

Utilizing Recipes to Increase Profitability



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An assessment of today's restaurant and catering operations indicates that most of these foodservice operations do not have accurate recipe costs. Recipe costs act as the foundation of strategic functions such as the menu engineering process and theoretical benchmarking. Whatever foodservice operators make and serve, it is essential that they proactively determine the costs of their products. As is the case with many other aspects of the business, recipe costing is something that typically does not get the attention it rightfully deserves. Too frequently operators fail to write down their recipes, a step that would go a long way toward determining accurate costs. And in the event an operator does write down a recipe, it is most often done in general or cookbook terms when using manufacturing terms would better manage the process and costs.

Thinking about a restaurant or a caterer as a manufacturer is a unique concept that is not typically applied in today's foodservice industry. But this way of thinking can bring about a number of benefits such as improved profits and greater efficiencies. When looking to obtain accurate costs, operators should consider two primary concepts.

The first is to understand what it means to treat recipes like a manufacturer would. The basic rule states that anytime a product or production item changes form, no matter how simple it may seem, the operator needs to account for the costs. As an example, let's take fresh basil. When you purchase fresh basil from your local produce company, it comes packaged, usually by the pound, with the basil leaves remaining on the stems. In order to make the basil usable, staff need to pick off all the leaves. Although in terms of complexity this is a very simple task, you need to account for the loss of the stems and calculate the finished weight of the basil. If you paid \$7.50

a pound and did not account for the loss properly, you would have used the incorrect cost of \$0.469 an ounce in your recipes. The reality is that not everything you paid for is useable. In the example we used, it was determined that only 11 ounces of the basil were useable, resulting in a new cost of \$0.682 per ounce. This is the accurate amount to use when developing recipe costs. When working with fine dining and high-end restaurants, the recipes can be very complex, and the simple example above only reinforces the need to account for the known losses and the associated costs.

In addition to accounting for proper yields, the second piece of recipe costing is taking a recipe written by a culinary professional and converting it to proper weights and measures. As an example, many foodservice recipes will call for a spoodle, tablespoon or teaspoon of an ingredient. Utilizing these utensils ensures portion control and proper execution. However, for recipe costing, we need to account for the associated weights. For example, a one-ounce spoodle of feta cheese is not going to be an ounce for costing. When the spoodle of cheese is placed on a digital scale, what you will discover is that the feta's true weight is not close to an ounce — it measures three-tenths of an ounce. Just as accounting for the proper yields is important, it is also important to account for the proper weights and measures to determine your recipe costing.

Up to this point we have discussed only ingredient costs, but we have not yet mentioned the two other factors of cost: labor and overhead. Many industries have been in the practice of costing out their products to include prime and total cost. So why doesn't the restaurant industry identify these costs? Doing so becomes an incredible tool once we have added these two expenses to the recipe cost. With this information we become able to make decisions with accuracy and to engineer our pricing to drive proper profitability.

Determining proper labor and overhead costs requires a time-motion study. Time-motion studies help determine a proper labor standard in time to produce the recipe. Conduct multiple tests with the personnel that are actually responsible for executing the recipes. Upon establishing the time standard, we can then multiply that against both a labor rate and an overhead rate per hour to come up with the total costs.

Labor rates should include not just the base rate but also all the other benefits and fringes paid to employ and retain each staff member. Examples include unemployment insurance, payroll taxes, health insurance and 401(k) contributions. Hourly overhead rates are determined through the budgeting process (predetermined) in which all the operating expenses, exclusive of direct ingredients, direct labor and fringes, are taken into account against the total amount of prep production hours. With this, operators can then assign proper costs to labor and overhead, which are typically the missing components. Labor rates are typically determined by market, and overhead rates need to be specific to store location.

Recipes can also assist in creating benchmarks for production and ordering quantities. While most restaurant operators are familiar with the concept of just-in-time (JIT) practices, they more than likely do not implement them. JIT practices for ordering and production can increase the efficiency of a restaurant location, but too often, restaurants attempt to run their production or ordering based on a sales mix report or their experience. In many cases producing or ordering too much product opens the window for waste. The goal with JIT is to limit the window and keep the waste to a minimum.

Early in the morning the production team often produces or preps product. However, in many cases, they make product in advance, based on shelf lives and not necessarily based on whether they need it. Restaurants will justify this by stating that the product has a 72-hour shelf life, which means it will more than likely be used. In some cases, production occurs just because the operator has inventory on the shelves — a roll of the dice that creates the potential for waste.

With JIT practices, the goal is to produce only what the restaurant needs. A day-specific mix and forecast help determine what the foodservice operation needs to produce for one day. Focusing on the daily needs and not necessarily the future needs represents a huge shift of thought and discipline for the restaurant industry. If there is a forecasted production need of a dozen lasagnas, for example, the goal would be to only produce those dozen and nothing more.

In terms of ordering purchased inventory items, it becomes a little more complicated; however, the end result is the same: minimize the opportunity to waste. To obtain a JIT amount,

there needs to be an established order schedule. Each order will have to last until the next one is scheduled to arrive. With some locations, an additional buffer or safety stock should be set aside depending on other factors such as night drops, distance from the delivering warehouse, dependability of the vendor (time and fill accuracy) and so forth. For example, if a restaurant in St. Louis receives shipments from a warehouse 500 miles away, it would be a gamble to assume the delivery truck is going to be on time, all the time, for a variety of reasons. One of the first steps in preparing any order is completing a physical inventory of what's on the shelves. Without taking on-hand counts, the operation will automatically bring in product unnecessarily.

The discipline is to only order enough to last until the next order. With fewer products on the shelves the restaurant will experience less waste.

Recipes also enable the store locations to utilize actual to theoretical benchmarking not only on food and beverage, but also with respect to back-of-the-house labor and overhead as well when identifying total costs. Benchmarking is truly an effective tool if used correctly. Generating a theoretical to actual spread percentage for the benchmark does not assist in making the operator more efficient. Determining line-item variances of what is causing the spread for the benchmark and reacting to improve the inefficiencies are the steps that cause the greatest impact. You cannot manage costs from a chair. Utilize the variances to improve the overall efficiency of the operation. Food and beverage

variance reports are only as good as the recipes creating the depletion. Using the time-motion studies, we now can also look at spreads for back-of-the-house labor and overhead costs. The goal, however, is to create a consistent and comparable benchmark — not a tool to determine blame for poor performance, but a tool to improve overall efficiency.

Accurate recipe costs become the basis of many other things such as menu engineering, obtaining theoretical costs and commodity price impacts. Without determining accurate costs, the operation cannot possibly plan properly for success. With the high level of competition in the industry, compounded by a cautious economic outlook, it would be detrimental not to make the most informed decisions. Some of the emotion associated with creating menu items needs to be combined with the analytical aspects of the business — a good combination of passion for art combined with the numbers. Although pursuing a higher level of accuracy may take some initial work and an investment of time, it will be energy and money well spent in the end. It will surely assist in improving the profitability of the restaurant operation.

