

Ideal Food Cost Calculation in Food Cost Control Management

Almost every restaurant and food service operator in the country shares a similar monthly routine—the completion of a product inventory and the subsequent generation of a food cost percentage. This process not only enables the creation of a restaurant profit and loss statement that illustrates the financial health of the business, but can also uncover emerging operational performance issues. Unfortunately, not as common among restaurant operators is the routine generation of a theoretical food cost that can supplement an actual food cost percentage by providing a food cost target, or baseline. This article will examine the practice and benefits of routinely generating an ideal food cost as part of a holistic approach to food cost control management.

If you stood on the floor of Chicago's McCormick Place during the National Restaurant Association show and polled attendees to uncover the universal ideal food cost, you would probably get a myriad of responses, quickly discovering that there is no universal ideal food cost consensus. This, of course, is because a theoretical food cost, also known as an ideal food cost, is determined by the particular performance characteristics of a business; specifically, the menu pricing, product costs and menu sales mix of a given restaurant. Not only is it impossible to pinpoint an industry-wide universal ideal food cost, but it is also equally impossible to determine a restaurant-specific, consistent ideal food cost percentage. If this were not the case, the process of evaluating actual monthly food cost figures would be quite easy, as one could simply compare the actual food cost to the restaurant's established ideal food cost policy. Achieving this, however, would require an operator to establish their desired ideal food cost percentage and then price every menu item accordingly. Stated differently, every item sold would need to have the same mark-up margin that would produce the ideal food cost percentage goal. This is both an unrealistic and undesirable pricing strategy, as it does not take into consideration market pressures, competition and menu item contribution profit. Further, it would also require the constant re-pricing of menu items to compensate for the slightest shift in specific menu item product costs. Since doing so is obviously not advantageous or realistic, it should be understood that a particular restaurant's ideal food cost will continuously fluctuate, and that routine re-calculation of the ideal food cost must occur if an accurate performance evaluation of the actual food cost is to be established. Armed with the increased knowledge and visibility provided by this information, an operator can efficiently target cost control efforts in the proper direction. Specifically, a significant variance between these two numbers will indicate a behavioral and performance issue, while a slim variance will indicate a change in the product costs or menu item sales mix.

Rather than routinely generating an ideal food cost percentage to serve as a baseline, as previously described, restaurant managers and operators often look at historical food cost percentage trends to evaluate current monthly food cost performance. While using historical data to generate actionable trending

information is highly valuable in both food cost control and restaurant profit and loss management, it can also lead to misleading results if this practice is not supplemented by the use of a theoretical food cost. While historical data does serve as an indicator of food cost performance, this indicator can be misleading, as using historical data as a benchmark, or ideal target, does not address a possible shift in the product cost, menu pricing or menu sales mix, as we previously illustrated. If any of these variables change, then using a past food cost percentage, as a measure of current employee food cost control performance, would be misleading. It would, likewise, be just as misleading to use the same information to write off an increase in the actual food cost percentage as simply a result of rising product costs.

In addition to using historical trends, managers will often also rely on their operational experience, awareness and knowledge when evaluating an actual food cost percentage. While operational familiarity is critical in uncovering restaurant cost control issues, our experience has shown that there are too many variables involved for gut-reaction management to be effective in gauging food cost control performance. The algorithm used to determine an ideal food cost looks at three variables, each of which is determined by a multitude of factors. Quite frankly, attempting to determine the cause of a rising, or lowering, food cost percentage without the baseline provided by a theoretical food cost is, at best, an educated guess.

It is worth noting that a rising food cost percentage is not always cause for alarm. If both actual and ideal food costs trend upward, then further investigation may uncover that this upward trend is due to a shift in the menu sales mix, rather than product cost increases or behavioral issues. Because products with a higher food cost percentage often have a higher contribution profit, a rising food cost due to a shift in the menu sales mix could be a positive trend, as it may result in higher profits. For example, while a significant increase in the number of lobster or filet mignon dishes sold may increase the overall food cost percentage, it may also result in increased bottom line profit, as these items provide higher contribution profits despite their higher food cost percentages. Uncovering such intricacies, however, is very difficult if ideal food costs are not calculated and used as a baseline when evaluating current food cost. Imagine the time wasted and the morale issues created if an operator reacted negatively to a rising food cost that was simply the result of different guest choices, creating additional profit for the business. This issue is very common among businesses that have frequently changing menu offerings and product mixes, such as hotels, caterers and conference centers.

The actual process of calculating a theoretical food cost is not overly complicated and can be routinely executed with some minor preparatory work. The first step in creating an ideal food cost is to collect the data necessary to complete the theoretical food cost equation; specifically, the menu item recipe costs, menu item prices and menu item sales mix. For most operators and restaurant managers, the menu item prices and menu item sales mix information is relatively easy to acquire,

as almost all restaurant POS computer systems offer a detailed reporting of menu items sold. Menu item recipe costs, however, are not always as easy to come by. Access to this data requires routine recipe costing that includes the ongoing maintenance and updating of menu item recipe cards. It is important to note that calculating an ideal food cost using menu item costs that are outdated will produce significantly skewed results that may not reflect the true ideal food cost. While completing and maintaining recipe cards does require a time investment, it is absolutely critical to complete recipe costing to ensure that menu item cost trends are tracked. Once all of this data is collected, calculating the ideal food cost is easy. The theoretical food cost formula is simply the total ideal food expense, divided by total ideal revenue, which is easily calculated using the data previously mentioned. To greatly simplify this process, we recommend that you either create your own spreadsheet to perform the calculations, or download our free ideal food cost calculator from the Food Buyers Network website.

As a final note, operators should be realistic in their attempt to execute this critical food cost control practice. Determining a perfectly accurate ideal food cost is very time-intensive, as it is necessary to cost every single item sold. As you can imagine, this would be a very difficult process, as an operator would need to track and cost every side-item, add-on and special order sold during a given period. Fortunately, a highly accurate ideal food cost can be generated by focusing efforts solely on the items listed on the menu, including frequent specials. While not completely accurate, the aggregate volume of these items will rarely be affected by the ideal food cost of those items that you did not track. Just keep in mind that the ideal revenue figure that is used in the calculation is the ideal revenue of only the items being tracked, and not the total food revenue, as one would find on a restaurant income statement. The end result of this process is an ideal food cost that is sufficiently accurate to gauge food cost performance, without spending too much time on calculating an exact number.

Hopefully, this article has effectively communicated the need to routinely calculate theoretical food costs as part of a larger food cost control management program. Again, we recommend that you download our free spreadsheet to make these calculations easier.