

Running a pub

A guide to costs for tied tenants and lessees
January 2015



Running a pub: a guide to costs for tied tenants and lessees

Contents

- Introduction 2
- Background and explanatory notes 3
- Small community local £4k (turnover per week) 6
- Community wet-led £5k 7
- Community wet-led £8k 8
- Rural character £5k 9
- Rural character £8k 10
- Town/country food-led £10k 11
- Town centre pub/bar £10k 12
- Summary table (£ costs) 13
- Summary table (% costs) 14
- Useful contacts/links 15

Introduction

Business plans, and the negotiations over leases and tenancies in the UK pub trade should be as well informed as possible. This guide provides the latest data for tenants and lessees on typical operating costs in the UK pub industry.

This report represents the best available 2014 data from BBPA member companies on the costs of running a tied pub in the tenanted and leased sector. It is a vital reference tool for anyone running a tied pub or thinking of doing so.

The guide shows the average and range of costs in running a pub over a variety of pub models based on turnover and business types, including food and wet led models.

The report takes account of the significant variations that exist in the cost base - even within those pubs that are broadly in the same category. Such costs are based on the size and location of the pub, the age and state of repair, the operating style and the experience of those in charge. Costs will also vary dependent on tenure type (for example repair and insurance obligations).

As well as providing average costs, the guide also includes the minimum and maximum typical costs providing a range of scenarios across different types of business.

However, we would point out that as input data and sources change each year, the information should not be used to determine trends from year to year. The data should also be used in conjunction with other sources such as the ALMR's annual benchmarking survey.

Background

The BBPA guide has been compiled from data supplied by BBPA members who own and rent out pubs on short term tenancies (typically three years), or on longer term leases (typically fully repairing leases on 10 – 20 year terms).

The tables represent a composite of accounts presented to tenants by companies based on their experience across their entire estate, and individual pub accounts that have been made available to their pub companies.

The information is supplied in summary form across six different pub models. While not inclusive of all business models, they are representative of the great majority of public houses run as either tenancies or leases.

Costs are shown on the basis that the pub business is directly operated by the tenant or leaseholder and that their income is derived from the profit remaining after operating expenses and rent payable is deducted.

The examples and figures supplied in the survey give an indication of costs that are likely to be incurred in the types of pub businesses described in this guide.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs. For further information on taking on a pub, please refer to the links section at the end of this guidance.

Pub models

Seven pub models are illustrated in the report:

- Small community local (c100% drink) turnover c£4,000/week
- Community wet-led (c90:10 drink/food) turnover c£5,000/week
- Community wet-led (c90:10 drink/food) turnover c£8,000/week
- Rural character (c50:50 drink/food) turnover c£5,000/week
- Rural character (c50:50 drink/food) turnover c£8,000/week
- Town/country food-led (c30:70 drink/food) turnover c£10,000/week
- Town centre pub or bar (c70:30 drink/food) turnover c£10,000/week

Please note the turnover and split for each model are general guidelines to give an indication of the focus of each business, and may not exactly relate to each data set presented.

Excluded costs

A number of costs (and income streams) have not been included in the guide. These include:

- MANAGERS' SALARIES: Individual tenanted and leased pubs (the focus of this survey) do not employ full-time managers and therefore such costs are not included. All other staff costs are included in the survey. Staff costs for heavily food-led pubs are greater, given the need for specialist expertise and the greater labour input required in running a food-led operation.
- AMUSEMENT MACHINES: Neither gaming machine (Category C or SWP) income nor the costs associated with them have been included in the figures. Not all pubs have them and arrangements differ across companies and estates.
- ENTERTAINMENT: The cost of specific entertainments, such as televised sport (Sky/BT) and live music, are not included, as they are optional to the pub models and can be added to any business plan or rental assessment where relevant.

Operating costs per pub model

The main body of the report has been arranged by the average reported **operating costs** for each pub category. As previously highlighted, costs exclude managers, gaming machines and entertainment.

Summary tables

At the end of the report, summary tables have been arranged by the maximum and minimum reported total **operating cost** for each pub model, as well as the average. As previously highlighted, costs exclude managers, gaming machines and entertainment.

Value Added Tax

It is important to note that all figures are quoted **exclusive** of VAT.

