

# Introduction

The restaurant business is very unforgiving when cost management and sales are inadequate, as far as profit and loss statements are concerned. Based on the Restaurant Industry Operations Reports 2007 by Deloitte and Touche, the average profit margins are 5.6 percent for full-service operations and 9 percent for limited-service restaurants. Not only is there little room for financial management missteps, but these problems are also compounded by a lack of understanding and business skills in the following areas:

- Operating expenses too high relative to sales
- Menu items not accurately documented and costed
- Excessive inventory items in relation to sales
- Inaccurate financial reporting
- Inadequate cash flow and absence of well organized operating and financial controls.

Therefore, this book attempts to address these common problems from enlightening angles.

Chapter 1 discusses the roles and functions involved in cost control within the unique context of the food and beverage industry. This responsibility bridges departments, coordinating the functions of accounting, purchasing, storage, issuance, production, and even forecasting.

Chapter 2 offers an introduction to menu planning. This chapter also discusses the importance of front-of-the-house staff in maximizing your sales, and how you can train them to do so. This introduction sets the stage for the next four chapters about Purchasing Standards: Introduction to Purchasing (Chapter 3) Purchase Specifications (Chapter 4), Pricing and Vendors (Chapter 5), and Purchasing Controls (Chapter 6). These four chapters are your start-to-finish guide to sound buying practices, and offer a systematic approach to purchasing. This approach involves identifying and resolving common problems, while also optimizing money-saving opportunities.

The book next turns its focus to beverage standards. Chapter 7 introduces the subject and explains the great variations in beverage manufacturing and pricing. Chapter 8 outlines procedures used to monitor these expensive but stable products to maximize their utilization. In Chapter 9, you will learn about the controls necessary with beverage sales, how to monitor variance between sales and inventory, and what kinds of service procedures maximize your sales.

Chapter 10, Planning for Food Profit and Controls, addresses potential costing techniques and controls, including targeted ideal cost and weighing potential versus actual costs. This chapter also introduces the third part of the book, which deals with controls and calculations you will need to maintain profitability.

Continuing on this theme, Chapter 11 deals with monthly inventory and monthly food cost controls, with detailed procedures for inventory management and costing. This chapter also talks about inventory factors such as employee meals, breakage, spillage, spoilage, promotional expenses, steward sales, and other important issues you will need to control.

Chapter 12 deals with revenue and cash handling control procedures, with sections on what controls are required in outlets and on how to set up your documentation. These steps are vital to any operation's safe maintenance of cash flow. Food and beverage outlets are especially vulnerable to theft and loss in the cash handling process; this book gives you the exact procedures necessary for safety.

Hotels and restaurants now need to focus more than ever on quality service, product variety, and quality. Chapter 13, Menu Analysis and Planning for Sales, discusses menu planning and design as the first step in ensuring profitability and popularity.

This book also includes a far-reaching discussion of staff planning, including how to manage both employee morale *and* labor cost, in Chapter 14. This is an area that requires great creativity and foresight: The success of any operation is dependent on staff training and enthusiasm.

In Chapter 15 you will learn to analyze the relationship between cost, volume, and profit (CVP), and the marginal contribution break-even point(MCB), two functions that will guide your decision making in a precise and calculable way. A variety of options are offered to optimize the decision-making process.

Chapter 16 is about budgeting and controls. Management incentive, as it relates to return on investment (ROI), is covered at length.

The Appendix includes useful checklists, forms, and procedural data for maintaining the viability of cost control in your operation. There is an especially helpful section on weights and measures. You will find that this section is one that you turn to frequently.

## SUPPLEMENTS

### Online Companion

The tables and forms from “Practical Food & Beverage Cost Control,” second edition, may be accessed online at [www.delmarlearning.com/companions](http://www.delmarlearning.com/companions).

### Online Instructor Resources

Instructor resources available online with adoption of this text include:

- A fully updated instructor's manual
- New to this edition: PowerPoint® lecture slides
- New to this edition: A computerized test bank in ExamView® format

## NEW TO THE SECOND EDITION OF PRACTICAL FOOD AND BEVERAGE COST CONTROL

### Overall

- The new “In Practice” feature opens with a real-world example for students, allowing them to see how the chapter's information and insights apply to the world outside the classroom.

- New In Business boxes provide a glimpse into how real businesses use cost control concepts discussed within the chapter.
- New Quiz boxes and Discussion Exercises are designed to make studying productive and hassle free. It is important for the students to be engaged from start to finish and not to wait until the end-of-chapter questions.
- Case studies have been added to this edition.
- A glossary of terms has been added to the end of each chapter.

## **Chapter 1: Overview of the Industry and the Manager’s Role**

- Rewritten with the objective of providing clarity regarding the role of the manager.
- Updated statistics to reflect industry trends for decision-making processes.
- Introduced key performance indicators (KPI) for measuring work and business performance.
- Introduced the Sea Breeze Hotel (SBH)—a case of struggling hotel restaurant operation—to help students relate concepts to the decisions made by working managers.

