

Make Money • Save Money • Find Money

PROFIT MAGIC

Good things
come from
Sysco®

Food Waste

The Stats on Scraps

HOW TO PRICE YOUR MENU

Food & Labor Cost %
Where do you fit in?

Better Portioning
for a Better Restaurant



Profit Magic Contents

The Profit Equation 3

Food & Labor Cost Percentages 4

The Magic Nickel 5

Balancing The Profit Equation 6

Portion Control Profit Triangle 8

Profit Margin 10

Portioning 14

Buy Smarter, Serve Less, Make More 15

Restaurant Portion Control 16

Better Portioning, Better Restaurant 17

Food Waste 18

Food Waste by the Numbers 19

Conserve & Control 21

The Cost of Not Portioning 23

Portion Audit Form 23

Pricing Your Menu 25

How to Price Your Menu 26

Boosting Profitable Items 28

Food Cost 29

Tips & Tools for Controlling Costs 30

Cut Your Food Cost by 10% 33



THE

PROFIT

EQUATION

Common Food and Labor Cost Percentages

Article by Steven Buckley, Demand Media

If you are running a restaurant or food service business, you understand that the most important costs under your control are food (including beverages) and labor costs -- together, known in the industry as prime costs. Being able to compare these costs -- in a percentage format -- against typical scenarios of other restaurant businesses is helpful in the management of your business.

Costs Vary Widely by Type of Restaurant

Both food and labor costs vary with the type of food service operation. As a rule, luxury restaurants will have higher food and labor cost percentages than casual dining or fast-food restaurants. **The product sales mix, quality of food and service, pricing and hours of operation will impact your food and labor cost percentages.** Furthermore, state minimum wage differentials and differences in tip credit allowances (toward minimum wage) affect the labor cost percentage. The extent of beverages sales -- as part of the food mix -- has a considerable impact on total food cost percentages.

How Food and Labor Costs are Calculated

Food and labor costs are calculated as a percentage of the total volume of sales. If a restaurant does \$20,000 per week and the total cost of food and beverages is \$7,000 for that week, then the food cost is considered **35%**. If, at the same restaurant, labor (including payroll taxes and benefits) equal \$5,000 for the week, then the labor cost is **25%**. Total prime costs are **60%** in this example.

What are the Ranges?

Certain fast food restaurants can achieve labor cost as low as **25%**, while table service restaurants are more likely to see labor in the **30% to 35%** range. Food costs (including beverages) for the restaurant industry run typically from the **25% to 38%** range, depending upon the style of restaurant and the mix of sales.

Look at Prime Costs to Determine Success

In order to make money in the restaurant business, prime costs should generally be in the **60% to 65%** range. How that breaks down between food and labor is less important than achieving a prime cost maximum that produces a satisfactory profit. So if one of the prime costs is in the higher range, the other prime cost must be in the lower range to achieve profitability. Remember it is the combination of food and labor that creates the bottom line.



Calculating Prime Cost

Though percentages of food and labor vary, it is the combination of the two that determines your success or failure.

PRIME COST = the grand total of your total cost of goods sold, which includes both food cost, beverage cost and liquor (also known as pour cost), and total labor cost.

EXAMPLE OF CALCULATING PRIME COST

Sales	\$20,000	100%
F&B COGS	\$7,000	35%
Total Labor Cost: incl. payroll for salaried & hourly staff, payroll taxes and benefits	\$5,000	25%
PRIME COST:	\$12,000	60%



THE MAGIC NICKEL

The Income Statement

If there's only a nickel in profit for every dollar in revenue, *where does the other 95¢ go?*
Let's follow the average dollar in revenue as it gets eaten up.

Revenue

This is mostly food and beverage sales (not including sales tax).

Prime Costs

Prime Costs take a huge bite -- nearly 65¢ -- out of every dollar earned. Prime Costs are total of Food, Beverage and Direct Labor Costs. Food and beverage costs typically account for about 33¢ out of every dollar, and direct labor for approximately 30¢. It's no wonder that your ability to control costs and produce profit is integrally tied to Prime Cost control.

Other Controllable Expenses

This expense category includes employee benefits, music & entertainment, marketing, energy, administrative and general, repairs and maintenance and direct operating expenses. It usually takes 23¢ of each \$1 to pay "Other Controllable Expenses."

Operating Income

This is also known as "Income before Occupation Cost." This is what's left after Prime Costs and Controllable Expenses are paid. Operating Income is a reflection of the overall health of the restaurant. It's like a report card for unit management and it's usually stated in a percentage. In our example we have 14¢ left. That's a 14% Operating Income.

But remember...
We haven't paid the rent yet!

Occupancy Costs

Occupancy Costs include the typical line item expenses associated with the "Brick and Mortar" of a restaurant's physical plant: rent, mortgage payments, real estate taxes, fire and casualty insurance, personal property taxes, etc. Rent and lease expenses run around 7¢ on average and the rest adds up to 2¢. Whew! We just made it.

What's Left?

A Nickel. Just 5¢ in profit on a dollar in sales-- and we haven't even paid interest on any debt or figured in depreciation!

Income Statement

Revenue

Food & Beverage Sales	\$1.00
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Prime Costs

Food & Beverage Costs	\$0.33
Direct Labor Cost	\$0.30

Total Prime Costs	\$0.63
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Other Controllable Expenses

Employee Benefits	\$0.06
Direct Operating Expenses	\$0.05
Music & Entertainment	\$0.01
Marketing	\$0.02
Energy & Utility Services	\$0.03
Administrative & General	\$0.04
Repairs & Maintenance	\$0.02

Total Other Controllables	\$0.23
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Operating Income

Income Before Occupancy Costs	\$0.14
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Occupancy Costs

Rent / Lease Expense	\$0.07
Property Taxes & Insurance	\$0.02

Total Occupancy Costs	\$0.09
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The Magic Nickel	\$0.05
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How to Balance the Profit Equation

www.therestaurantblogger.com

Too many restaurants focus solely on the bottom line – profits. We lose sight of everything else that is important and how we got there. Owners are so focused on profit that they become entangled in two objectives; increasing revenue and cutting cost.

Rule #1: Reduce Labor Cost

Managing your labor cost is part of effectively scheduling your staff. The other half is controlling total wages. Labor cost usually becomes a problem when a restaurant under or over staffs. The common belief is reducing labor cost will save you money.

As this may be true, owners/managers tend to forget that under staffing leads to unsatisfactory service which ultimately can affect a customer's willingness to return which in affect leads to lower revenues.

The rule of thumb based on a full-service restaurant, labor cost should run **28% to 30%** of total sales. These percentages do not include employee benefits which normally run **5% to 6%** of total sales.

Solution:

- Forecast daily, weekly and monthly sales to schedule staff according to expected sales.
- Shifts should be staggered to allow sufficient preparation time for anticipated busy hours.
- Be familiar of the minimum and maximum number of staff required to operate efficiently on a daily basis.

Rule #2: Reduce Food Cost

Controlling a restaurant's food cost is crucial to the survival of a restaurant. Understanding the actual costs of each food item can reduce unnecessary wastage and spoilage. Portion control is a major factor in controlling the restaurant's overall food cost.

Higher food costs can be due to over portioning, ineffective pricing, poor inventory control and food purchasing and receiving issues.

On the other hand, lower food costs does not necessarily equal to better management. Food cost should remain reasonable and be + / - 1% to 2 % within the industry average. Managers/owners sometimes make the mistake of reducing the food cost too low and sacrifice the overall quality of food. Under portioning is also a major factor in lower food costs but customers will soon perceive this tactic as a decline in value.

While food cost generally runs at 28% to 32% of total sales, it is possible to have food costs as high as 40% or above. Higher food costs are often found in upscale fine dining establishments that focus on premium and expensive ingredients such as seafood and steak. On the other hand, food costs can be as low as 20% which can be found in lower cost foods such as pizza or pasta themed restaurants.