Divisible balance

Divisible balance is the profit made before rent is deducted. It provides an indication of what rent might be asked for by the pub operating company. RICS guidance states that rents can be in a range of 35%-65% of divisible balance. However, many pub rent settlements are more typically in the 45%-55% of the divisible balance range. All rents can be subject to negotiation by both parties.

The divisible balance is also dependent on the margins achieved on the selling price of drinks and food passing through the business. This can be higher or lower, depending on the arrangements offered by the pub operating company, the location and style of the business and the expertise of the tenant/licensee in obtaining the best return.

Small community local

c. £4k turnover per week
All figures exclusive of VAT



£		
Total Drinks Sales	4,129	
Total Food Sales	43	
Total Sales	4,173	
Cost of drinks	2,024	
Cost of food	20	
Total Cost	2,049	
Gross Profit	2,124	
	51% gross profit margin	
% cost to turnover		
Wages & Salaries	521	12.5%
Rates	165	4.0%
Utilities	188	4.5%
Repairs & Renewals	63	1.5%
Insurance	42	1.0%
Marketing/Promotion/Telephone	61	1.5%
Consumables	23	0.6%
Waste disposal/Cleaning/Hygiene	38	0.9%
Professional fees	70	1.7%
Bank charges	27	0.7%
Equipment Hire etc	8	0.2%
Other Costs	164	3.9%
Total Operating Costs	1,371	32.8%
Divisible Balance	753	18.0%

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT.

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Community wet-led

c. £5k turnover per week
All figures exclusive of VAT



	£
Total Drinks Sales	4,472
Total Food Sales	446
Total Sales	4,933

Cost of drinks	2,181
Cost of food	191
Total Cost	2,373

Gross Profit	2,561	52% gross profit margin
---------------------	--------------	--------------------------------

		% cost to turnover
Wages & Salaries	710	14.4%
Rates	173	3.5%
Utilities	235	4.8%
Repairs & Renewals	102	2.1%
Insurance	53	1.1%
Marketing/Promotion/Telephone	73	1.5%
Consumables	12	0.2%
Waste disposal/Cleaning/Hygiene	52	1.0%
Professional fees	67	1.4%
Bank charges	28	0.6%
Equipment Hire etc	6	0.1%
Other Costs	114	2.3%

Total Operating Costs	1,624	32.9%
------------------------------	--------------	--------------

Divisible Balance	936	19.0%
--------------------------	------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT.

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Community wet-led

c. £8k turnover per week

All figures exclusive of VAT



	£
Total Drinks Sales	6,535
Total Food Sales	748
Total Sales	7,312

Cost of drinks	3,219
Cost of food	312
Total Cost	3,533

Gross Profit	3,780	52% gross profit margin
---------------------	--------------	--------------------------------

% cost to turnover

Wages & Salaries	1,195	16.3%
Rates	262	3.6%
Utilities	305	4.2%
Repairs & Renewals	131	1.8%
Insurance	60	0.8%
Marketing/Promotion/Telephone	114	1.6%
Consumables	12	0.2%
Waste disposal/Cleaning/Hygiene	66	0.9%
Professional fees	69	0.9%
Bank charges	40	0.5%
Equipment Hire etc	8	0.1%
Other Costs	149	2.0%

Total Operating Costs	2,410	33.0%
------------------------------	--------------	--------------

Divisible Balance	1,369	18.7%
--------------------------	--------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT.

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Rural character

c. £5k turnover per week
All figures exclusive of VAT



	£
Total Drinks Sales	2,605
Total Food Sales	2,375
Total Sales	5,024

Cost of drinks	1,215
Cost of food	905
Total Cost	2,124

Gross Profit	2,901
---------------------	--------------

58% gross profit margin

% cost to turnover

Wages & Salaries	1,067	21.2%
Rates	148	2.9%
Utilities	272	5.4%
Repairs & Renewals	101	2.0%
Insurance	43	0.9%
Marketing/Promotion/Telephone	70	1.4%
Consumables	18	0.4%
Waste disposal/Cleaning/Hygiene	62	1.2%
Professional fees	68	1.4%
Bank charges	42	0.8%
Equipment Hire etc	9	0.2%
Other Costs	111	2.2%

Total Operating Costs	2,010	40.0%
------------------------------	--------------	--------------

Divisible Balance	890	17.7%
--------------------------	------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT.

