EFFECTIVELY MANAGING HOTEL OPERATIONS - EVALUATING YOUR FOOD COST SYSTEM

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In the past year and a half, I evaluated the food and beverage systems of several hotels in California. These hotels ranged from convention and resort to suite and economy properties. The food and beverage department in each of the properties visited calculated their food cost percentage regularly. Surprisingly, most of the properties studied measured the adequacy of their food cost percentages on the basis of commonly accepted industry averages. For example, if a property's food cost percentage was 35% or less, management was typically satisfied with the Chef's performance. More surprisingly, management assumed an acceptable food cost percentage indicated their existing food control systems were effective.

These findings suggest that many operations, like the ones visited, may be misinterpreting the meaning of their actual food cost percentages and, as a result, not be able to accurately evaluate the effectiveness of their food control systems.

The objective of control systems is to generate timely information which will allow managers to make sound decisions. The following steps are designed to teach managers how to measure the adequacy of their food cost percentage and thus, make better decision regarding their food operations.

Step 1. Establish Standard/Ideal Food Cost Percentage.

Standard/ideal food cost percentage is affected by three factors:

a) Food cost percentage of each menu item.

b) Selling price of each menu item.

c) Sales/menu mix.

Most operators recognize the importance of the first two factors when establishing their standard/ideal food cost percentage. However, they fail to properly address the effects of sales/menu mix.

The following example illustrates how sales/menu mix impacts an operations food cost percentage. For simplicity sake, assume there are three items on the menu. Typical to most menus, the food cost, selling price and food cost percentage is varied for each. The food cost for Item 1 is $2.00 versus $4.00 and $6.00 for Items 2 and 3 (see Chart 1).

Chart 1

	Cost Price	Selling Price	Cost Percentage
Item 1	$2.00	$10.00	20%
Item 2	4.00	12.00	33
Item 3	6.00	15.00	40

Assume nine customers visit the restaurant on two different days. on day 1, three customers select item 1, three select item 2 and three select item 3. This sales/menu mix produces a cumulative

food cost percentage of 32.4% (see Chart 2-Option A). On day 2, the nine customers did not make the same selections as the first day (see Chart 2-Option B). Note that the change in sales/menu mix caused the food cost percentage to increase by 3.2%, from 32.4% to 35.6%.

Chart 2

	Option A			Option B		
	# Sold	Total Cost	Total Sales	# Sold	Total Cost	Total Sales
Item 1	3	$ 6.00	$30.00	1	$ 2.00	$10.00
Item 2	3	$12.00	$36.00	4	$16.00	$48.00
Item 3	3	$18.00	$45.00	4	$24.00	$60.00
	9	$36.00	$111.00	9	$42.00	$118.00
Cost Percentage		32.4%				35.6%

The effects of the sales/menu mix on food cost percentage can be minimized by determining the property's food costs and sales during a test period. Begin by identifying a two week test period which reflects typical business. During this period, record the operation's food costs and food sales. The operation's standard purchase specifications, recipes and portion sizes must be followed through out this period. At the completion of the two weeks, calculate the food cost percentage. To obtain the food cost percentage (1) total food costs, (2) total food sales, (3) divide

total food costs by total food sales and (4) multiply by 100 (see Chart 3).

Chart 3

	Day														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	total
# Sold															
Item 1	12	14	-	-	-	-	-	-	-	-	-	-	-	15	200
Item 2	13	13	-	-	-	-	-	-	-	-	-	-	-	12	250
Item 3	11	10	-	-	-	-	-	-	-	-	-	-	-	13	175
Total # of Customer	36	37	-	-	-	-	-	-	-	-	-	-	-	40	625

Item	# Sold	Cost Price	Selling Price	Total Cost	Total Sales
1	200	2.00	10.00	400.00	2000.00
2	250	4.00	12.00	1000.00	3000.00
3	175	6.00	15.00	1050.00	2625.00
				2450.00	7625.00

Standard/ideal Food Cost Percentage = 32.4%

Step 2. Compare Actual Food Cost Percentage with Standard/Ideal Food Cost Percentage.

Once the standard/ideal food cost percentage has been established, regularly (daily, weekly or monthly), compare the actual food cost percentage with the standard/ideal food cost percentage. To calculate the actual food cost percentage (1) determine the cost of food by adding opening inventory to the food issues and subtracting the closing inventory from this sum and (2) divide the cost of food by food sales to obtain the actual food cost percentage (see Chart 4).

Chart 4

Cost of Food = Opening Inventory
+
Food Issues
-
Closing Inventory

Actual Food Cost Percentage = $\frac{\text{Cost of Food}}{\text{Food Sales}} \times 100$

Variance between the actual food cost percentage and the standard/ideal food cost percentage may be due to several factors, a lack of adherence to standards, spoilage, wastage or pilferage. Therefore, when there is a variance between actual and

standard/ideal food cost percentages enforcement of control standards should be examined.

By implementing the above two procedures, managers will be able to evaluate the performance of their food and beverage operations more effectively.