Solution:

- Educate your staff on the affects of food costs to total sales. A large part of effectively controlling your restaurant's food cost is training your staff.
- Proper inventory control will allow you to stock items according to projected sales. More attention should be given towards higher priced food items on the menu.
- Compare menu items and analyze the price versus the cost while comparing this to the overall popularity of the menu item. High priced, low sale items should be reconsidered or removed.
- Managers/owners should consistently review their current vendor agreements to ensure best prices are being offered.
- At the same time, receiving goods that do not meet quality standards can significantly affect your food cost due to high wastage. Restaurants should be strict on quality control issues and immediately inform suppliers and bad shipments.

Rule #3: Price

Implementing price changes can be both positive and negative for the restaurant. If done correctly, the restaurant should see an improvement in sales.

Solution:

Identify and separate items on the menu based on popularity. The common mistake among restaurants is increasing a popular item too high too fast. Customers are price conscious and should not be regarded as unintelligent.

Price increases should be implemented in small increments over a longer period of time versus short term such as a month. Increasing prices by up to \$1 can drive customers away who may have been your most loyal customers.

Involve your staff and don't be afraid to ask them how much they would be willing to pay for a particular menu item. Be sure whatever item you do decide to change that there is still value created through the quality or portion provided in comparison to the price.

Conclusions:

A restaurant needs to spend money in order to make money. Cutting costs is only part of the solution to make more money. You need to understand the components of the profit equation and analyze the steps required to get the results you want.

Until the proper steps have been determined then the appropriate methods can be applied. A restaurant's ability to achieve its profit target is greater when focus is placed in the right areas.

DID YOU KNOW?

The average food cost across the U.S. in 2014: **35.7%**





The Portion Control Profit Triangle

Do you know how much money you're tossing around?

Article by Dave Ostrander
www.bigdaveostrander.com

Quickly, tell me how much it costs to make a 14" cheese, pepperoni, ham and mushroom pizza in your store. I'm not surprised you couldn't blurt out the answer. In these times of unstable cheese pricing and invoice creep, it's easy to neglect one of the most important building blocks of profitability - food costs. Costing out pizza is not an easy task. It's a lot like making soup. An ounce of this, and ounce of that, a couple ounces of other stuff. It's not uncommon to have a dozen components to keep a handle on. Add in the stress of a rush and it's no wonder we scratch our heads when the accountant questions our food cost percentage on the P & L Statement.

The reason we fail to hit our ideal food cost is fairly simple to identify, but much harder to fix. Making pizza is no different than any manufacturing process. We buy raw goods, assemble them and sell them for a profit. Let us look at, and analyze all three parts of this profit equation.

Employees aren't as consistent as you think.

Unless you portion control the assembly process, you will never control food costs with as much pinpoint accuracy as weighing and measuring your product.

Part 1: Be a Smart Buyer

The first deals with buying. This is the least important part of the equation. Sure, if your supplier is gouging you on price you will not maximize profitability. This is less common than you may think. Most suppliers are above the board and price their products competitively. If they didn't they wouldn't have any customers for long.

An educated buyer will learn how to determine if the pricing is competitive and fair. They will buy cheese on a program that follows the weekly national cheese markets. They will know that tomato sauce will be going up this pack season because there is a 20% shortage on California Growers' yields this year.

Insider information is available for the asking from good suppliers. Don't expect the sales-reps to know all of the answers. They have too many items on their plate to track, but their buyers know. Don't be afraid to ask for their predictions. After all, you're in this together. This is a co-dependant relationship. You win, they win. You lose, they lose. It's that simple. My observations indicate that too many operators exert too much mental energy playing mind games with reps. Get off your power trip and put your expectations in writing, have high expectations and go for it. If a portion of that energy was diverted to the following parts of the profitability triangle, profits would dramatically go up.

Part 2: Assembly - Being Right on the Money

You own the assembly portion of the profit triangle totally.

All too many operators let their employees free throw topping on their pies. This is not the way to get rich and famous. Is there a right way? There is no one right way, but anything other than free throwing will dramatically improve your bottom line.

My personal experiences have resulted in a reduction of cheese usage by 20% and protein and veggie toppings by 10 to 15%.

So, ways to achieve ideal food cost are using:

- In-Line Digital Scales
- Spoodles, (flat bottom ladles)
- Cups with ounce graduations.

By far, the best, most accurate method if making consistent pizza is utilizing one or more built in digital scales. The ones I used were recessed right into the pizza make table using stainless steel raised rails. The LCD readouts were mounted at eye level with the pizza-maker. The zero (tare) switch was a pedal on the floor. This allowed the person to use both hands and not have to reset the scale back to zero with a greasy finger. The ideal scale has a large Stainless Steel platform, capacity to at least 10#, easy to read LCD and overbuilt to withstand the punishment of a pizza operation. My personal favorite costs a little more than normal, but will keep on ticking when the cheaper ones quit. This method is exact, idiot proof and fast.

The next system will use spoodles that are sized by the ounce. These guys are either solid or perforated, depending on the topping and are very handy for veggies. Right along the same thought would be using small plastic soufflé cups. Either one of these systems will make a difference, but are flawed because of over and under filling the cups. If you really want to do it right, invest in a great scale. The payback will be, depending on volume, almost immediate.

Part 3: Pricing for Profitability

I'm embarrassed to share with you how I priced my first menu. To say I plagiarized others would be pretty accurate. At that time, I couldn't even define food cost, but back then things were different. Mozzarella cheese was 42 cents a pound and a 16" six item pizza sold for \$ 4.00. Times change. So we must also. I remember when I did my first real food cost analysis. It wasn't a pretty picture.

I'm convinced that a lot of operators don't do them, or do them inaccurately because of the hassle factor. I gathered a dozen recent invoices, a pad of accountant's columnar work sheet paper, a calculator, a scale and a dozen corrugated pizza circles. I then went through the task of making every pizza I had on the menu and weighing out every topping. I recorded that data and converted the price per pound/case to cost per ounce, and finally cost per pizza.

I opted to include the cost of the pizza box into the total rather than have it show up somewhere else in my accounting. Since more than half of my sales derived from carryout and delivery, this seemed prudent. I then itemized every pizza and determined how much money it cost to build the pie. Then, I multiplied that number times the food cost percentage I was trying to hit. No one hates number crunching more than me. This was eight hours of drudgery. Yet, it had to be done, it was a management function. The results were frightening.

On paper, I was supposed to be at a certain percentage, but in reality, according to my P & L statements, I was way off. How could this be? The answer was in inconsistent portioning. Some of my cooks had a heavy hand and some light. I needed to provide them the tools they needed to do the job right. Then, wouldn't you know it; prices went up across the board. Instead of re-calculating the entire analysis, I cheated. I simply jacked up the prices by nickels, dimes and quarters until I got back to a profitable food cost.

I lost track of doing it the right way because I didn't want to repeat the whole drill again. Time goes on and, pretty soon I lost control of food cost. Profits suffered and I was forced to do the entire study again. All of the previous data was pretty much outdated, so I started from scratch. Then, along comes my first computer. I transferred all of

my data to a crude spreadsheet program and after a couple of days of algebra configuring the spreadsheet, I had done it! From then on, all I had to do was update the new grocery prices once a month and every cell changed. It was magic. Now I had no excuse not to have an iron grip on food cost.

Laziness really is the Mother of Invention. Now, if I didn't hit the number on the end of the month statement, it was for another reason other than food portioning and proper pricing. That was a load off my mind.

