has been the most shocking for me. I have been used to dealing with employees of my clients, but generally I deal at the 'C' level somewhere – CEO, CFO. Now I am dealing with customers in every walk of life, from every demographic, from every business sector."

Touching everyone's life in his small town, as Smith says, "puts us in a unique position." Klamath Falls does have another bowling center, but it is "very traditional. They're great people and have been in the bowling business for a very long time, but they have chosen a different path for their business." A small nightclub in town is a competitor two nights a week, but they never admit people under 21. All told, "from October until May, the Epicenter is the only entertainment venue for hundreds of miles in every direction."

One gets the impression that Smith is feeling the connection, the intertwining of business and community so often remarked by bowling center owners.

Epicenter's story has a happy ending. In less than a year under Smith, revenue was up 22-25%, costs were down 20%. Turnover has decreased by 200%.

There is, however, one problem Smith has not solved. He still doesn't know why the place is called Epicenter, why the LLC that controls it is called Faultline, why the restaurant/nightclub is Aftershock, and why the motel across the street, also owned by Smith and the other partners, is operated through a company called Lava Rock.

He hasn't got around to asking. ❖

What are your key metrics for running your business? Share your insights on www.BowlingIndustry.com.

A BUSINESS ANALYSIS: WHAT BRIAN SMITH FOUND

Operations analysis – Labor and F&B

"We looked at how **labor** was scheduled, and compared it against a three-year daily trend. Interestingly enough, in any given day, on- and off-season, you could project within 10% daily sales. I could tell you that on a Wednesday in off-season we were going to do $850 in food and beverage, $600 in the bowling center. Within 10%, that is going to be right.

"We looked at **[F&B]** cost. Before you get to plate costing – how much it costs to put a plate in front of a customer – you have to look at what your inventories are or how they're used, like your recipes. We did the same thing with liquor.

"We started with our menu, looked at how our inventory was managed. Once we understood that, we looked at the recipes and the plating — how it was plated and how it was presented. We refined the menu and we refined our inventory control practices to allow us to keep the freshest product here at the lowest cost, and the best-looking and the largest portion for the price that we needed, which we computed with a break-even point. We determined from that break-even point what we wanted our projected profits to be. You kind of back yourself into what your pricing model is going to be.

"If you know that a burger is going to take x amount of hamburger and x amount of tomatoes and lettuce, we train our kitchen to utilize portion control so that a plate goes out looking the same every time. The amount of fries on the plate is the same amount every time. Within our inventory managements system we use inventory control or inventory counting practices, and also par levels in inventory ordering practices.

"You begin to lose shrinkage and you begin to control your inventory. Your cost will hold. Our food and beverage costs have held within 2% for almost as long as we've been here. To have a 2% fluctuation in a commodity market, we're real proud of it.

P&L issues – Financials and Pricing

"A pretty typical question when you're doing your surveys is how many league bowlers do you have, what was your league revenue, what was your food and beverage during league? None of those questions could be answered here.

"So we had to dissect the **financials**. We went to the daily sheets that are created by the Brunswick systems and the food and beverage systems downstairs and we recreated the financial picture for the company for the three years prior to me being here [2001 to 2004].

"Nobody knew where the business came from. Did it come from bowling, from the bar, from selling food, from leagues, from open play, from kids, from the arcade? It was all just co-mingled into one or two line items. It was bowling center and Aftershock. Even the lottery money was co-mingled. It was extremely difficult to understand. We may take in $35,000 in a week in lottery funds but in reality we only keep $1,500 or $1,700 with the rest going to the state of Oregon. But that $35,000 was being dumped into the Aftershock sales account. So of course it looked like a nice big number. It looked like a good $4 million company when in reality it's a $2 million company.

"Decisions are made when you see numbers like that: business is good, cash flow is good, we can do this, we can do that. And you can imagine how the cost side of things looked if the revenue side was that consolidated.

"So we rebuilt the total accounting system from the ground up. We separated liquor and non-alcoholic beverages; we separated food from the Aftershock side of the business and the bowling center side. There's the snack bar that feeds the bowling center and our bowlers and there's the Aftershock with traditional diners and your bar crowd. We separated those. We separated bowlers between youth bowlers and adult bowlers and senior bowlers. We started analyzing where our business came from.

"After we understood our breakeven point, we changed all of our **pricing** so it was competitive with the market but it still made us money. We knew how much money we had to make because we knew what our breakeven point was. We also understand what our specials can be. Because we know our breakeven point, if we do a loss leader, we know what we have to do to make up the loss.

"We went up and down. When we raised prices, we always gave something in return. For instance, we raised the base price on our soda products in the bowling center. The 16-, 32- and 44-oz. sodas went up in price, but we lowered or eliminated the refill [price]."