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Rural character

c. £8k turnover per week
All figures exclusive of VAT



	£
Total Drinks Sales	4,162
Total Food Sales	3,796
Total Sales	8,062

Cost of drinks	1,928
Cost of food	1,436
Total Cost	3,376

Gross Profit	4,687	58% gross profit margin
---------------------	--------------	--------------------------------

	% cost to turnover	
Wages & Salaries	1,802	22.3%
Rates	267	3.3%
Utilities	380	4.7%
Repairs & Renewals	149	1.8%
Insurance	58	0.7%
Marketing/Promotion/Telephone	113	1.4%
Consumables	29	0.4%
Waste disposal/Cleaning/Hygiene	83	1.0%
Professional fees	77	1.0%
Bank charges	55	0.7%
Equipment Hire etc	15	0.2%
Other Costs	164	2.0%

Total Operating Costs	3,192	39.6%
------------------------------	--------------	--------------

Divisible Balance	1,495	18.5%
--------------------------	--------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Town/country food-led

c. £10k turnover per week

All figures exclusive of VAT



	£
Total Drinks Sales	4,203
Total Food Sales	6,440
Total Sales	10,696

Cost of drinks	1,909
Cost of food	2,309
Total Cost	4,224

Gross Profit	6,472
---------------------	--------------

61% gross profit margin

		% cost to turnover
Wages & Salaries	2,793	26.1%
Rates	461	4.3%
Utilities	464	4.3%
Repairs & Renewals	187	1.7%
Insurance	51	0.5%
Marketing/Promotion/Telephone	116	1.1%
Consumables	59	0.6%
Waste disposal/Cleaning/Hygiene	147	1.4%
Professional fees	77	0.7%
Bank charges	69	0.6%
Equipment Hire etc	35	0.3%
Other Costs	152	1.4%

Total Operating Costs	4,610	43.1%
------------------------------	--------------	--------------

Divisible Balance	1,861	17.4%
--------------------------	--------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model - extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs - check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Town centre pub/bar

c. £10k turnover per week
All figures exclusive of VAT

	£
Total Drinks Sales	7,594
Total Food Sales	2,030
Total Sales	9,706

Cost of drinks	3,560
Cost of food	792
Total Cost	4,358

Gross Profit	5,349	55% gross profit margin
---------------------	--------------	--------------------------------

	% cost to turnover	
Wages & Salaries	1,991	20.5%
Rates	345	3.6%
Utilities	360	3.7%
Repairs & Renewals	169	1.7%
Insurance	70	0.7%
Marketing/Promotion/Telephone	285	2.9%
Consumables	23	0.2%
Waste disposal/Cleaning/Hygiene	90	0.9%
Professional fees	78	0.8%
Bank charges	56	0.6%
Equipment Hire etc	11	0.1%
Other Costs	177	1.8%

Total Operating Costs	3,656	37.7%
------------------------------	--------------	--------------

Divisible Balance	1,693	17.4%
--------------------------	--------------	--------------

Notes

Figures show average for all pubs reported in this category. Figures are presented exclusive of VAT

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Where these figures are to be used in preparing business plans or for other purposes it should be borne in mind that all pubs are unique and that the actual costs incurred will be dependent on the different aims and styles of the business according to the location, the market and the skills of the tenant/lessee.

Costs do vary across the country and the size of the business, as well as its focus, will have significant impacts on costs.

Summary table (% costs)