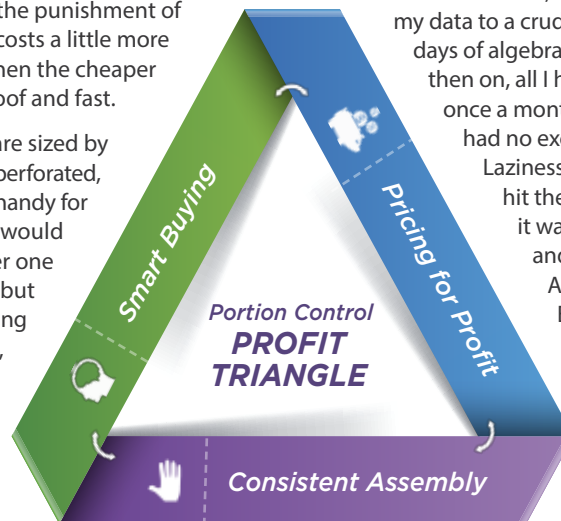
After the launch of the Windows OS, specifically Excel, the rough-around-the-edges program I created has been updated to a slick, user friendly, powerful tool.

I enlisted the help of a computer guru to set up the macros and install buttons and drag down menus for speed and ease of use. Besides computing food cost, it suggests a menu price based on whatever percent you

want to hit as well as gross profit (contribution margin). I have also analyzed my competitor's menus on this program and asked hundreds of "what if" questions.

Tying up the Profit Triangle

The first leg of the triangle is buying the best ingredients at the best price. Work with your distributors to get to this goal. The second leg is assembly. Create a wall chart that tells the pizza makers how much of every item goes on every pizza. The crew members can't possibly eyeball the ingredients as close as a scale. Buy one. The last and most important segment of the triangle is the mathematical part. Create your own computer spreadsheet or contact me for a copy of mine. If you implement all three of Profit Triangle Segments you'll never wonder how much does it cost or why didn't I hit the right foodcost.



Be an Educated Buyer!

An educated buyer will learn how to determine if the pricing is competitive and fair. Insider information such as commodity pricing and market trends will be available for the asking from good suppliers.

What is the Net-Profit Margin From a Restaurant?

By Christine Aldridge, Demand Media

As an owner or operator of a restaurant, there are several key pieces of financial information that you will need to understand. Net-profit margin, and what directly affects this financial ratio, is probably most important. The net-profit margin directly correlates to how much money the restaurant receives and makes over the course of a period of time.

Net-Profit Margin

You calculate net-profit margin by dividing net income by sales. Each of these variables are found on the income statement for a restaurant, or chain of restaurants. This financial ratio shows how much sales remain once all expenses of the restaurant are paid. Therefore, if your restaurant operates with a 30 percent net-profit margin, then \$.70 of each sales dollar goes toward paying expenses and \$.30 goes toward profits.

Food Costs

There are two primary types of expenses that greatly affect the net-profit margin of a restaurant; food costs and labor expenses. Food costs include the purchase price of all food and beverages. Waste and theft are big concerns within the restaurant industry. Food-safety measures and spoilage can cause food costs to soar, as can theft of expensive foods or alcohol. The weather and economy also play significant roles in determining what your foods are in your restaurant. A bad storm, drought or rising gasoline prices can cause food prices to climb, which translate into increasing food costs for a restaurant.

Labor Expenses

The second expense that is of great concern to managers and owners of restaurants is labor. Labor costs include the wages and salary of management, chefs, cooks, dishwashers, hostesses, servers, bartenders and any other person that the restaurant employs. Reducing these expenses by "cutting" people, letting them clean up and go home, after the restaurant's rush can help to increase the net-profit margin of the business.

Menu Prices

Increasing menu prices can help to offset rising food or labor costs. It can also aid in increasing the net-profit margin of a restaurant. However, if you increase your prices by too much or do not keep them in line with the quality of the food, the demand for your restaurant will decline. This will actually cause the net-profit margin to decrease over time since many of your overhead costs will not go down despite less food being sold. This is important to keep in mind when considering ways in which to increase the overall profits of the business.





Formula for a Net Profit Margin

By Ronald Kimmons, Demand Media

The net profit of a business is the difference between its gross, or total, profit and its total expenses, including overhead, interest payments and taxes. The net profit margin is the amount of profit a business receives for each unit of sales. After collecting all of the necessary information, businesses can calculate this number with a simple formula.

Total Revenue

In calculating net profit margin, a business first must know its total revenue. Total revenue is all money received for sale of products or services on the market. Using a spreadsheet or some other finance or budgeting tool, a business can calculate total revenue by multiplying the price of a product by total units sold and adding together the total revenues of all products.

Gross Profit

Gross profit, according to QFinance, is "difference between an organization's sales revenue and the cost of goods sold." For instance, if a store buys 100 units of a particular ballpoint pen for \$2 each and sells them for \$3.50 each, the store's gross profit is 100 (\$3.50 minus 100 times \$2, or \$150).

Net Profit

Net profit is the actual amount of profit that a business generates after all expenses. Businesses figure net profit by taking gross profit and subtracting all expenses, such as overhead, interest payments and taxes. For instance, if a store has \$50,000 in gross profits, but has to pay \$5,000 for rent and utilities, \$15,000 for labor, \$2,000 in interest payments and \$1,000 in taxes, its net profit is \$50,000 minus \$5,000 plus \$15,000 plus \$2,000 plus \$1,000, or \$27,000.

Net Profit Margin

To calculate net profit margin, a business needs two figures: net profit and total revenue. The business must then divide net profit by total revenue and multiply this number by 100. The result is a percent. For instance, if a business has \$150,000 of net profit and \$350,000 of total revenue, the net profit margin would be \$150,000 divided by \$350,000 multiplied by 100, or 42.857 percent.

What is an “Average Profit Margin Percentage”?

By David Sarokin, Demand Media

Business owners cannot avoid the mathematics of tracking their finances and operations. You cannot determine if your business is successful unless you are fully aware of costs and revenues and the relation between the two. You can figure your profit margin and your average profit margin percentage with some straightforward arithmetic.

Costs

The things your business spends money on are your costs. These include items like materials, salaries, services, postage, rent, taxes and all the other costs needed to make the business run.

Revenue

The other side of your business' finances is revenue -- the amount of money your business takes in from sales of your products or services.

Profit

Profit is the amount that your business revenue exceeds your costs and is usually figured for a standard time period such as a year or quarter. For example, if your business spends \$10,000 in a year and has sales of \$15,000 in the same period, your profit is \$15,000 minus \$10,000, or \$5,000 for the year.

Profit Margin

Your profit margin is your profit expressed as a percent of costs. A business with profits of \$5,000 and costs of \$10,000 has an annual profit margin of \$5,000 divided by \$10,000, or 50 percent.

Average Profit Margin

Your average profit margin, expressed as a percentage, is your business's profit margin over the long term, usually an average of several years of business activity. It is calculated by totalling all costs and all profits and finding the overall profit margin.

Example

A business with costs over a three-year period of \$10,000 in first year, \$5,000 in the second year and \$20,000 in the third, has total three-year costs of \$35,000. If profits are \$5,000 in the first year, \$2,000 in the second year and \$4,000 in the third year, then total three-year profits are \$11,000. The average profit margin for the three years is \$11,000 divided by \$35,000, or 31 percent.



The Average Profit Margin for a Restaurant

By Aurelio Locsin, Demand Media

People often open a restaurant thinking that all it takes for success is excellent cooking. They may ignore basic business principles to become part of the 60 percent who fail within three years or less. These principles include securing a good location at reasonable rates; hiring, training and motivating staff; and effective marketing. Ultimately, the key factor in success is maintaining an average-or-better profit margin year after year.

Definitions

According to the "2010 Operations Report" by the National Restaurant Association and Deloitte & Touche LLP, restaurant net profit margins before taxes varied according to restaurant type, as well as by the cost of the average diner check. The report divided the costs of each restaurant dollar into three main areas: First were food and beverages, which covered the cost of preparing meals, as well as coffee, tea, milk, fruit juices and alcoholic drinks. Second were salaries and wages, which included regular pay, overtime, vacation, commissions and bonuses. Third were restaurant occupancy costs, which encompassed rent, taxes and insurance.

