



Practical Guide to Restaurant Food Cost Control

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The restaurant industry is one of the most difficult industries in which to succeed because prime costs for food and labor can amount to as much as 65% of sales for full-service restaurants, necessitating tight controls to maximize day-to-day profits.

Theoretical food cost is a vital aspect of the successful investment equation when it comes to opening and operating a restaurant. A theoretical food cost goal needs to be determined as a percentage of sales and then managed against the actual food cost. The following information details reasonable initiatives to shave percentage points off food costs without expensive or elaborate cost-control systems.

Initial Food Cost Factors to Consider

- 1) What is the full product cost of each menu item?
- 2) What is the mix of menu items sold in the restaurant? It can vary dramatically from restaurant to restaurant – even within the same concept.
- 3) What is happening to the raw food ingredient costs month to month, and how important is seasonality to ingredient costs?
- 4) If the theoretical food cost is too high you will not make an adequate profit.

How to Find the Theoretical Food Cost

Because the mix of items on most menus is reasonably steady period-to-period, theoretical food cost done quarterly will provide a good approximation.

Most point-of-sale devices have the functionality to enter all of the ingredients for each recipe to create a menu item cost for quarterly goal setting. Keep in mind that establishing these recipes for the first time can be time-consuming, but the tedious data entry is a one-time project. Hereafter, it will only be necessary to update recipe changes and product cost changes, making the process more manageable.

To find a theoretical food cost, follow these steps:

- 1) Multiply the cost per menu item times the number of menu items sold. This is the total cost.
- 2) Add in the cost of the employee meals and an estimate of the cost of untraceable food items.
- 3) Divide that total by the food sales for the period, and the result will be the theoretical food cost (goal) percentage.

It's possible to have frequent and significant changes in raw food costs, particularly in produce. This issue can be handled in a simple worksheet to keep the theoretical food cost adjusted for use in managing actual food costs against the theoretical. If a major vendor, menu, or similar change occurs, it's necessary to recalculate the theoretical cost.

Finding Past Theoretical Food Costs

It is possible to retrospectively find out your theoretical food cost. To do so, individual food items' prices need to be recorded into a computerized system. Food costs can change daily, so this information must be kept up-to-date. To find the theoretical food price once that information has been entered, multiply menu item costs by the items sold from the point of sale.

You Cannot Operate Below Your Theoretical Food Cost

The following initiatives can help decrease theoretical food cost:

- 1) **Find a lower cost for raw ingredients.** This could involve a change in portion size or a vendor change – decreasing ingredient quality in order to cut cost is not recommended.
- 2) **Raise menu prices.** This can be done across the whole menu or only for specific items.
- 3) **Change menu items to lower-cost alternatives.** Seasonal menus are often an easy way to accomplish this.
- 4) **Promote lower-cost menu items.**
- 5) **Eliminate menu items with special-purpose raw ingredients.** These special-purpose raw ingredients are frequently disposed without use because of low sales, so cutting the menu item out completely will help lower food costs.
- 6) **Rely on menu options that utilize leftover raw or partially handled ingredients.** Having raw ingredients that can be used in multiple menu options will help reduce food costs.
- 7) **Decrease portions.** This should be considered a last resort in cutting food costs.

You Can Operate Below Your Actual Food Cost

The actual food cost is the **sum of invoices for the period**, adjusted for change in food inventory.

The difference between the actual food cost percentage and the theoretical food cost percentage is a tool to evaluate how well a restaurant is performing. There will always be an unfavorable difference; the key is to keep the difference below two percentage points.

When there is a large difference, there are several options to reduce it. The key to maintaining food cost is a strong process. With good processes in place, the variance between the goal and actual food cost will not be significant. Take the following steps to control food cost:

- 1) **Put controls in place to minimize theft.** An exceptionally high food cost can be a symptom of someone stealing from deposits or manipulating guest checks.
- 2) **Secure storage spaces to protect ingredients.** Reduce theft by protecting storage spaces that contain raw or partially processed food.
- 3) **Create a process to manage invoices.** Be sure to have a protocol in place to ensure all the items on invoices are actually being delivered.
- 4) **Establish a product rotation process.** These practices and product handling protocols are in place to avoid throwing away good food that has gone stale.
- 5) **Practice portion control.** Have a portion control process in place that is aligned with the menu offering and operation. My local sandwich shop just started using a scoop for chicken, instead of spending the labor to individually portion the chicken, and I got much more chicken on my sandwich than I used to. This is great for me but bad for the restaurant.
- 6) **To ensure consistency, spot-check plates that are about to be served.** Check waste barrels to see if there is over-portioning going on (food coming back from the customer) or unusable raw product being thrown away. Everything in the barrel had a negative effect on your food cost.

Pay Attention to the Guest Experience.

Be mindful of the guest experience. When food costs are being tightly controlled, the kitchen staff may be tempted to under-portion the plate, use unapproved (lower-quality) raw ingredients or utilize ingredients that should have been discarded. The latter is a food poisoning risk.

If you develop theoretical costs and aggressively manage to your goals, you will be on the road to major cost savings that could make the difference between success and failure.

For more information, tips and tools, visit www.therestaurantwizard.com.