

The Path to Perfection: Approaching the Perfect Food Cost Part 2

Featured in the September/October 2016 issue of The Boardroom Magazine.

BY BILL SCHWARTZ

If you missed my article in the last issue – which was part 1 of this series (e-mail me if you would like a copy), we discussed the concept of running a perfect food cost. We defined perfect food cost as the cost required to provide exactly the amount of food required to meet the legitimate need for it during the period in question. And we discussed the path to achieving, or at least getting closer to the perfect food cost. This article deals with the procurement section of the path. Future articles will cover the other sections of the path in order.

Procurement starts with deciding how much food to order. Generally, this is done by the chef or purchaser using a combination of par levels, existing inventory and anticipated demand. While par levels are helpful, they also build in a bias toward excess inventory, since they are designed to insure stock doesn't run out. Excess inventory, however, leads to potential loss from spoilage, overuse or theft. All three are significant contributors to variance, and can be reduced by ordering as little as possible.

This can be done by reducing par levels, purchasing in less than case lots, having policies for handling running out of stock, by making sure items are stored in such a way as to preserve shelf life, improving forecasting techniques and taking frequent physical inventories – especially before placing significant orders. Let's examine some of these more closely.

Par levels can be reduced by keeping them in inventory units – not purchase units. For example: 3 cans instead of 1 case. They should also be adjusted seasonally, and there should be no par levels set for items that are used infrequently. In a perfect world there would be no inventory – the vendors would hand us things as we need them. Adjust par levels to correspond to order frequency, and if possible increase order frequency in order to accommodate lower levels. Absolute best case – eliminate the use of par levels for all but non-perishable items.

Purchasing in less than case lots – or split cases as vendors call them – can result in higher prices per unit, but the difference is typically so small the effect is seen 3 or 4 decimal places out in the food cost number. Spend a little bit more per item you split and store less. This is especially true for items that don't turn over very fast.

Many times the walk-ins and freezers are full of items where more was prepared than needed. This could be caused by high par levels for prepared goods, or perhaps from simply buying in the wrong pack size. If a recipe calls for half a #10 can, what happens to the other half? Perhaps we should buy smaller cans. If not, we need to be sure we can properly store the half can for maximum shelf life. Vacuum sealing has been used successfully by some clients to preserve shelf life.

The mother of all reasons for overstocking kitchens is the fear of running out.



Some clubs have adopted a “fresh is best” mentality and inform their members they intend to run out on occasion so they will have only the freshest ingredients available. Publishing this policy will help reduce complaints if you run out. Informing members in advance of ordering that a menu item is no longer available eliminates the need to tell a member “we’re out of that” after they pore over the menu and order what they want, and can actually increase demand for that item in the future due to its perceived popularity. Keeping an “86” board (list of entrée portions left or out) in the dining room for all to see can fit nicely into the fresh is best plan as well.

Notice that none of these concepts involve changing the menu, increasing prices or haggling with vendors to get the best price (although that is certainly advisable), but all will have the effect of reducing variances. Following these guidelines will certainly keep you moving in the right direction on the Path to Perfection. Next step – inventory management.

About the author: Bill Schwartz is the founder and CEO of System Concepts, Inc. (SCI). Based in Scottsdale Arizona, SCI is a food and beverage procurement and 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.



DEVELOPERS OF **FOOD-TRAK**
FOOD & BEVERAGE MANAGEMENT SOFTWARE

FOOD-TRAK®