Full-Service Restaurants

Full-service restaurants at all levels spent about 32 percent of each dollar on the cost of food and beverages, 33 percent on salaries and wages, and from 5 percent to 6 percent on restaurant occupancy costs. Profit margins, however, varied according to the cost of the average check per person. Those with checks under \$15 showed a profit of 3 percent. Those with checks from \$15 to \$24.99 boasted the highest profit margin at 3.5 percent. Finally, those with checks of \$25 and over had the lowest profits, at 1.8 percent.

Limited-Service Restaurants

Limited-service restaurants devoted 32 percent of every dollar to the cost of food and beverages, which was nearly identical to the costs for full-service establishments. However, only 29 percent went to salaries and wages, which was lower than that of full-service restaurants. About 8 percent was devoted to restaurant occupancy costs, which was the highest of any type of establishment. Profit before taxes was also the highest for any type of restaurant, at 6 percent.

Outlook

These profit margins come from three years of negative sales growth, according to the National Restaurant Association. However, as the economy continues to improve for 2011, the association forecasts a 3.6 percent increase in sales over 2010, which equals a real 1.1 percent increase when adjusted from inflation.

The strongest sales growth --- over 5 percent --- and profits will be with social caterers, hotel restaurants and nursing homes. The South Atlantic part of the country will post the strongest sales growth, with North Carolina, Idaho and Virginia leading the pack. Establishments who take advantage of social media, mobile phone applications and online review sites can increase their profitability. This is because more consumers are relying on this technology to determine where to eat.





PORTIONING

Buy Better. Serve Less. Make More.

Extra Long Fry - 7 oz. Portion

30 lb. Case costs \$36.19
480 oz. per case = \$0.075 per oz.

7 oz. Portions = 68.57 servings per case

Suggested serving sell price \$2.99

Revenue per case \$205.02
Minus case cost - \$36.19
= \$168.83

Makes \$10.72 Extra Per Case

If you sell 500 cases per year, you make
\$5,360 MORE than selling the "cheaper" Fry



Better quality product
Smaller serving
More profit ...Magic!

Line Flow Fry - 8 oz. Portion

30 lb. Case costs \$21.29
480 oz. per case = \$0.044 per oz.

8 oz. Portions = 60 servings per case

Suggested serving sell price \$2.99

Revenue per case \$179.40
Minus case cost - \$21.29
= \$158.11





RESTAURANT PORTION CONTROL

How to Reduce Portion Sizes and Still Keep Customers Happy

Article by Lorri Mealy for www.restaurants.about.com

One of the reasons that franchise chain restaurants are so successful is because they have menu portions under control. Whether you go into an Applebee's in New York or in Montana, you'll be served the same food in the same portion sizes. Customers like that predictability. And by streamlining their portion sizes, chain restaurants ensure healthy profit margins. Even if you own a small, independent restaurant, portion control is still an important factor in keeping your business profitable.

What is Restaurant Portion Control?

Just as individuals need to watch the portion sizes of foods they eat, restaurant owners need to watch the portion sizes coming out of the kitchen.

Every item on your menu should have a controlled portion size in order to keep food cost in check. Restaurant portion control is also important for keeping menu items consistent for every shift. For example, say your restaurant offers an entrée of cranberry chicken with mashed potatoes and a side vegetable. To streamline your portion sizes, the entrée is broken down as follows: a six ounce boneless chicken breast, a cup of mashed potatoes, a half cup of cooked vegetables and two tablespoons of cranberry sauce on top of the chicken. Every time this entrée leaves the kitchen, no matter who is cooking, the serving sizes shouldn't waver.

Why is Portion Control Important?

Imagine a customer's reaction if they ordered the above meal and instead got a four ounce chicken breast, half cup of potato and a quarter cup of vegetable. While people rarely complain about getting too much food, they certainly notice if you are giving less, especially if the menu prices remain the same.

On the other hand, it's important to keep portion sizes in check in order to maintain correct food cost and overall restaurant profits.

Consider the following scenario: You offer a bowl of clam chowder for \$4.00. You based the price on 10 oz. of chowder per bowl. That equals .40 cents an ounce. Say that five times each day, during the lunch and dinner rush, your kitchen staff uses the wrong ladle and overfills a bowl by one ounce.

That equals \$2.00 a day in uncharged chowder. Not a huge loss. But if it happens every day, that adds up- to \$730 a year.

Now imagine that happening consistently with all your menu items. A ounce of chicken here, a ounce of cheese there...get the idea? If you don't keep your restaurant portions in line with your food costs, you will lose money.

So How Do I Control Restaurant Portions?

Start by training your staff to always use the correct serving utensils and dishes. A chart breaking down every menu item is also helpful for new staff. On it you can list exactly how much food goes with each item: five mozzarella sticks for an appetizer, one slice of cheese for a burger, three cherry tomatoes for side salads, five for an entrée salad... and so on. Photographs also help staff correctly portion food as it goes out of the restaurant kitchen.

Along with consistently using the same size ladles and serving spoons, a commercial kitchen scale is good for weighing deli meats and cheeses into correct portion sizes. PC cups can hold set amounts of sauces like guacamole or salsa.

By controlling restaurant portions, you not only keep your food cost in line, you also ensure that customers will receive consistency when they order their favorite meal.





Better Portioning Means a Better Restaurant

Product portioning is one of the most important activities in any restaurant. It effects your guests' experience, food quality and food cost.

When someone receives a smaller filet than the person across the table or a down-sized serving of pasta is served when generous portions are the norm, customers usually notice and their mood goes down.

During the preparation process, inaccurate quantities of ingredients in recipes can alter the food's flavor and texture. Have you ever heard a regular ask, "what have you done to the pomodoro sauce?"

Then there is the issue of food cost.

Consistently overportioning a \$6.00 per pound product just half an ounce adds almost 19 cents to the serving cost. Say you serve 100 a day, that's \$133 lost per week or almost \$7,000 in a year and that's with just ONE product!

Anything you can do to help your staff do a better job of portioning is usually money well spent. Does your staff have the appropriate sized cups, scoops, ladles and other measuring devises at their disposal and are they consistently using the correct ones?

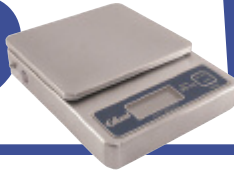
Technological advances in scales and slicing equipment keeps making it easier for employees to portion products faster and with much greater accuracy. The newest digital scales are portable, easy to read, have automatic counting functions and can be equipped with push button or hands free tare capabilities (which allows for zeroing out the weight of containers or individual ingredients).

Also, never expect what you don't inspect. One sharp operator I know has a habit of pulling one item off the line each shift and weighing the key ingredients. If something's not right, he addresses the issue immediately with his kitchen staff. He says that this one practice, more than any other, helps him control portion sizes and keep his food cost in line.

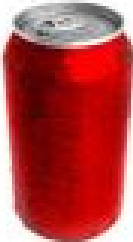
How's your portioning? Any improvement in this area should result in happier guests, lower food cost and a healthier bottom line.

www.restaurantowner.com

Are you losing money to **FOOD WASTE?**



Article by Greg McGuire for Back Burner at blog.etundra.com



Imagine for a second that you run Coca-Cola instead of your restaurant. You sell millions of cans of soda every day, and you're making a decent profit. Now imagine that as the founder and owner of Coke, you never bothered to standardize the size of each can, so some cans are 12 ounces, others are 13, and some are even as large as 16 ounces, but you charge the same price for all of them.

Think you'd be losing a little money every time you sold a 16 ounce can of Coke?

There are more similarities between your restaurant and Coca-Cola than you might think. You both serve a consumable product. You both charge a flat rate for a portion of that product although you make a lot more of that product than you serve each customer.

