

CHAPTER 29 : FOOD COST CONTROL

DEFINITION AND NATURE OF FOOD COST CONTROL

Cost control has been defined as the guidance and regulation of the costs of operating an undertaking. To guide and regulate costs means to ensure that they are in accordance with the pre determined objectives of the business. Hence the notion of the guidance and regulation of costs pre supposes the existence of stated objectives as expressed in the policy statements and the budgets of the undertaking.

Food cost control is simply cost control as applied to an undertaking operating food facilities. Food cost control is therefore cost control as applied in hotels, restaurants, canteens and similar establishments.

It is quite common in certain catering circles to regard food cost control as something wholly negative designed to cut costs in all directions. This is quite wrong. The object of food cost control is to ensure that costs are neither more or less than they ought to be that they are in line with the financial and catering policies of the establishment.

An important feature, which distinguishes food cost control from systems of cost control in other industries, is its materials costs orientation. In most aspects of food cost control, attention is directed to primarily to the cost of materials (cost of sales) leaving the cost of labor and other operating costs very much in the background. This is mainly due to the fact that in the short run, labor and other operating costs tend to remain fixed and are thus largely uncontrollable.

OBJECTIVES OF FOOD COST CONTROL

In many hotel and catering establishments, the expenditure on food is the largest single element of cost. The maintenance of Food cost at pre determined levels are therefore of the greatest importance in ensuring the satisfactory profitability of each establishment. Even where catering is undertaken as a welfare facility food cost targets and costs ceilings are

invariably imposed from above either in total or on a per unit basis. The main objectives of food cost control may be summarized as follows:

1. **Analysis of Income and Expenditure:** In financial accounts, stress is usually placed on an ascertainment of total quantities e.g. sales, cost of sales, gross profit and net profit. In Food cost control on the other hand, much stress is placed on the analysis of such total quantities as between the various departments of the business. We are thus not satisfied with the ascertainment of the total gross profits of the business as a whole, but attempt to ascertain the cost of the profit on each department and each unit produced.
2. **Pricing of Food and Quotations:** Another major objective of food cost control is to provide a sound basis for menu pricing and quotations in respect of banquets and special parties. Whilst often, menu prices are fixed by caterers by reference to prices charged by competitors, the correct approach to the problem is to determine menu and other prices in the light of the main costs and market considerations. Thus in addition to a knowledge of prices charged by competitors, the customers spending power etc, it is necessary to take into account the costs of the establishment. This can only be done by installing a sound system of Food Cost Control.
3. **Prevention of Waste and Inefficiencies:** As already noted, the purpose of control is to ensure that current results are in accordance with the pre determined objectives of the business. Invariably, such objectives are expanded in terms of targets for turnover, cost ceilings and profit margins. Clearly, if such targets are to be reached, all possible forms of waste and inefficiencies must be prevented. In order to be effective in preventing waste and inefficiencies, a system of food cost control must cover the whole field of catering operations - from the purchase of the foodstuffs to the sale of the meals. It will be appreciated that as the catering process proceeds along the line along the line, linking the purchase of foodstuffs to the sale of the meals, there are numerous critical areas (e.g.: receipt of the incoming goods, preparation of meals and cash control) at which considerable losses may be incurred. An effective system of food cost control will therefore place particular

stress on such critical areas of control and in this way help the establishment to reach its pre-determined targets.

4. **Data for Management Reports:** An important function to be fulfilled by the food cost control system is the provision of data for periodical reports on food operations. It is said that the manager is like a judge. His judgment is only as good as the information supplied to him. Effective catering management pre supposes adequate food cost reporting which can only be based on a sound system of control.

OBSTACLES TO FOOD COST CONTROL

In many respects food cost control is more difficult than systems of control in operation in other industries. The specific factors which make food cost control relatively more difficult are discussed here:

1. **Unpredictability of the Volume of Business:** Sales instability is inherent in almost all catering operations. The changes, which occur in the volume of catering, are of several kinds. Firstly, the intensity of demand for food and drink will in most cases vary during the day. As a result, in the majority of establishments, it is possible to observe more or less, peaks of activity during the workday. Secondly, there are changes in the volume of business occurring from one day to the next. (Weekends). Finally, in catering establishments which are to some degree seasonal (resorts), turnover in season will be considerably greater than in the off season.
2. **Perishability of Food:** Food is perishable both as a raw material and in the form of prepared meals. This presents the catering businesses with two major problems. Firstly, when buying perishable foodstuffs it is necessary to ensure that while current supplies are adequate there is no over buying. This applies particularly to highly perishable items such as soft fruits, salads and certain vegetables. Secondly, the quantity of food prepared for each service should be in line with the anticipated demand (forecast). Extra food necessitates re heating and re processing before sale thereby incurring further operating costs. Over production also leads to wastage because most of the times, this excess is not suitable for resale thereby leading to spoilage and wastage.

