



Who's to Blame for Food Cost Problems?

Featured in the March/April 2012 issue of The Boardroom Magazine.

The month ends, the profit and loss statements are produced, and the food cost is unacceptable. In clubs across the country, this scenario plays out month after month. Typically, the next step is to call in the chef or food and beverage director and ask for an explanation. What follows is generally a somewhat less than precise list of reasons. Food price increases, poor weather, lower than anticipated catering volume, a run on high-priced items on the buffet, new kitchen staff, inventory counting errors, improper transfer costing and purchases entered into the wrong period are some of the more common reasons given for undesirable food cost numbers. Most of these tend to point the finger at someone or something beyond the control of the F&B staff.

At first, management listens patiently and allows the chef to make the changes he or she sees fit in order to bring the food cost numbers into line. But sooner or later management or the board begins to tire of excuses, and decides to replace the chef or F&B director. After all, since they are responsible for the F&B department, shouldn't the buck stop there? Interestingly, many of the reasons given by the F&B staff for fluctuating food and beverage costs are valid. Other departments as well as events and circumstances beyond the control of the F&B department can easily be responsible for fluctuations in food and beverage costs.

First Things First - Are We Sure There Is a Problem?

Management determines a problem exists if the food cost is too high or too low. But what if they're wrong in their determination? The actual food cost number on the profit and loss statement is neither good nor bad by itself. Only when compared to what management believes the number should be can a value judgment be made as to whether the food cost is too high or too low. But how accurate is the food cost number on the P&L? Accurately counting the inventory and then accurately extending the values for the inventory is fairly difficult if not impossible. Since these values make up 2 of the three parts of the formula ($\text{Food Cost} = \text{Beg Inv} + \text{Purchases} - \text{End Inv}$), the food cost number on the profit and loss statement is almost never accurate.

To make matters worse, the board's idea of what the food cost should be is not typically determined with precision. To properly calculate the true ideal food cost for any given time period, it is necessary to know the number sold or legitimately distributed of every menu item or catered event in every venue operated by the club. Further, for each menu item or event it will be necessary to know the complete recipe required to produce them. Finally, it will be necessary to adjust the usage required by the recipes by the yield of the raw materials associated with those recipes and then extend the required usage by the current cost of each item. In simpler terms, the ideal food cost is determined by calculating what should have been used in order to produce the products legitimately consumed by the customers.

Coming back to the central theme of this article, if we can't be sure that the food cost is too high or too low, can we truly justify blaming anyone? Given the inaccuracy of both the actual food cost and the ideal food cost is unlikely that we could feel comfortable there really is a problem in the first place. It may well be that what we consider a high food cost could be the best food cost we could possibly have run during that period of time. Alternatively, what we might consider a good food cost could actually be a bad food cost.

Where do F&B costs come from?

In a nutshell, the F&B department cannot be responsible for F&B costs simply because they don't determine F&B costs. Food and beverage costs are determined by the distributors who set pricing based upon seasonality, availability, quality, size and other various factors. And while the purchaser (typically the chef) may be able to secure better pricing through the negotiation or bidding processes than might be quoted to other clubs from time to time, in the end, no club can corner the market on any commodity purchases. As a result, the F&B department can't actually control the cost of food or beverage coming into the club.

On the other hand, the F&B department can certainly control the usage of food or beverage items. It can also control the quantity of food and beverage items that it receives. Ideally, the F&B department should only use as much food or beverage as would be required by legitimate consumption. Assuming it orders exactly as much as it needs, and experiences no theft or spoilage or waste, the department should run the best food cost it possibly could. In the event that cost is higher or lower than management or the board would like to see, decisions that are likely to be outside the purview of the F&B department would have to be made.

For example, recipe quantities could be reduced, less expensive items could be used in recipes, better prices could be negotiated for the food and beverage items purchased by the club, and complimentary uses of food and beverage could be modified, reduced or eliminated. While this list of examples is certainly not all-inclusive, the point is the same. As can be seen from these examples, many of the changes that would be required to reduce the food and beverage cost would have to be made by management and acceptable to the members.

So Who's to Blame?

The blame for higher than necessary food or beverage costs can be assigned in three ways. First, higher food costs could be the result of poor decision-making on management's part when determining menu content and pricing. Second, a poorly structured bidding and procurement approach can result in less than optimum incoming pricing. And third, food and beverage misuse, spoilage or theft would certainly result in higher than necessary costs. While misuse is clearly the responsibility of the F&B department, the other two causes come from management decisions. So how does a club determine where to place the blame?

The answer lies in better data. Very little accurate information is available to determine how well the F&B program is running. The food costs on the P&L may be the only number most clubs have to look at. Boards and management would never rely on a single number like this to manage other aspects of the club's business, but in many cases they do just that with F&B. Enter F&B management systems. The ability to look at menu performance, get competitive bids and identify usage variances are nearly impossible to acquire manually. All the data needed to manage a well-controlled F&B operation is available with little or no additional labor through these systems. Restaurants and other foodservice operations would never consider operating without them. But clubs are reluctant to invest what would typically be between \$15,000 and \$30,000 for professionally implemented systems like this, especially in today's economy.

But savings in the neighborhood of 3-5% or more of annual F&B revenues would translate to less than a year's payback for most clubs. And with cloud-based hosted systems, the costs are much lower and there is no hardware investment or IT investment. Obviously food and beverage contributes less to total revenues and profits than dues, but the management headache associated with it is probably comparable. Perhaps the time has come to stop the guesswork, excuses and finger-pointing and start getting the facts. Once a system is in place, just imagine how much easier it will be to legitimately place the blame!

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 480-851-8011 or bills@foodtrak.com.