But unlike a lot of restaurants, I guarantee you Coca-Cola pours the same exact amount of Coke product into every single can. Their price is then figured based upon making a certain amount of profit margin assuming that exact amount is in every single can. As you can imagine, if their machines were off by a fraction of an ounce, they could lose millions of dollars.

Controlling the portion sizes you serve your customers is an easily overlooked but extremely important way to cut costs and preserve your restaurant's margin. In the high-pressure atmosphere of a commercial kitchen during the dinner rush, you need simple but highly effective methods for keeping portions exactly the same.

The first place to address portions is with proteins. A good portion scale can weigh out protein portions quickly and simply, giving you an extra measure of control over what is probably the most expensive item on any entrée plate. Check out this blog post for more info on scales.

Secondly, your starches, veggies, soups, etc. need to be portioned out as exactly as possible. Even a half ounce over the serving size called for in each entrée can translate into thousands of dollars in lost revenue over the course of year. The easiest way to control these portion sizes is with kitchen utensils that measure portions accurately. Vollrath's line of ladles, dishers, and Spoodles are all designed to allow the quick and effective measurement of portion sizes.

Portion control is important because it is the basis for calculating your restaurant's profitability. Especially in an era of deep discounting and razor thin margins, being able to control portions is an incredibly important element when you decide how to price your menu. That's because you're making assumptions about how much each entrée served will cost you. Those assumptions go out the window if the actual quantity served is incorrect.

Effective portion control allows you to dial up an aggressive price at a decent margin that beats the competition but keeps you profitable. Any restaurant manager knows what a tightrope those margins can be. Without portion controls, you're far more likely to fall off than to make it to the other side.



Are You Using the Right Carry Out Container?

Our natural tendency is to fill a container full. Having the proper container for carry out can make a huge difference.

Look at the difference in sizes:

9x9 inch container is 81 square inches

8x8 inch container 64 square inches

Just one inch makes lot of difference!



Surface Area of Round Plates:

8 inch plate 50.24 inches

9 inch plate 63.6 inches

10 inch plate 78.5 inches

11 inch plate 94.99 inches

12 inch plate 113.4 inches

Again, the difference of one inch can have a dramatic impact.

Be Aware and Avoid Waste

- Product too small for the container the product is going in
- Staff over/free portioning
- Giving too many containers/cutlery/napkins
- Giving too many condiments

TRASH TALK

70+ MILLION TONS of food waste per year in the U.S.

40% of all food in the U.S. is wasted.

90% of what restaurants throw away could be composted or reused.

475 lbs. of food waste per person in the U.S.

1/2 lb. of food waste is created for each meal served at a restaurant.

1/3 of all the food in the world is wasted each year.

1. <http://nofoodwaste.com>
2. <http://www.nrdc.org/food/files/wasted-food-ip.pdf>
3. <http://www.homecompostingmadeeasy.com/foodscraps.html>
4. <http://hospitalityfoodwaste.wordpress.com/2013/04/17/food-waste-in-the-hospitality-industry/>
5. <http://mashable.com/2015/07/08/trash-food/>
6. http://www.worldfooddayusa.org/food_waste_the_facts





Conserve & CONTROL

Portioning out your precious resources

Article by Andrew Call for Back Burner at blog.etundra.com

Picture your next outing to a new restaurant or eatery. Mouths watering, you and your dinner companions order the same large entrees based on similar tastes and growling stomachs. As your succulent steaks make their way to the table, you notice your friend to the left has a small spoonful of potatoes overshadowed by an over-sized steak. On the opposite side, your friend to the right sheds a tear when he sees his small piece of beef half hidden behind a heaping wall of potatoes. While your plate looks just right, you chuckle at how disproportionately different the three meals are, and how each of you paid the same price.

Now extend this imaginary dinner outing to the typical guest experience at your own establishment. Are the two uncannily similar? From an operational standpoint, how can you calculate margins and accurately tally expenses when each plate sent out is proportioned differently? The short answer is, you can't.

Controlling the portions you provide your customers is an easily overlooked but extremely important way to cut costs and preserve your restaurant's margin. Amid the hustle and bustle of today's high-energy commercial kitchens it's essential to have a tried-and-true method of keeping the portions your staff dishes out exact.

One place to watch when it comes to portions is proteins. Outfitting your kitchen with the right restaurant equipment is important, and a quality portion scale is a great way to keep an eye on what is probably the most expensive item on your entrée plates. Pop that protein onto a portion scale to quickly and easily stretch your product as far as it can go.

Starches, veggies, and soups are highly susceptible to varied portions. **What is shrugged off as an additional carrot or extra green may be adding up to cost you thousands of dollars in lost revenue every year!**

The simplest way to take control of these portion sizes is to utilize a handful of portion measuring utensils. Using a specific disher, Spoodle, Loon, or ladle for certain food items, and always using that same sized utensil, will help you avoid over serving.

Water use is often undervalued and overlooked. Restaurants use a lot of water, it's a fact. From washing dishes and tables to cooking and serving guests, water output eats up a nice chunk of your monthly budget whether you realize it or not. An excellent way to save, and also help your establishment be greener, is to watch your water. Here are 5 sensible tips to help you do just that:

Fix leaky faucets – don't let that drip drain your budget!

Wash full racks only – it's a no-brainer, but you'd be surprised how often a member of your staff starts a half-filled rack through the washer.

Use a foot pedal for hand washing sinks – foot or knee pedals are a great way to avoid waste. They not only give your staff a sanitary way to operate the sink, but also shut off automatically to instantly help you save.

Landscape with conservation in mind – water outside can be as costly, if not more, than water inside. Keep that in mind when you're adding a flower garden or line of decorative shrubs to the outside of your establishment.

Train employees – without the help of your employees your conservation plan is just a plan. Make sure each employee knows where your business stands when it comes to conserving.

BONUS: Spread the word – people love to hear when steps are taken to be more environmentally conscious. If you've made changes to how you do things, and these changes have a positive effect on the surrounding community, don't be ashamed to toot your own horn and let people know!

So when it comes to portion control it's time for you to be in control. As a basis for calculating your restaurant's profitability, portioning out your product is essential to keeping your margins low and your plates consistent. Effective portion control is easier than you think and is a good way to accurately assume where your expenses will sit each month. Without a proper portion control method in place you end up gambling with these assumptions, and in the restaurant industry it's often these kinds of gambles that can make or break you. Why not sway the odds in your favor as much as possible?



What is the Cost of Not Portioning?

*What is shrugged off as an additional carrot or extra green may be adding up to cost you **thousands of dollars in lost revenue** every year!*



1 extra shrimp
20 times per day
= **\$3,796 a year**



1 extra ounce
60 times per day
= **\$1,574 a year**



2 extra ounces
150 times per day
= **\$1,027 a year**



2 extra pieces
15 times per day
= **10,950 pieces**
or **36.5 cases a year**

RestaurantMgmt101.com

PORTION AUDIT FORM

Restaurant food cost management involves many tasks. Here is another tool that is very important to achieve your food cost.

Food portion control ensures value to the customer and helps protect restaurant profits.

Portion Audit Form

Food portion control is very critical. Why? Food cost control and customer satisfaction are the two main reasons.

There are many benefits to using the Portion Audit Form:

1. Ensures customers get the amount of food paid for.
2. Trains your cooks to be consistent when portioning food
3. Ensures portions are consistently to spec
4. Ensures food cost is as planned according to the MRP

When you set the selling price of an entree or side dish using the Menu Retail Price (MRP) form, the selling price of that item is established based on the cost of that item. The cost of the item is based on the portion size.

Therefore, you establish a standard portion size and set your selling price. If that item is over-portioned (larger than spec) then you are losing money because you are giving more food than the retail price is paying for. If the portion is smaller than spec, then you are cheating the customer.

