

Restaurant Inventory Management

Reducing Food Costs Using Actual vs. Theoretical Tools

Restaurant inventory management and food cost control are at the heart of profitability for hospitality companies. But often, the methods used to track them are based on incomplete information, which can be extremely costly.

Who's Winning?

Let's look at two stores in a fast-casual restaurant chain to demonstrate what we mean:

Restaurant A food costs = 32.1% of sales

Restaurant B food costs = 32.8% of sales

At many companies, the Restaurant B manager would get some coaching about controlling costs. But in fact we don't know how well **either** of them controls their food costs, unless we take into account:

- The local costs for all ingredients in each restaurant
- The menu mix for each restaurant

Both of those issues can cause wide swings in food costs as a percentage of sales, but *are often overlooked* when evaluating food cost performance.

That's a big problem.

If I'm a restaurant GM and I'm selling lots of the low-margin specials my boss told me to promote (affecting my menu mix), my food costs will be a higher percentage of sales... does that mean I'm doing a bad job? Or maybe the produce in my region is subject to price drops due to over-supply issues, and my costs are down. Does that mean I'm performing at a high level?

What *should* food costs be?

To gauge how well an operator is managing food costs, it's key to first understand what a restaurant's food costs *should* be, based on current inventory costs of all ingredients for the meals sold, and assuming perfect portions, no breakage and no shrinkage. That's also known as a restaurant's **theoretical food cost** (Inventory always valued correctly? No breakage or shrinkage? Perfect portions? You can see why it's called "theoretical".)

Once we know a restaurant's theoretical food cost, we can then compare it to their **actual food cost**, which is simply the actual cost of all the food that the restaurant used for a given period.

The mark of truly great food cost control is how closely a restaurant's actual costs approach their theoretical costs; an exact match would mean they're portioning perfectly, and have no breakage or shrinkage. The difference between the two is the true measure of efficiency in food cost control; it's called the **Actual vs. Theoretical Variance** and reducing it to its lowest possible point is the goal.

Now the Real Story

Back to our example...

Restaurant A has:

- Actual food costs = 32.1% of sales
- Theoretical food cost = 29.5% of sales

That means their Variance from Theoretical cost is **2.6% of sales** (which could be caused by waste, theft, or portioning problems).

Restaurant B has:

- Actual costs = 32.8% of sales
- Theoretical costs = 31.9% of sales

That means their Variance from the ideal Theoretical costs is **.9% of sales**.

The conclusion?

Restaurant B is doing a far better job managing their food costs, as their breakage, shrinkage, and portioning mistakes amount to only .9% of sales, while Restaurant A's are 2.6%.

The Loss Multiplier: If each restaurant does \$1,000,000 per year in sales, then Restaurant A's extra 1.7% of costs amounts to lost profits of \$17,000. **Ouch.** What if the chain has 24 restaurants and ½ of them are worse than that? That's at least 12 x 17,000 = \$204,000 in lost profits - and **in many companies it could go completely undetected** due to the sole focus on actual costs.

Fixing the Real Problems

The surest way to drive profit dollars to the bottom line is to identify the biggest "profit leaks" in an operation, find where they're occurring, determine their root causes, and then put fixes in place (i.e. more frequent inventories of those items, contract compliance checks, etc.) It doesn't require selling even one more meal... you simply keep more of the profits from each meal already being sold.

To begin, once the overall variance from theoretical cost is known, the best practice for reducing it requires identifying the *individual ingredients* with the largest variances by dollar volume, and analyzing their use to spot waste, theft, or overcharges. In a typical operation with hundreds of items in inventory, it can be a daunting task.

The investigation begins with the store that has the highest variance for each spotlighted item. For example, if chicken breasts represent the greatest dollar variance from ideal theoretical cost company-wide, and a restaurant in Albany, NY shows the greatest dollar variance of all stores, the investigation would start in Albany and center on:

- Proper receiving to ensure inventory amounts are accurate.
- Proper invoicing to ensure costs are correct.
- Proper usage in preparing recipes.
- Proper portioning.
- Proper tracking of waste.
- Identifying the reasons for inventory adjustments.

The Tools Required

The accurate measurement of Actual and Theoretical food costs requires the following for every store and commissary in the company:

- Accurate local market pricing for all ingredients.
- Accurate beginning and ending inventory counts to determine usage.
- Accurate ingredient amounts specified for all recipes.
- A system for accurately recording waste
- A system for capturing, in real time, recipes sold and their associated ingredients' costs (and for depleting from inventory the individual ingredients).

Having all of this information on demand, so you can troubleshoot food cost issues in real time, requires processing a **mind-boggling amount of data**, which is best accomplished with an enterprise software system designed to do so.

About CrunchTime!

CrunchTime! Information Systems is a leading provider of enterprise solutions for the hospitality industries. Since 1995, CrunchTime! has helped customers dramatically reduce food & beverage costs, drive labor efficiencies, and better manage the quality and consistency of their food service operations. [Customers](#) include multi-unit restaurants, cruise lines, hotels, and food service management companies around the world.

For More Information

The CrunchTime! Back Office Solution includes incredibly powerful Actual vs. Theoretical reporting tools, which reveal who's doing a great job managing their food costs, and who needs help. More than that, the tools show in great detail exactly where waste, shrinkage, overcharges, or portioning problems lie, **right down to the ingredient level**, so you can get to the source of food cost problems *fast*. If you're interested in learning more about this powerful system for measuring and lowering food costs, please use the contact information below.

Contact Us

Phone: 617-567-5228 x237

E-mail: info@crunchtime.com

Web: www.crunchtime.com