## **Chapter 2: Menu Development**

- New chapter with the following learning objectives:
- Summarize the importance of understanding customer base when writing a menu.
- Describe how menu selection affects other aspects of the operation.
- Describe the three menu types and their impact on cost control.
- Employ principles of good menu design.
- Understand the concept of barter as it applies to the industry.

## **Chapter 3: Introduction to Purchasing**

- Extensively rewritten to improve the flow and simplify the presentation for students. Introduced EDI and XML technology and why it is vital in today’s purchasing practices.

## **Chapter 4: Purchase Specifications**

- Added in-depth coverage of product specification beyond the scope of first edition. The following concepts were introduced as well: yield testing, butcher testing, raw food testing, canned food test/can-cutting testing, staple dry food testing, “blind” taste testing, par levels, purchase orders, inventory on hand, lead time, cost of acquisition, volume pricing, vendor minimum order quantity, safety stock, and perishable and non-perishable products.

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## Chapter 5: Price and the Vendor

- A new chapter with the the following learning objectives:
- Know how to select a vendor and understand the meaning of price as it relates to purchasing.
- Prepare a market basket report and use a price index to analyze the impact of price and consumption on cost.
- Distinguish between price and value and understand the following types of pricing in purchasing: Firm price, contract price, cost plus price, hedging, consignment purchasing and pricing, and standing order contracts.

## Chapter 6: Purchasing Controls

- New, recent examples have been introduced for the following topics:
- Understand how to audit purchasing functions.
- Identify methods of spotting quality problems in receiving.
- Perform proper receiving procedures, using an understanding of tare weight.

## Chapter 7: Introduction to Beverages

- Includes a new section on beverage history; updated consumption statistics reflect behavior trends. This provides a contemporary viewpoint on major changes in market preferences and recent developments in the industry.

## Chapter 8: Beverage Procedures, from Start to Finish

- Technical discussions have been simplified, material has been reordered from the first edition, and the entire chapter has been carefully retuned to make teaching and learning easier.

## Chapter 9: Beverage Controls and Service Procedures

- Introduced a new case regarding secret shoppers as they relate to customer service and business profit objectives. The following new concepts were introduced: bar par stock, color-coded outlet stickers or stamps, waste, breakage, spoilage, and spillage.

## Chapter 10: Planning for Food Profit and Controls

- A new case has been introduced to bring real world examples to the classroom. Formulas have been simplified for easy understanding.

## Chapter 11: Monthly Physical Inventory and Monthly Food Cost Calculations

- This was Chapter 5 from the first edition. New additions include methods for performing inventory-taking procedures for food and beverage products and cash flow.

## Chapter 12: Revenue and Cash Handling Control

- This is an enhanced version of Chapter 7 from the first edition. The following new concepts were introduced:
  - Theft in the workplace and procedures to prevent it.
  - The economic impact of theft and fraud

## Chapter 13: Menu Analysis and Planning for Sales

- Introduced new materials on applying the concept of menu pricing, knowing what causes menu item demand to falter, and devising a response. Incorporated updated statistics and trends for menu profitability and popularity.

## Chapter 14: Staff Planning and Labor Cost Control

- This is Chapter 8 from the first edition, rewritten with the following new learning objectives:
  - Understand fair hiring practices and the differences between salary and wages.
  - Apply FLSA rules to payroll processes.
  - Calculate overtime pay for hourly employees.
  - Use governmental and voluntary deductions in payroll processes.
  - Use staff planning to manage employee morale and labor costs.
  - Schedule your staff wisely to maximize productivity.
  - Create a staffing guide and staffing standards.
  - Forecast business volume for adequate staffing.
  - Conduct a productivity analysis of sales volume versus labor hours.
  - Perform a full-time equivalent (FTE) study.

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## Chapter 15: Analyzing Cost-Volume-Profit (CVP) Relationships and Marginal Contribution Break-Even (MCB)

- This is Chapter 9 from the first edition, rewritten with the objectives of providing clarity and adding the following topics:
- Sunk cost
- Advantages and disadvantages of break-even analysis
- Discounted value
- Compounded interest
- Discount rate

## Chapter 16: Budgeting and Manager ROI

- A new chapter with the following learning objectives:
- Understand both forecasting and budgeting in some depth and utilize their techniques.
- Apply the techniques used for budgeting operational expenses and capital expenditures.
- Explain and utilize the terms *assets* and *liabilities*.
- Apply current ratio and working capital tests to financial results.
- Know how to measure how well the company is doing financially through return on investment (ROI).

With the advent of increasing competition and the declining level of individual disposable income, customers' perception of value is more important than ever. This book reflects this growing influence on your profitability. Understanding the price and value philosophies with which customers make their decisions is the cornerstone to any successful business.

As seafarers looked to the lighthouse for direction along an unfamiliar shore, so too can *Practical Food and Beverage Cost Control* act as a crucial compass for students and managers seeking to master the challenge of running a successful foodservice operation.

I hope you enjoy reading this book as much as I have enjoyed writing it!