3. **Daily Variations in Food Production:** In addition to changes in volume of sales there is continual change in the assortment of meals produced by catering units. The assortment of meals will change from one meal to another during the working day. Also, there are considerable changes of emphasis from one item on the menu to another. All shifts of emphasis entail considerable problems relating to all phases of the catering cycle and present many control problems relating to the purchase of the food stuff, preparations of the meals, pricing, cash collection etc. The nature of the products require considerably more control than is the case in many other industries.
4. **Short Cycle of Operations:** Another characteristic feature of catering establishments, which presents an acute control problem, is the short cycle of operations. Whilst in many other manufacturing units the time taken by the production process sometimes lasts weeks (from the time of purchase of raw materials to the sale of the finished product), in a catering operation the cycle is fairly short and lasts at the most a couple of days. Therefore there is little time to exercise control and remedial action if and when required. As a result, checks are done retrospectively. Hence a daily and at times weekly control check needs to be applied.
5. **Multiplicity of Low Value Transactions:** The spending power of customers will vary from one type of organization to another. Even when the customer spending power is high, the total amount spent by the customer consists of a number of small payments for the individual items comprising his meal. The turnover of the catering establishments is therefore the result of a number of low value transactions. This presents several control problems. Control tasks such as forecast of sales, stores, pricing and cash collection are therefore made more difficult.
6. **High Degree of Departmentalization:** Whereas some catering units have one selling outlet, there are many, which have several revenue producing units (e.g. Birdy's, Croissant Etc.). This also applies to the large hotels, which have several F&B outlets including Banquet facilities and Bars. The larger the number of outlets, the greater the difficulties and the more arduous the problems of control. Whilst the analysis of total revenue presents some difficulties, these are magnified when the number of

outlets increases. One of the problems of food cost control is to determine the results of each department (outlet), even though the production unit is the same.

METHODOLOGY OF FOOD COST CONTROL

We have defined Food Cost Control, described its objectives and dealt with the difficulties which its application presents. Now, we must deal with the method which should be applied in the development of a system of Food Cost Control.

The development of an effective system of Food Cost Control resolves itself into three distinct phases:

Phase I consists of basic policy decisions in relation to the financial and catering policies of the establishment.

Phase II consists of the necessary routine operation controls revolving around the catering cycle.

Phase III consists of what may be described as control after the event or post operational control.

Phase I Basic Policy Decisions: In some respects, food cost control is a by-product of the interplay of two basic and sometimes conflicting considerations. When one reflects on what most forms of catering are about, the inevitable conclusion is that in the final analysis, only two things finally matter - *profitability and the customer*. The profitability of the establishment is the ultimate objective whereas the provision of a satisfactory standard of food and service is the means by which the ultimate objective is reached. Hence, before a system of cost control is developed, it is important to evolve the following:

1. A Financial Policy - setting out the intentions of the management with regard to the forecasted profitability. This involves setting up a profit

target, the determination of departmental profit target and the planning of a whole pattern of differential profit margins in respect of each menu. The financial policy of a catering establishment should be determined as in the five steps listed below:

- a. Determine the overall profit target. (return on capital employed)
- b. Determine what percentage of net profit on sales must be aimed at.
- c. By reference to the budgeted volume of sales, the type of service and the degree of comfort to be provided to the customer. Determine what percentage of revenue will be required to cover labor costs and overheads, and what percentage of revenue can therefore be available to cover costs of sales.
- d. By reference to the projected sales mix, determine the cost of sales for each department of the business: food, beverages, alcoholic drinks and tobacco.
- e. Having determined the overall cost of sales for each department, plan the differential profit margin for each group of items offered on the menu, wine list etc.

2. A Catering Policy - defining the market to be aimed at and describing how it is to be catered for

Phase II Operational Control : We have now outlined the first stage in Food Cost Control. The second stage consists of a sum total of built in checks (inspection of incoming goods for quality and quantity), technological procedures (yield testing) and clerical procedures (writing out requisitions). These should be planned so as to cover the whole cycle of catering operations. We must therefore deal with operational control in relation to

- a. Buying/Purchasing
- b. Receiving
- c. Storing and Issuing
- d. Preparation
- e. Sales

Each of the above stages constitutes a highly critical stage of Food Cost Control. Any system installed must therefore cover all the five stages.

- A. **Buying** - There are 4 main points to be considered at this stage. *Firstly*, there is yield testing. We have already evolved a catering policy, identified the type of customer, decided on the type of the menu and established a set of costs and gross profit targets. The object of yield testing is simply to discover the respective yields of a whole range of commodities available for any one purpose and so determine the costs concerned. It is only on the basis of yield testing that we can compile the necessary purchase specifications. By the way, understand that there is a difference between yield testing and product testing. In product testing, we are mainly concerned with the physical properties of the food - texture, composition, keeping quality, flavor etc. In reality, tests are carried out which would combine the two objectives. *Secondly*, we have Purchase Specifications, which are concise descriptions of an item of food. This helps the caterer to communicate with the supplier. Varieties of tomatoes are available, some suitable for salads and some that may be used for soups and gravies. Similarly, brinjals are available for stuffing and others for Bhurta. A set of specifications by themselves will not be of much use. It is necessary to ensure that they are used - not only by the buying office but also by the goods receiving office. *Thirdly*, the methods of buying must be considered. It is clear that no single method of buying is suitable for all types of food. Hence, in relation to each type of commodity, we must decide whether it should be bought open market, via a tender or local purchase/imported. *Finally*, we must determine clerical procedures. It is necessary to decide who originates, sanctions and places purchase orders and what sort of documentary evidence is to be used. The use of the computer and material management packages is widespread and will help generate reports, which helps immensely with food cost control procedures.
- B. **Receiving** - There seem to be three main points here. The *first* is quality control. Some person must be made responsible for checking the quality of all incoming goods, and it is obviously important to concentrate efforts in the direction of the perishable commodities. The quality of non-perishables tends to be constant over a period of time. *Secondly*, we must assign responsibility for the quantity inspection. The goods receiving clerk normally perform this task. Blind receiving is now quite a popular receiving technique especially in large-scale operations. *Finally*,