PORTION AUDIT FORM

Item Weighed	Spec Weight	Actual Weight	Difference	Person who Portioned Item

Portion Audit Procedures

How often should you do a portion audit? As often as is necessary.

- If your weekly food cost is higher than your ideal food cost, then check your portion sizes. To do a prep portion audit, take the form to your prep area cooler and weigh or measure the prepped portions, noting the results.
- If you have a cook that you are training to do portioning, then do a portion audit to check her/his work.
- If you use a steamline or dip table in your restaurant, ring up a ticket without the cooks knowledge. When the food is prepared, weigh or measure to check portion sizes.
- Share the results with each employee involved and other managers. This sets the tone of the importance of proper portion sizes. The Portion Audit Form is free from RestaurantMgmt101.com



PRICING YOUR MENU

How to Price Your Restaurant Menu

Article by Lorri Mealey for restaurants.about.com

Writing the menu is the fun part of opening a new restaurant. You can play around with terms and pair different foods together to see what looks good together. However, designing a restaurant menu can be rather complicated and hard to understand at times. For example, how do you know what to charge in order to make a profit? Food cost and portion control are two ways to help price your menu correctly, but be careful not to price yourself out of the local market. Another way to ensure a profit is to create a balance of expensive and inexpensive items.

Food Cost

Food cost refers to the menu price of a certain dish in comparison to the cost of the food used to prepare that same dish. In other words, how much you pay for food will determine how much you need to charge for it. **Generally, food cost should be around 30-35%. This means that if you pay \$1.00 for something, you need to charge minimum of \$3.34.** It may seem like you are charging a lot more than necessary, but keep in mind that you aren't just paying for the food itself. You are paying someone to prepare the food, serve the food, and clean up after the food. Everything in your restaurant, from payroll to the electric bill needs to be covered by the food you serve.

Example

Lets look at a typical menu item that many restaurants offer: Filet Mignon Dinner.

The initial cost of a filet mignon dinner can be broken down into the following areas:

- The beef filet costs you \$6.00 per portion
- The wrap (the potato, vegetable, salad and bread that comes with the filet, as well as any condiments the guest asks for) costs \$2.50

Therefore, the entire meal costs you \$8.50. If you wrapped the filet in bacon and topped it with herb butter (very tasty) your costs would increase. So, then your prices would increase. Get the picture? Every thing that goes onto the customers plate needs to be accounted for.

So how do you decide on a final menu price? Time to brush up on that high school algebra you swore you'd never use.

The formula for costing goes as follows:

Cost of your product/.35 = menu price or $\$8.50/.35 = \24.29

\$24.29 is the absolute minimum you need to charge in order to make a profit off the filet mignon dinner. Of course, \$24.29 is an awkward looking number, so you might bump it up to \$24.99. If you bumped it up to \$29.99, your food costs would drop below 30%, which means you make a bigger profit.

Portion Control

One reason that chain restaurants are so successful is that they have a firm handle on portion control. The cooks in those restaurants know exactly how much of each ingredient to put in every dish. For example, shrimp scampi may have a portion control of six shrimp per dish. Therefore, every shrimp scampi that goes out of that kitchen will have six shrimp in it, no more, no less. This is portion control.

In order to practice portion control in your own kitchen, everything should be measured out. Chicken, beef and fish should all be weighed, while shredded cheese can be stored in portion control cups and a measuring cup can dish out mashed potatoes. Once you feel comfortable cooking your menu, you can eyeball the serving amounts (sort of like Rachael Ray) but in the early stages of your restaurant, err on the side of caution and measure everything out. Another way to practice portion control is to purchase pre-portioned items, such as steaks, burger patties, chicken breasts, and pizza dough. They may be more expensive, but can save you money in labor and food waste.

Well Balanced Menu

Food markets fluctuate depending on the season, the weather and the price of gas. One day lettuce may be \$10.00 a case and then the following week it has jumped to \$30.00 a case. There is little you can do when prices jump, short of changing your entire menu every few weeks, and who has time for that? However, when you balance expensive items, which are prone to price fluctuations, with items that have stable prices, you can help maintain your desired food cost. So, go ahead and have some fresh lobster and beef on your menu, but temper it with some less expensively priced chicken dishes or pasta dishes.



Setting Menu Prices

Change your menu to accommodate large price shifts

When the price of beef soars, consider raising your main menu prices to accommodate. Change your menu items to use pork, chicken or another meat with an acceptable price level.

Menu Costs

Produce Reports

Many restaurants have computerized cash registers, so getting a report on what items sold nightly, weekly or monthly is easy. If your restaurant does not have a computerized register, you can track a period of time and get this information by pulling it off guest checks.

Now what to do with this information once you have it?

What does this information tell you about how you can reduce costs? Looking at your table, you see that your pork tenderloin is almost as popular as your shrimp dinner, but it costs a good deal less to make. You can summarize that by focusing on such lower-cost items. You can also increase your profit margin by decreasing your food cost.

Keep in mind, however, that by only focusing on low-cost items you will lower your guest check average and this will lower profits. To reduce costs and remain profitable, you should emphasize a mix of high and low-cost food items on your menu.

Standardized Recipes

Cut Kitchen Waste

One of the major culprits in high food costs is waste. Put a new garbage can in the kitchen. This can is for wasted product only such as wrong orders, dropped food, etc. By giving your staff this visual aid, you can reinforce the amount of money that gets spent on such product waste.

Portion Control

Established Recipes

Restaurant recipes have two purposes: to ensure consistency and control costs. Following these practices will keep food costs from getting out of control. Also, having a consistent quality for all your meals won't hurt the way your establishment is perceived by customers.

No "Free handling it"

Be sure your staff is using scales, measuring cups, measuring spoons and appropriate ladles. Often cooks will "free hand it" after a while. This usually results in over-portioning.





6 Tips on Boosting Your Most Profitable Items

Article by Tim Flachman for blog.etundra.com

Profit margins are notoriously slim in the restaurant world, but boosting the volume of drinks and desserts you sell can be one of the simplest ways to generate more profit from every customer served. Here are six simple ways to sell more of the items that stand to put the most cash back into your restaurant.

1. Package your meals appropriately.

Offering some meals in a prix fixe format can be a symbiotic tactic you can leverage to sell your most profitable items in a way that feels like a value to the customer. Additionally, custom menus encourage diners to try profitable items that they love, but wouldn't typically consider without the "package" deal, including a specialty cocktail, dessert or dessert wine.

2. Redesign your menu.

Effective menu design is an art and science; the images and layout you use to "tell a story" while guiding the diner's eye where you most want it to go is a key piece to selling more of the items you want. Because the upper right corner of the menu is generally where the eye travels first, your most profitable items should be featured there. If you can avoid indicating prices (or at best, can minimize the level of attention they get on the menu), you also stand the best chance of convincing customers based on imagery and language, versus price alone.

3. Tweak your language.

Revamping the language you use to relevantly appeal to your customer's motivations, needs, and desires can have a significant impact on your ability to sell profitable items. In fact, Brian Wansink, professor and director of the Cornell Food and Brand Lab at Cornell University estimates that using descriptive terms on your menu can boost sales by as much as 27 percent. Likewise, training wait staff to approach profitable items as a sales-oriented conversation versus a closed-ended question ("Do you want to hear our specials?") can change the outcome of the order, too.

4. Give a complimentary "introducer."

Boosting your profits by offering free food may seem counter-intuitive, but when you offer complimentary items like freshly baked bread, chips, or olives, they ideally make people want to order something even more profitable as an accompaniment. You establish a "win-win," e.g. tasty basket of chips and salsa presented alongside your mouth-watering margarita menu can act as a natural food pairing.

