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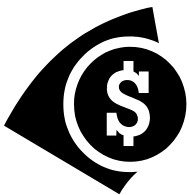
# Chapter 6: Managing Prime Costs

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?

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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

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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**. An invoice log worksheet is available at [www.restaurantowner.com](http://www.restaurantowner.com) in a downloadable Prime Cost Worksheet file.

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.

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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

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difference that makes your profitability. Always think of the selling potential that is lost when you do not control your products (assets).

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## ***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%

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## ***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

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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**

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Waste is defined as not using the product that can be used to its maximum potential. It can be caused by over-ordering, the product being thrown out, preparing too much that you cannot sell, poor training of the employees resulting in product that cannot be sold, and improper storage and handling of food products.

Waste will occur, and when it does occur, it needs to be documented.

Eliminate waste because of food spoilage by following a few basic rules:

- Rotate all food in inventory whether refrigerated, frozen, or dry storage. Always put the new inventory behind or under the old inventory.
- Never over-order. Base your order on sales projections and add a little extra to cover any emergencies that may arise.
- Keep perishable food refrigerated or frozen. Check the temperature of your refrigerated equipment daily.
- Minimize spilled food and empty out the containers thoroughly.

Because it occurs in such small measures, both managers and cooks can easily overlook waste. To emphasize the importance of minimizing waste, consider this. If meat costs \$2.00 a pound and one pound a day is wasted, a loss of \$730.00 per year will be incurred.

## **Theft**

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Theft, by both employees and guests, is a common problem and comes in several forms. It can be stealing food products, office supplies, cleaning solutions, cash, or furnishings. It is amazing what people will take from the location—and it all costs money. Letting the employees know theft will not be tolerated is an excellent start. Being involved in the operation and keeping track of your assets will keep you informed.

There are other ways to limit theft. Keep all doors locked that are not being used as an entrance and exit by your guests. Do surprise checks on the cash register during the shift. Show up at the location when the staff does not expect you. You may be surprised. Keep the office off-limits when management is not there. Do not allow off-duty employees and friends in non-guest areas. Watch for suspicious activity or people going where they do not belong. Do not keep large amounts of cash at the location or in the cash register. If necessary, surveillance cameras are reasonably priced and may be an option to limit the theft at your location.

## Portion Controls

Portion control in preparing menu items ensures consistency in the product and that the cost of the item is consistent with the menu price. If extra portions are used without additional charges, the food cost is going to be higher than what was planned. Employees must be trained in proper portioning and the reasons behind it. Not only are your menu items priced according to certain portions, but adding larger portions to menu items will affect the quality of the menu item and change the necessary cooking time, resulting in an inferior product.

<b>Tips for Investigating High Food Cost Categories</b>	
<b>Check ending inventory</b>	Check the beginning inventory numbers for accuracy. Beginning and ending inventories should remain consistent over time. A large jump in beginning or ending inventory can indicate a problem.
<b>Check that all purchases are entered correctly</b>	Failing to enter a purchase, or entering a purchase twice, will cause fluctuations in food cost. A transposed number could also be the problem.
<b>Check to see if prices have increased</b>	If prices have gone up the same amount as the food cost variance, this might be the answer to the problem.
<b>Check the inventory count sheets to ensure they are accurate</b>	Is there a miscount or wrong number written down? Are items being counted by the correct count size?
<b>Compare what was ordered with what was delivered</b>	This ensures that suppliers aren't invoicing high-quality products while delivering low-quality products. Were you short-shipped and charged for the full amount?
<b>Determine what item(s) are running high.</b>	Compare the current cost with the restaurant or district average to identify high cost categories. If your problem category is cheese, take a look at the cheeses. There are three factors to consider: waste, theft, portioning. Observe how cheese is being handled from delivery to serving it to the guest. If you look closely, you may identify the problem. Look at specific days or day parts to try and isolate a certain team member or vendor who may be contributing to the problem.
<b>Put together a corrective action plan</b>	Get the entire team involved. Let the managers and team members know what the problem is and what some of the intended corrections are. Ask the team for suggestions for implementing corrective actions. It's up to them to follow through with the plan