

Chapter 6: Managing Prime Costs

In this chapter you will learn about:

- Food & Beverage Cost and Controls
- Labor Cost and Controls

After reading each section of the chapter your trainer will schedule practical training time for each new procedure.

Prime Cost Concept

What Is Prime Cost?

Prime cost is cost of sales (food & beverages) plus all payroll related costs, including gross payroll of all management and hourly personnel and payroll taxes, benefits, worker's compensation, etc.

Prime cost usually runs 60% to 65% of total sales in a full service restaurant and 55% to 60% of sales in a quick service restaurant.

You want to know your prime cost as frequently as possible. If you know what your prime costs are at the end of every week, when something is out of line, you're in a much better position to react quickly, cut your losses, and get the problem resolved.

Calculating Prime Cost

The first step in calculating your weekly food cost is to keep a record of your food and beverages purchases every day on what some operators refer to as an **Invoice Log**.

Don't forget about posting credits for any **product returns or invoice adjustments** and be sure to log in **cash paid-out transactions** for food and beverages purchases too. At the end of the week you've got your total purchases of food, liquor, beer, and wine.

Many restaurants end their week on Sunday and have the report prepared by noon on Monday. Inventory levels are usually at the lowest level of the week on Sunday night (Monday morning) so there are fewer products on the shelves to count.

Some restaurants that have the managers prepare this entire report. Others have a bookkeeper or clerical person assist in some way on Monday morning.

To make it easier to post invoices, have your vendors give you separate invoices for each major product type. Tell them you want a separate invoice for just your food items, a separate invoice for cleaning supplies, an invoice for paper goods and so on. This makes it very easy to log invoices into their correct categories without having to break out the categories manually. Also have them break down your food items by your food categories like meat, seafood, poultry, grocery, etc.

The preparation of the weekly Prime Cost report is discussed further in Chapter 7: Financial Reports.

Food Cost and Controls

When speaking of costs and controls, think in terms of dollars. Everything used has a dollar cost and having the ability to limit that cost through the use of controls directly affects the profitability of your location. There will be little control over some items—these are termed fixed costs and include rent or mortgage payments, state and local taxes, and the initial investment in the restaurant. This is where food and food-related costs are different from the others. The payroll, utilities, and administrative assets cannot be sold. Therefore, they cannot be thought of from a “potential income” point of view. Other costs are variable and will be discussed in this section.

Variable costs are those that fluctuate in their dollar amounts and can be greatly affected by the procedures and controls placed on them. Without controls, variable costs can swing out of control. It is possible to waste money without controls in place. With controls in place, it is possible to monitor the assets that limit the costs. Controlling costs ensures that waste is minimized, theft is eliminated, the asset is being used to its fullest potential, and the most dollars are going to the bottom line of the profit and loss statement.

Included in these variable costs are food, paper, and cleaning supplies, along with payroll, utilities, administrative costs, advertising costs, and other costs depending on the location. When considering the cost of these products (assets), realize that the full cost is not what was paid for it, but rather what potential income that product would have brought if sold. If an entrée was made with the actual cost of ingredients being \$2.00, but the entrée was never sold because somebody stole it, the loss is not only \$2.00, but also the \$4.99 it would have sold for. By not thinking from a selling cost point of view, it is easy to overlook what the potential income would have been if the asset had been controlled. It is a portion of this difference that makes your profitability. Always think of the selling potential that is lost when you do not control your products (assets).

Food Product Costs and Controls

Food cost is the dollar amount you paid for a particular food item. Whether it is a piece of meat, a bag of fries, a gallon of oil, or a take home container, they all have a dollar cost attached to them. Every food item that is used at your location must have a cost associated with it. The cost may fluctuate due to market conditions. To make sure that you are using the most accurate prices in determining your costs, you must update your files by using the most current invoices from the distributors and the prices from them.

Determining Food Cost

Here is the process to determine food cost.

- Look for the price from the most current invoice from your distributor for the particular item.
- Then divide the number of portions you can get from that item into the price from the invoice.
- This gives a dollar amount for the portion of the product used to make the item.

Determining Food Cost Percentages

Once the total dollar food cost for the menu item has been determined, the food cost percentage can be determined. The food cost percentage is the percentage of the selling price in relation to the cost of the menu item.

For example:

- If the cost of the ingredients is \$1.80 and the selling price is \$6.99
- Take the \$1.80 and divide it by the selling price of \$6.99.
- This gives a food cost percentage of 26%

How to Control Food Cost

Control food costs through the use of several resources. Proper purchasing and receiving procedures ensures that the correct quantity and quality of food products are delivered. Training the employees ensures that they are using the food products in the proper manner. Following the portion charts when making menu items gives you a consistent cost per item. Using the proper forms to track and eliminate waste ensures you the highest return from the available product. Implementing a weekly inventory system ensures the ability to manage your food costs.

Waste
