



Reduced Inventory Levels = Increased Profits

Featured in the November 2011 issue of Restaurateur of Arizona Magazine.

Excess inventory is a problem. At the very least, it represents excess cash sitting on shelves as opposed to being available for other purposes. Far more dangerous is the much higher potential for unnecessary loss due to spoilage or theft. Additionally, excess inventory might actually contribute to excess waste. For example, the kitchen may put out larger than required quantities on buffets or prepare larger batch recipes (such as egg wash). In both cases, the excess is discarded at the end of the shift or the function.

Given the potential for significant losses due to excess inventory, those responsible for determining order quantities should work hard to keep inventory levels as low as possible. Maintaining minimum inventory levels should be one of the purchaser's primary objectives, and measurements should be made to determine just how well that objective is being met.

It Starts With Ordering Too Much

For many restaurants, the chef does the ordering. While not a recommended practice, it is typical and can cause significantly higher costs than necessary – in some cases the amount lost can exceed 5% of total annual F&B revenue! Chefs never want to take the chance of running out, and generally look for deals, instead of splitting cases if the cost is higher. They are motivated to keep food costs down, since they are held responsible for it, so they think of ways to use these vendor special offers if possible. Asking a chef to pay a little more so you can order less (split cases), or stick to the established menu even if the vendor has some screaming deal on something you don't normally serve is not typically going to go over very well, but it will result in better food costs and control.

Striking a Balance Between Procurement Practices and Inventory Levels

Separating the purchasing function from the culinary department introduces checks and balances and can be a key to maximizing control and minimizing costs. But many restaurants balk at that concept thinking they are too small to hire a purchaser or redirect existing staff, not to mention the grief they may get from their chef if they take away this responsibility. The inability or lack of confidence required to move in the direction of the separate purchaser leaves these clubs with a dilemma. What can they do to improve the purchasing function without changing the personnel involved and how can they recover some of the losses associated with their current approach? The answer lies in striking a balance between procurement practices and inventory levels, with some outside auditing, checks and balances and reduced labor load through automation mixed in.

Other Options for Rapid Savings

In addition to inventory level reduction, restaurants can take steps to reduce costs through the mandatory use of purchase orders, strong receiving practices and avoidance of purchasing based strictly on price. Purchasing strategy should be adjusted to buy as little as possible, which sometimes means split cases or trips to Costco for goods not needed in distributor quantities (full cases). Finally, the adoption of F&B procurement and inventory management systems allows the company to do the things required to achieve maximum control at the lowest possible labor cost.

Summary

We encourage our clients to set a goal of reducing inventory levels by 10% each month for the next 3 months. This can be done by reducing par levels, purchasing in less-than-case quantities (even if it is more expensive) and encouraging F&B staff to be more careful about ordering. Anywhere a large quantity of the same item is found in the inventory, target that item for reduction. The end result is a smoother operation, less spoilage and theft, and higher profits. Finally, investigate automated F&B procurement and management systems that are professionally implemented and integrated with your existing systems. Payback is usually less than a year, and with today's hosting options, it is unnecessary to buy hardware or software.

About the author: Bill Schwartz, is CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI specializes in F&B procurement and inventory management, and is the developer of the FOOD-TRAK Food and Beverage Management System, which is widely used in foodservice operations around the country. Bill can be reached at 480-951-8011 or bills@foodtrak.com.