All figures exclusive of VAT

	COMMUNITY WET LED (100% wet) c.£4,000/week (ex. VAT)		COMMUNITY WET LED LOCAL (90:10) c.£5,000/week turnover (ex. VAT)		COMMUNITY WET LED LOCAL (90:10) c.£8,000/week turnover (ex. VAT)		RURAL CHARACTER (50:50) c.£5,000/week turnover (ex. VAT)	
	Min OC	Max OC	Min OC	Max OC	Min OC	Max OC	Min OC	Max OC
Wages & Salaries	10.7%	12.6%	13.0%	15.5%	15.4%	17.9%	17.5%	11.6%
Rates	4.1%	3.7%	5.6%	3.5%	4.5%	3.4%	1.5%	4.2%
Utilities	3.9%	4.5%	3.9%	4.6%	2.9%	3.1%	6.0%	7.1%
Repairs & Renewals	1.1%	1.7%	1.0%	1.7%	1.2%	0.9%	1.2%	1.8%
Insurance	0.7%	1.2%	0.4%	1.1%	0.6%	0.4%	0.6%	0.2%
Marketing/Promotion/Telephone	4.1%	1.2%	0.2%	1.2%	1.3%	4.4%	4.2%	0.6%
Consumables	1.9%	0.5%	0.4%	0.4%	0.4%	1.1%	1.5%	0.3%
Waste Disposal/Cleaning/Hygiene	1.5%	0.8%	0.6%	0.8%	1.1%	1.1%	0.7%	1.7%
Professional fees	1.6%	1.9%	1.1%	1.9%	2.1%	1.2%	1.1%	1.2%
Bank charges	0.7%	0.6%	0.2%	0.7%	1.0%	0.7%	1.2%	1.4%
Equipment Hire etc	0.6%	0.2%	0.2%	0.2%	0.7%	1.9%	0.5%	0.0%
Other Costs	0.8%	5.3%	0.7%	4.8%	1.6%	0.7%	0.5%	12.8%
Total Operating Costs	31.7%	34.0%	27.3%	36.4%	32.6%	36.8%	36.4%	43.0%

	RURAL CHARACTER (50:50) c.£8,000/week turnover (ex. VAT)		TOWN/COUNTRY FOOD LED (30:70) c.£10,000/week (ex. VAT)		TOWN CENTRE PUB/BAR c.£10,000/week (ex. VAT)	
	Min OC	Max OC	Min OC	Max OC	Min OC	Max OC
Wages & Salaries	15.5%	23.7%	21.1%	28.6%	16.8%	22.5%
Rates	1.8%	3.5%	2.6%	3.3%	2.8%	2.0%
Utilities	4.4%	2.8%	4.2%	6.5%	3.1%	2.0%
Repairs & Renewals	0.8%	4.9%	0.3%	1.1%	1.8%	0.5%
Insurance	0.7%	0.2%	0.3%	0.4%	0.3%	0.3%
Marketing/Promotion/Telephone	2.6%	2.2%	0.7%	1.6%	0.9%	0.8%
Consumables	1.9%	0.5%	0.3%	1.4%	1.5%	0.4%
Waste Disposal/Cleaning/Hygiene	0.9%	0.7%	0.8%	0.9%	0.5%	0.6%
Professional fees	0.6%	0.8%	0.7%	0.6%	0.9%	1.2%
Bank charges	0.4%	0.7%	0.3%	1.2%	1.1%	0.9%
Equipment Hire etc	0.6%	0.2%	0.2%	0.1%	0.4%	0.8%
Other Costs	0.1%	1.7%	2.8%	0.5%	2.4%	0.9%
Total Operating Costs	30.3%	41.8%	34.1%	46.3%	32.5%	32.8%

Figures show minimum and maximum total costs for a specific pub account reported in each category. Figures are presented exclusive of VAT.

Machine income, manager's salary, income from room hire and entertainment/satellite television are NOT included in the above model – extra income/cost lines must be added if these will form part of your pub business. Rates are not necessarily subject to applicable reliefs – check with your pub company/brewery as to what discounts may be available.

Useful links

British Beer & Pub Association (BBPA)	www.beerandpub.com
Industry Framework Code v6	www.beerandpub.com/ifc
British Institute of Innkeeping	www.bii.org
Pubs Independent Conciliation and Arbitration Service (PICA-Service)	www.picaservice.com
Pubs Independent Rent Review Scheme (PIRRS)	www.pirrscheme.com
Association of Licensed Multiple Retailers (ALMR) benchmarking	http://www.almr.org.uk/publications/

For queries relating to this report, please contact:

Jim Cathcart
Policy Manager – Pub Operations
British Beer & Pub Association
Brewers' Hall
Aldermanbury Square
London EC2V 7HR

jcathcart@beerandpub.com

020 7627 9144