5. Make the customer feel valued.

Free food on the table doesn't just appease a hungry customer, it can make them willing to order at a certain threshold at your restaurant in exchange for your generosity — especially if the "freebie" is perceived as high quality. In a Freakonomics podcast about free appetizers, Cornell University professor Michael Lynn supported that theory, stating that "by giving away free items you're increasing the appeal of what you have to offer to the public."

6. Create a feeling of celebration.

Wansink also explains in the Freakonomics podcast that diners have different mental scripts based on the dining occasion, and will typically "perform" appropriate to that script and corresponding "consumption norms." For example, because desserts and drinks typically accompany special occasions and celebrations, a diner who may not typically order dessert may do just that when the meal is for a special occasion, simply due to social norms.

You can boost the likelihood that diners consider your profitable drinks and desserts by leveraging celebrations to your advantage. Train servers to ask if a special occasion brings diners in, and suggestively sell based on that response. (For example, a recently engaged couple will likely respond to champagne, while a couple who just found out they're having a baby girl will likely respond to the opportunity to indulge in cake with pink icing.) In addition, you can create a lively and celebratory atmosphere supported by appropriate music, scents and sounds that generally make diners feel like they want to stay longer for dessert and drinks.


There may be limits to the prices you can negotiate with your suppliers, or the price you can command for various items from customers without hurting demand, but there are many small yet mighty tactics restaurant owners can leverage to drive profitable drink and dessert sales. With the collective impact of these small changes, you can have a significant impact on your bottom line, and the brand image you form for your restaurant in the customer's mind.



FOOD cost

TIP\$ & TOOL\$

FOR CONTROLLING YOUR FOOD COST



Restaurant margins are notoriously slim, so figuring out how to control costs, more often than not, boils down to a do or die scenario. Food cost plays a major role in any restaurant's success or failure—that French foie gras may be awesome, but not if it kills profit. As 2009 Seattle Rising Star Restaurateur Ethan Stowell says, “As a chef you have to wear the hat of a business man sometimes,” especially when it comes to food cost.

But first, what is food cost? It's the percentage of total restaurant sales spent on food product. The formula for calculating food cost is simple: net food purchases divided by net food sales (net means after the change in inventory). The rule of thumb within the fine dining industry is to maintain a 30% food cost, or less.

When 2009 Boston Rising Star Chris Chung opens his restaurant AKA Bistro in Boston's Lincoln Park, he anticipates his food cost to be at 33% the first month, but to reduce it to 30% afterward. Similarly, 2008 Las Vegas Rising Star Zach Allen, who heads up the kitchens of all three of Mario Batali and Joe Bastianich's Las Vegas outposts, was able to lower his food cost at all three venues in the last year: Enoteca San Marco runs at 24%; B+B Ristorante at 28.5% (lower than its targeted 30%); Carnevino 30.5% (also lower than its target of 32%—a rarity for a steakhouse).

How do they do it? Controlling food costs is multifaceted to be sure, but simple at heart. Chung summarizes his method to control food cost into a four basic principles: order as necessary, maximize each ingredient, cook seasonally, and work with your vendors. For Stowell, who operates four successful restaurants in Seattle (Union, Tavolàta, How to Cook a Wolf, and Anchovies & Olives), the starting point and key is keeping a finger on the pulse of food cost at all times.

Track Your Food Cost and Inventory

Stowell's chefs are required to track food costs on a daily basis, so Stowell and each of his kitchen leads know where they are each day. "I know exactly what my food costs are daily; I look every day," he explains. "If I find out in the third week [of the month] that food costs are 5% too high, I can look and say we had a soft month, that's the reason, or we've been selling too much of this or not enough of that. I look at what menu items are not selling. If you have a consistent idea of where you're at, it gives you an idea of where to look." Stowell and his team adjust their ordering, dishes and menu to compensate for their food costs, or if they're on target, they know they can order and run a more expensive dish. It's a very organic and flexible methodology, but one that works for Stowell.

Robbie Lewis is the corporate chef for the software company Oracle in Northern California's Silicon Valley. He oversees eight cafes on the corporate campus and has an annual food budget; they run a weekly inventory in each café and order daily. Zach Allen's inventory assessment depends on the product: "we do a nightly inventory on our cut steaks and usage at our steakhouse [Carnevino]... we do a weekly inventory on our beef warehouse... [and] a monthly inventory on all items." No matter the system, it pays to know what you have and the rate at which you burn through your inventory.

Order Wisely

Allen is certain that ordering is essential for his exceptional food cost. "The best way that we control food cost is by ordering correctly." In other words, know what you need and how much—something that keeping inventory will tell you. Allen also order in bulk for certain items they use in large quantity—for three high volume Italian restaurants that translates to containers of extra virgin olive oil, San Marzano tomatoes, sea salt, and specialty pastas. But because so many of the products Allen gets are from Italy, the chef has to be careful of the exchange rate. "With the Euro being so strong, that hurts us a lot."

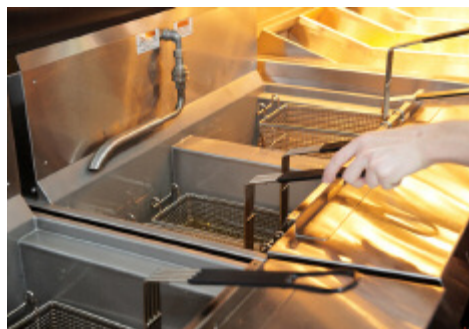
Control Portion Size

Sometimes even small things can be the difference in meeting a target food cost. For Allen, portion control has been that detail—"that's our biggest area of concern," he says. "We have to be very diligent with our staff to make sure that they are portioning the proteins at the proper weight," Allen goes on. Training staff to know that one ounce—not two—of duck prosciutto goes on the plate or that each portion of salmon fillet should be four ounces and not any more, can make the difference to meet a food cost target, order the right quantities, not raise menu prices, and potentially have a profitable restaurant—not to mention a consistent dish for your patrons.

Decrease Waste

Chris Chung is careful to train his employees on his rules about not wasting food. A factor that's especially crucial for a restaurant that specializes in a high-cost—not to mention highly perishable—item like seafood. Chung makes a point to have his cooks understand the value of using every piece of a product and to be creative with the scraps.

Allen concurs: "We find many outlets for every part of the protein or vegetable that we use from—braised beet greens for raviolis to ciccoli from the pork that is left from making salumi." To decrease waste from spoilage, he orders proteins and other short shelf life items daily and advises chefs to "not be afraid to 86 items" from the menu during service.





Balance Your Menu

Dealing with an annual budget for multiple themed venues, corporate chef Lewis looks to find a menu balance between all of the cafes. "The food costs are different for all eight cafes, which are themed, based on cuisine," he explains. "We have rice-heavy cuisine, protein-heavy cuisine... the Chinese [café] is cheap because there's lots of rice [used]; the taqueria is protein-heavy and more expensive; it all has to balance." Lewis analyzes each menu and "delves into the subtleties of the cuisine to figure our major food costs" and how they can cut back. While some cafes will have a food cost of 40%, others will be significantly less at 23%, but averaging off at the golden 30% mark.

Stowell finds success in weighing his menu with both low and high cost items, and adjusting the menu to meet their food cost targets. "Make your menu work for you," he counsels. "Some months we have to sell more pasta. In every restaurant I have, I have homemade gnocchi because it's a low cost item people really enjoy. If food costs are really low, I can have a steak dish and not charge as much—those things balance out. I can run turbot as a fish: a portion costs you \$10 to put it on the plate; I don't feel comfortable charging \$35 for it, so I run other lower cost food items to balance it out so I can charge \$18 that item. I take a hit on it, but I do it because I enjoy it. But I have to be smart about my menu and balance."

Slow months are when you have to be the most mindful of upward creeping food costs, but Stowell says they should still remain the same as even your busiest month with careful attention. "If you're expecting January and February to be softer months, you don't want as many high food cost items."

