

CONTROLLING FOOD COSTS IN A SMALL RESTAURANT

The key to the success of any business small or large is controlling costs. In the restaurant business this is the key to success and failure. There are three main reasons why restaurants fail: undercapitalization, poor management (the chef started the restaurant, he may be a good chef but lacks management know-how and skills), lack of controls of food, portions and inventory. In this article we will only deal with controlling food costs and portion control using what is called "Menu Pricing."

Pricing your menu by menu item is a relatively simple procedure and most small restaurants do not do this or do not know how. There is software specifically designed for this purpose. A quick search of the Web and you will find many solutions and systems available to assist you in this task. One program called "Recipe Costing & Menu Profitability Workbook," will give you the tools to do this task in a concise manner. However, you can set up a simple functional system by using Microsoft Excel spreadsheets.

Menu Pricing Sheet

<u>Menu Item</u> _____	<u>Menu Price</u> _____		
<u>Ingredients:</u>	<u>Portion Size</u>	<u>Price</u>	<u>Cost:</u>
<u>Main Ingredient:</u>			
<u>Other Ingredients:</u>			
List other items and price			
<u>Total Cost:</u>	<u>Add for Total</u>		

It is important to know the food costs of every item on your menu. The proper costing of each individual menu item should include all the components of this item including vegetables or any side dishes included

Controlling Food Costs (Page 2)

as part of the menu item. It is important to note that the size of the portion is a key factor in this calculation. Your main ingredient will be the largest part of the costs of this item. The size of your plate is important to maintain cost controls and proper presentation. You should never let the food look lost on the plate. Using these controls you establish a cost of the menu item and price the item so the cost should range from a minimum of twenty-eight percent to a maximum of thirty-five percent of the price being charged. Every item on your menu will not be able to be maintained at the thirty-five percent cost level. However, you should endeavor to maintain an overall food cost at that level.

By using this system with an Excel spreadsheet as shown above for each menu item, you can easily change the cost components as the prices of the items in the dish change. This may seem like a monumental task, but spending the time initially to set this system up will be well worth your time and effort in the cost controls established and food costs saved.

Using a "Point-of-Sale System" in your restaurant no matter how small is another important factor in controlling your food costs. The information a "Point-of-Sale System" will supply enables you to track your sales, but it will also tell you the menu items that are being sold and more importantly the items not selling. Having the information on which menu items are selling assists in your ordering of food and enables you to cut down on the waste incurred from incorrectly anticipating sales of the menu items that are not selling.

It is a simple procedure to add menu items both to a "Point-of-Sale System" and the menu pricing system. This will facilitate the adding of new items to the menu and the deleting of old ones; it will also allow the addition of specials as they are offered.

Buying your food is a big part of the price controls. Buying from the big suppliers is much simpler and convenient, but also can be up to

Controlling Food Costs (Page 3)

twenty percent more expensive. These suppliers also supply many non food items. It is important if you buy from these companies that you get them to put the food and non food items on separate invoices if possible. This will make your job easier when you are looking for the food costs to do your menu pricing.

You should endeavor to buy a substantial portion of your fresh foods in places where the pick is better, you do it yourself and the prices will tend to be more reasonable. This will be more difficult and time consuming, but you will know what you are getting and in the long run you will have less waste. In most restaurants your customers will appreciate the attention you are giving to detail, and your dishes will probably have a fresher taste and better flavor.

We are lucky in Philadelphia we have the food distribution center. All food and non food items can be obtained at wholesale prices in this location. We also have the Italian market at the ninth and Washington Streets location. Here they have many fresh food items on a daily basis. They are open for more reasonable hours. These purveyors do the leg work for you and give you more time to do your shopping without having to get up in the middle of the night for a place like the New York fish market or the food distribution center. I am sure in what ever city where you are located will have something similar.

One of the key factors in controlling costs is controlling inventory levels. It is advisable to take a physical inventory at least once a month. You must watch your inventory turnover as well. This can be achieved by using the techniques already mentioned in this article. Maintaining high levels of inventory is very costly. This is an issue in controlling all costs in a restaurant. A "Point-of-Sale System" is the best way in this time of fluent and user friendly technology to control inventory by knowing what is selling. Having this information available on a daily basis allows you to better plan what you are going to buy and the quantities you are going to buy. Waste is the biggest cost guzzler of all and buying to much is almost as bad as not buying enough. In the absence of a

Controlling Food Costs (Page 4)

"Point-of-Sale System," a spreadsheet can be devised for this purpose. This would need to be posted daily to be effective.

I have mentioned all the methods of controlling food costs by using inventory and point of sale systems to achieve maximum food cost controls in a small restaurant. Taking into consideration that this is not a desirable job and most small restaurant owners will balk at instituting the suggestions in this article. It might behoove you, the small restaurateur to hire an outsider to set up the system and show you how to maintain it going forward. The savings in food costs will more than pay for this cost.

Finding a suitable "Point of Sale System" is easy today just look on the web or attend a restaurant trade show. Those restaurants serving wine, please see our article "Increase Your Wine Sales" in this publication or on our website.

Good luck in your endeavor to implement these systems. Feedback will be welcome and appreciated. Please email us by logging onto our website. www.dershowitzcompany.biz.

Martin Dershowitz
Dershowitz & Company
Accountants & Auditors
Jenkintown, Pa. 19046
215-887-0344