the clerical procedures must be planned. How much paper work do we really want? Do we keep a goods received book? What action should be taken in the event of non-delivery or short delivery? These questions need to be answered and the policies framed. Today, the computer helps to eliminate a lot of paper work. But, is the organization financially equipped to install computers? Do they possess the personnel to operate the software??

- C. **Storing and Issuing** - Several important matters must be planned for the third stage of the cycle. *First*, there is the problem of stock records. It is necessary to decide whether or not these will be kept at all and also for how long! *Secondly*, the matter of pricing of issues must be decided upon. In other words, we must choose one or more of the following for computing the cost of food consumed:

- Actual purchase price
- Simple average price
- Weighted average price
- Inflated price
- Standard price

Thirdly, stocktaking must be considered. Decisions must be made with regard to its frequency, the pricing of stocks, methods with dealing with discrepancies etc. *Finally*, the necessary clerical procedures must be established and introduced. Who writes the requisitions? How many copies? Who will sanction? These are some of the questions that must be answered.

- D. **Preparing** - This is possibly the most critical stage of the cycle. The cost of food consumed depends on two factors: the number of meals produced and the food cost per meal. In order therefore to control food costs we must be able to control the numbers being catered for (we must have some method of volume forecasting) and control the food cost per meal in advance (standard recipes and portion control). Volume forecasting is a method of predicting the sales volume for a future period. In order to be of practical value, the forecast must predict the total number of covers as well as the choice of menu items. The process of volume forecasting consists of two stages: First, we have what we know as the initial forecast. This is done once a week in respect of each day of the following

week. The initial forecast is based on sales histories, data relating to advance bookings as well as current trends. When the initial forecast has been completed, the predicted sales are converted into quantities of raw material. Purchase orders can then be prepared and sent out to the suppliers. The second stage is known as the final forecast. And this usually takes place a day before. The final forecast takes into account the latest developments including weather etc. If required, supplier's orders can be amended. It must be understood that volume forecasting is not a perfect method of prediction. We cannot really tell the future. It does however help to minimize over and under production of food.

- E. **Selling** - At this last stage of the catering cycle, we are concerned with three main problems. The financial and catering policies will have defined the price policy of the business. In operational food cost control, we are therefore only concerned with the routine pricing of food. Where differential profit margins have been evolved, this is a relatively simple matter. A more important tactical task that has to be faced is to ensure that any increase in the quantity of food prepared is matched by a corresponding increase in cash received from the customer. This will require a restaurant checking system. The final problem is of cash control. We must ensure that all amounts received by the waiting staff are paid to the cashier. He in turn has to deposit each day's takings.

Phase III - Control after the Event

The last phase of Cost Control is concerned with three important matters:

1. Food Cost reporting
2. Assessment of Results
3. Corrective Action where appropriate and necessary

The **first** point is obviously a matter of some importance mainly for reasons of the specific character of catering operations. Food is a highly perishable commodity and whether in the form of cooked meals or raw materials, it cannot be stored indefinitely. Moreover, the demand for catering facilities shows unpredictable trends and unexpected changes. The cycle of

production is extremely short, unlike other manufacturing operations such as automobiles for example. All this means that current operations must be reviewed frequently and that there is a need for a short review period. In order to control a food operation effectively, the manager must have daily, weekly and other reports covering longer periods.

The *second* important aspect of food cost reporting is concerned with analysis. A catering business, unlike most other businesses performs a dual function: production and selling. Furthermore, many catering establishments are highly departmentalized, especially large hotels and industrial canteens. The assortment of production (large menus) changes from day to day. All these factors mean that from the point of view of control; analytical reports showing separate results for each branch of the catering operation are necessary. The assessment of results is concerned with an appreciation of how far the actual results of food operations correspond with the actual results. This means that assessment is not possible without a yardstick for measurement. We could assess current results in relation to those of previous food cost review periods or we could assess current actual results in relation to budgeted results. Obviously, the second is the preferred one.

This brings us to the *last* stage: corrective action. Surely, any action that is taken following receipt of a food cost report depends on circumstances and reasons of each case. Therefore, it is difficult to lay down specific guidelines for corrective action and it here that the manager's tact and experiences as well as his feel for the job come into play. Questions of praise, reprimand, authority and responsibility are very largely a matter of human relations.

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