Work with FOH

Additionally, Stowell advises chefs to be "more interactive with servers" to tell them what menu items need to be pushed. When food costs are running higher than he likes, or when business is dropped off, he tells his wait staff what low cost menu items to sell to customers. "If you have lower food cost items on your menu, you have to motivate your staff to sell those at certain times," he explains.

Balance Your Menu with High and Low Priced Items

Whole Lobster	45%	= 31.6 % Food Cost if each item was sold equally
Crab Soup	38%	
Cheeseburger	30%	
Pasta Marinara	25%	
Apple Crumble	20%	

EVERY ITEM does not have to be priced at 33%.

The contribution Margin on the Lobster may be \$10 at 45% whereas the operator may only make \$4.00 on the cheeseburger.

The Easiest Way to Cut Your Food Cost 10%

Article by Bill Marvin, The Restaurant Doctor, for RestaurantOwner.com

While there are few absolutes in this business this is one - "Engaging in ongoing competitive bidding practices to get the lowest prices actually leads to **higher** food costs, not lower."

That's right. Contrary to what most of us, who have grown up in this business have been taught, having an ongoing purchasing process that revolves around using lots of vendors, comparing bids, price shopping and buying from the lowest bidder NOT only doesn't save you any money but ends up costing you in several ways.

To prove my point, how many professionally managed, large chain operators employ ongoing competitive bidding practices? ZERO, NONE, NADA! Every large chain uses one primary purveyor to supply 80% - 100% of it's food products. How many independent operators do this? Probably less than 10%, easily less than 20%.

And who makes more money at the restaurant level, the typical chain or independent restaurant? According to industry averages published by NRA the average independent nets about a nickel or 5% of sales before federal and state income taxes. Having worked with several chain operators and from perusing the annual reports and 10-Ks of many publicly held chains, the average restaurant level net income before corporate overhead and income taxes is around 12% - 15% of net sales.

The fact that chain restaurants are 2 to 3 times more profitable than independent operations may not be entirely due to purchasing practices but I'm sure it's a factor, possibly a big one.

Distraction from High-Return Activities

Another factor to consider is the amount of time it takes to constantly evaluate bids, deal with lots of vendors and put away lots of deliveries, lots of small deliveries, that is. Using a prime vendor frees up management time that can be better spent on high return activities like taking better care of your customers and developing your people. In my mind, trying to save 25 cents on a case of green beans is hardly a high return activity worthy of much owner or management time.

What Determines Supplier Prices?

There are four basic elements that go into the pricing formula of most suppliers.

+ Product Costs
+ Administrative & Selling Costs
+ Delivery & Handling Costs
+ Profit on the Account

= **SELLING PRICE**

Product Costs: What it costs the vendor to purchase the products from their suppliers such as manufacturers, growers and other wholesalers. The more they buy, the lower their costs are so there's a built-in incentive for suppliers to move lots of product.

Administrative & Selling Costs: Includes the cost of servicing the account and processing the orders. Factors that can affect these costs include order processing time, lead time, order frequency, number of invoices processed, specialty products needed and credit terms. Another point is that these costs are basically fixed and suppliers want to spread these costs over as many sales dollars as possible.

Delivery & Handling Costs: This boils down to cost per drop. The drop cost to deliver 1 case to your back door is about the same as it costs to deliver 100 cases. To a supplier, bigger orders mean less delivery cost per dollar of product delivered. Number of deliveries per week and the time of the day you will accept deliveries can also affect these costs.

Profit on the Account: This is the percentage mark-up or gross profit in dollars the supplier needs to make an account profitable after considering all the factors discussed above and the potential volume on the account.

The key point is that if you find ways to lower the vendor's cost of servicing your account and give them the opportunity to make more profit "dollars", they are usually willing to work on a lower "mark-up." As a result, you get lower overall prices and other important benefits too, which I'll discuss further below.

The Easiest Way to Cut Your Food Cost 10%

Give Suppliers the Opportunity to Make More Money on Your Account

Yes, you read that right. It's in everyone's best interest to position a supplier to make more money on your account in return for something ... **LOWER PRICES!** Here's how it works.

Smart suppliers don't just look at the percentage mark-up on an account. What's more important is the potential total gross profit in dollars they can make. For example:

Assume you buy around \$600,000 of food a year. You currently spread your purchases around to 2 or 3 broadline distributors and several specialty suppliers. You spend about \$100,000 a year with Distributor A and Distributor A is adding a 20% markup to everything they sell you (Case 1). Do you think Distributor A might be willing to work on a smaller margin percent if they could get more, a lot more of your business?

As you see, it makes economic sense for Distributor A to work on a smaller margin % **IF** it means converting you from a \$100,000 account into a \$500,000 account. You can see in Case 2, Distributor A has the opportunity to more than double their gross profit dollars on the account even though they gave up a large slice of their average markup % to get more of your business.

	<u>Case 1</u>	<u>Case 2</u>
Sales	\$100,000	\$500,000
Cost of Sales	\$80,000	\$450,000
Gross Margin	\$20,000 (20%)	\$50,000 (10%)



A Case In Point

When I took over as the Food & Beverage Director of the U.S. Olympic Training Center (OTC) in Colorado Springs they were using lots of suppliers. As many as 15 to 20 vendors a week.

Sensing the need to do something different, I invited the major vendors in the area to submit a proposal if they were interested in being considered as a prime vendor. In short, the program would be a year-long, non-contractual agreement whereby the OTC would agree to purchase a major portion of its total food purchases (50% to 70%) from one supplier in exchange for a fixed "mark-up" (not price) on their products.

In a notice to the prime vendor candidates, I included a quote sheet (called the Prime Vendor Quote Sheet below) outlining the products and specification of the OTC's principle products and the quantities purchased in a typical week. Each vendor was asked to quote their current prices on those products and how they would determine their mark-up on each product (cost plus a percentage or cost plus a fixed amount per unit) over the term of the prime vendor program, which in this case was 1 year.

Results

We noticed these benefits as a result of going on the prime vendor program:

1. Reduction in food cost:

Immediately after implementing the prime vendor program, the OTC's food cost per meal dropped 10% while maintaining the same menu using the same ingredients.

2. Fewer vendors & invoices to deal with.

Instead of dealing with nearly 20 vendors and lots of deliveries and invoices, the number of vendors dropped to 5 or 6. Fewer people and paperwork to deal with.

3. Less purchasing activities:

Prior to the prime vendor program, the OTC had a full time purchasing clerk. That position was no longer needed and was phased out.

4. Better vendor service.

The prime vendor became much more responsive to special requests and to situations that required immediate action.

5. Improved product consistency.

Food was now coming from one source, not the low-bidder of the week. This meant better food quality and consistency.

6. Closer vendor relationship.

There was now the incentive for the sales rep to provide more attention, and to maintain a good working relationship.

"Yeah, But . . ."

One common response to a prime vendor arrangement is that the vendor will ratchet the prices up once they know you're not watching them like a hawk. Sure that's possible, but now we're talking about being a sizeable account which the supplier knows will be put out to bid again within a year. If they do play games with the pricing, chances are you'll find out sooner or later.

There is an element of trust involved in a prime vendor relationship. The question you need to answer is, "will a supplier intentionally inflate prices if it puts them in jeopardy of losing a big customer?" Sure it's possible but it's hardly a smart business move on the part of any supplier who wants you as a customer over the long term.

Speaking of trust, in this type of arrangement trust goes both ways. You'll always have another supplier come to you with a better price on a case of tomato sauce today or box of ribs tomorrow, but the point is sticking with the prime vendor as much as possible to get the lowest "overall" prices day after day (and spend your time in more productive activities). Once you start cherry-picking the best deals out there product by product you defeat the purpose of a having prime vendor and it probably won't work.



Does Prime Vendor Make Sense For Your Restaurant?

There's really only one way to find out – try it! While not a panacea, most operators say they'd never go back to competitive bidding again.



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