

Controlling Operational Costs in a Climate of Rising Expenses

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MyEntreNet Webinar
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Objectives for Session

At the end of the session, participants will be able to implement action steps to control:

- Food costs
- Labor costs
- Utility costs
- Miscellaneous Costs



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- Operators report food cost increases of about 15% * *
National study of operators School Nutrition Association, 2008
- Labor cost increases - minimum hourly wage rate in Iowa from \$6.20 to \$7.25 as of January 1, 2008
- Utility costs are rising – not just in-house but for your suppliers
- Supply costs (i.e. paper, chemicals, small equipment) also increasing
- Transportation costs on the rise
- Patrons are experiencing own cost increases

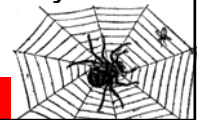
Bottom line: retail foodservices are paying more!

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What to do?

- External Forces are difficult to Control – but you can have an impact
- Membership in professional groups is one way to have your voice heard - such as IRA, Entrepreneurship groups
- Learning tips from others in similar situations – trade publications, chats (real and virtual)

Network socially and professionally!



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In House Strategies

Revisit your merchandising strategies.

- *Customers eat with their eyes.*
- *Are food and ambience perceived in the best light?*

Consider a refresh of your services and menus.

- *Re-evaluate the options you offer with close attention to the actual cost of providing them.*
- *Brainstorm promotions with staff*
- *Review your pricing and service strategies– don't penalize guests if want to split an order, be gracious*

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In- House Specifics

Each Expense Category offers some opportunity to control costs

- Food
- Labor
- Utilities
- Miscellaneous

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Food Costs



- Generally – plan third of sales for menu item ingredients
 - So, food cost % of sales average = 33%
 - Some menu items different profit margins mark-ups
- Influences of free market system
- Consider what your customers will pay and market niche
- Keep affordable options on your menus

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Food Cost Controls: Procurement

Sources

- Best sources used?
- Shopping the market or continuing business as usual? Alternatives?
- Number of vendors/Number of items?



Deliveries

- Number of deliveries each week?
- Amount needed (avoid tie up \$\$ in inventory – yet use discounts)

Communications

- Specification of products
- Decisions made by you or the vendor? Vendor rep is a resource but it is your operation!

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Effective Receiving

Check delivered products at time of arrival

- Important control step as you assume ownership of the product
- Is it the **quantity and quality** that were ordered?
- Are you/staff actually inspecting deliveries (i.e. spot checking produce quality, product temperatures and expiration dates)?

Not best practice to give key to vendor

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Food Cost Controls – Preparation

- All items leaving inventory accounted for? Controls?
 - Proper use with effective training and tools (i.e. standardized recipes) can avoid waste
 - Create new signature items and promote
 - Offer a “to go” concept – tap into HMR
 - Ingredient substitutions?
 - Increase in-house preparations
 - Make own salad dressings
 - Portion condiments in-house from bulk
 - Wash/prepare vegetables in house
- Think through labor and food safety; consider if qualified staff and space – may depend on product*



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Beef - Mix or Scratch?
One example cost comparison = \$.06
versus \$.15/serving



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Cost Controls: Portioning/Service

Identify portion size: no “little extras” for BF

Server controls:

- Ticket accountings
- Revenue tracking - \$ all foods served?
- Review processing of orders – ways around? i.e. birthday
- **Keep a business mentality: Set your policy and stay firm** (*walk your talk*)
- Ex: extra shot x 10 friends a night = about \$10 lost product cost + revenue (*if 25 shots/\$25 btl.*)



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Labor Cost Controls

- Staffing hours
- Hours of operation – expand?
- Review production needs/forecasting
- Changes in product form
- Emphasis on operation (*don't skimp front of house*)
- Monitor work periods and OT
- Staff Perks – food, LO, beverages
- Staff Benefits to staff – labor meals, uniforms, insurance



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Utility Cost Controls

Monitor use

- Turn lights off when not needed
- Consider switching to compact fluorescent (some incentives by utility companies)
- Power computer down at end of day

Don't skimp on safety and security

- Requirements 50-foot candles in food production
- Parking lot is well lit

Review equipment efficiency

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Miscellaneous Costs

Paper goods

- Napkins dispenser
- Restrooms (Air driers send message that environmentally friendly - but look at door swing) Cost about \$ 350 for top of line

Chemicals

- Install automatic dispenser (tower control) to avoid over-pours – ensures safety as well
- Keep secured locked area – limited access (defense also; easy resell or for harm)

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Bottom Line

- Costs are rising
- Economic forecast is gloomy but the “sun will come out” – maybe not tomorrow
- Entertainment budgets may decrease, but won't go away
- Eating away from home is a “need”, not a “want”
- Know your customers
- Keep the traffic into your operation
- Manage costs wisely



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