

WHEN F&B COSTS AREN'T "IDEAL"

BY BILL SCHWARTZ

FEATURED IN THE NOVEMBER/DECEMBER 2020 ISSUE OF BOARDROOM MAGAZINE

The goal of all food service operations is to use only as much food or beverage as is required. This means no waste, no spoilage, no portioning issues, no theft, and perfectly executed recipes. It is typically expressed as a number or percentage, and is alternatively called the "perfect food cost" or the "theoretical food cost" or sometimes the "ideal food cost".

Unfortunately, that number is impossible to calculate accurately. Believe me, I've tried. For the last 40 years, I've been designing and implementing software to do just that. But the task is practically impossible. Even in the simplest of quick service operations, there are variables that cannot be accurately calculated without a ridiculous amount of labor. For example, to calculate the perfect food cost we need to know exactly what was legitimately sold or distributed which includes every possible component. Did that take out order get a large bag or a medium bag? Which condiment packages did they get and how many? How many napkins? Did they ask for any modifications?

The example of variables I mentioned represent some of the challenges facing quick service operations. Imagine the variables involved in a large club. Perfect food cost calculation is not a realistic option. And if we can't calculate it accurately, we can't determine how close we are to running it. Clubs typically rely on budgets to set food and beverage cost goals, as do most organizations with food service departments. Unfortunately, while running close to the budgeted number may be fine from a fiscal perspective, it could be very far from perfect. Budgets are typically based on historic data, so it stands to reason they would be set higher than perfect since there was no way to know this excess was always there. **Our studies have shown that the budgeted number is at least 5-10% higher than the illusive perfect food cost.**

Our studies did not attempt to calculate the perfect food cost, since as I mentioned it would not be possible to do so accurately. But we know (assuming no under usage) the "perfect" food cost will always be lower than we can get it. Instead, we simply looked at what they were running before we implemented our system and process changes and after. Without changes to the menus or vendor pricing, clients were able to reduce their food costs by between 5-10% based on the club's volume and the extent to which they used the system and implemented best practices. Keep in mind that saving **this extra 5-10% of foodservice revenue goes straight to the bottom line and represents roughly the same profit impact as doubling F&B sales!**

So how did they achieve this reduction without changing the menu or getting better pricing? They attack the problem from a variety of specific directions.

They start by implementing basic control practices like strong receiving protocols, accurate inventory taking and a professional approach to procurement that includes bids and purchase orders. They use mobile scanners and an automated procurement process that starts with outlet requisitions. Requisitions are converted to transfers or shopping lists that are then converted to purchase orders. The purchase orders are used to receive the goods and then are converted to invoices. Invoice transactions are transferred to the accounts payable system and charged to the proper accounts automatically. This approach alone is good for more than 75% of the variance reduction and reduces labor at the same time since the source document is the requisition and that's completed by the outlet manager. All the rest flows automatically from there.

Once the disciplines and automated processes are in place for determining the actual cost of goods, they can focus on the ideal cost of goods. This is done by looking at individual item variances. While it may be difficult or impossible to calculate variances for the entire operation, it is much easier to calculate variances for key items – items that are expensive to lose or items that are purchased at higher volumes than others. It's possible to track these key items on a frequent basis – even daily if necessary – to determine how much was used versus how much should have been used. This is a simple process for an automated system if the right data is collected (inventory, purchases and sales). Since 20% of the items represent 80% of the food cost, tracking a small number of key items will have a significant impact in getting closer to ideal. Even the best software will be unable to accurately calculate your perfect food and beverage costs, but it can be helpful in getting you close to it. Actually, the software won't get you close to it, but combining the processes and good quality data along with insightful analysis of resulting reports will. And with the way things have been going this year, there could not be a better time to get closer to ideal.

"WITHOUT MENU CHANGES OR VENDOR PRICING, CLIENTS WERE ABLE TO REDUCE FOOD COSTS BY 5-10% BASED ON THE CLUB'S VOLUME AND THE EXTENT TO WHICH THEY USED THE SYSTEM AND IMPLEMENTED BEST PRACTICES."

About the author: Bill Schwartz is CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is a food and beverage inventory management consulting firm and the developer of the FOOD-TRAK System, which is widely used in club operations around the country. Bill can be reached at 480-951-8011 or bills@foodtrak.com.

