

LECTURE 3

COST CONTROL IN THE FOOD AND BEVERAGE CYCLE

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Content

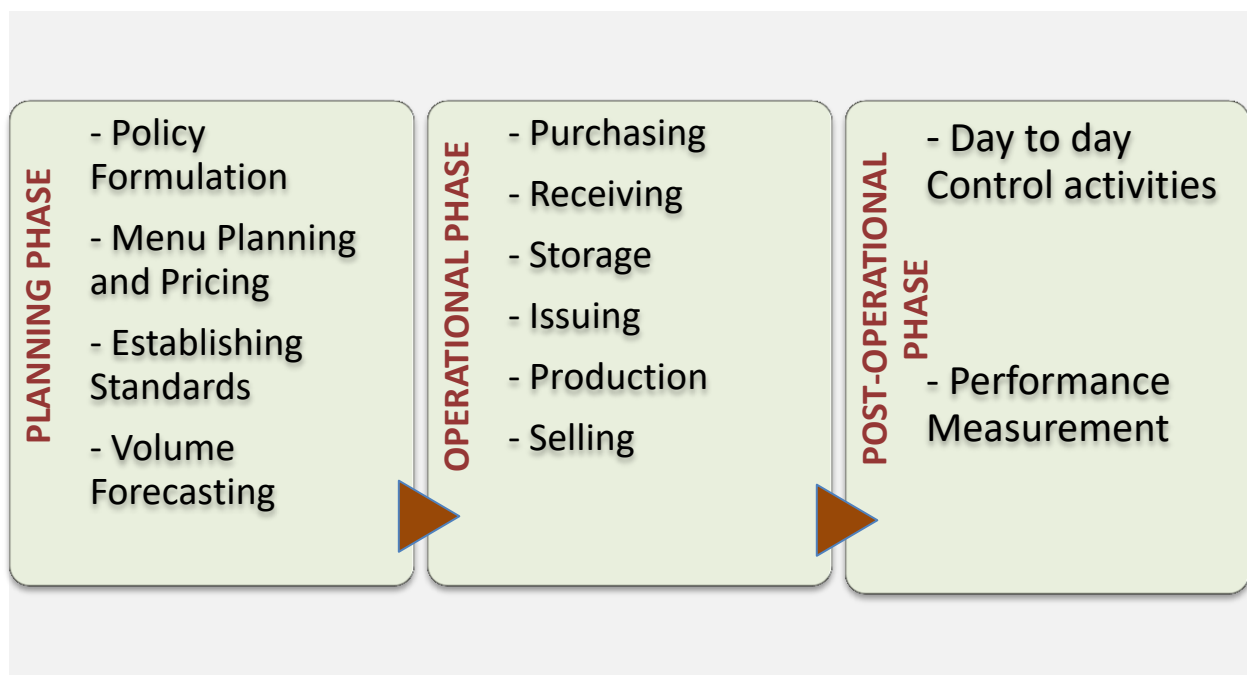
Planning phase

Operational phase

Post operational phase

The kitchen, restaurant and bar sections in food service operations form the base of the food and beverage department. The food and beverage department is tasked with the production and sale of food and drink according to specified standards. The business undergoes specific activities that present the opportunity to control for all costs incurred; from the moment the raw materials are ordered up until they are sold. The food and beverage cycle can be categorized into three phases which include: a planning phase, operational phase and the post operational phase. The cycle is illustrated in the table below (Uttarakhand Open University, 2019).

THE FOOD AND BEVERAGE CYCLE



Food and Beverage Cost Control

The food and beverage cycle encompasses all major activities upheld in a food service operation. As indicated in the figure above, the planning phase is composed of menu planning and menu pricing, the establishment of food and beverage standards and volume forecasting. The operational phase involves purchasing, receiving, storage, issuing, production and sale of the food and beverage product. Lastly, the post operational phase is denoted by the analysis, evaluation, recommendations and reporting of the outcome of all operational activities.

PLANNING PHASE

Policy Formulation

Policies are a set of guidelines formulated by the management team based on the overall goals of the business. They ensure that the operation is capable of achieving excellence in service, quality, profitability and guest satisfaction.

At this stage, policies are formulated based on the operation's financial, marketing and catering needs. **Financial policies** are formulated as a business guide in all financial targets, decisions and budgets. **Marketing policies** define the target market and develop the marketing mix by establishing: the product, price, place and promotion; the market segment, reputation management as well as the promotional approach as in advertising, direct marketing, sales promotions etc.

Catering policies provide the business with some direction by specifying on the type of business, hours of operation, interior decoration and ambience, layout, size, style of service and the staffing structure among others. The catering policy additionally provides a guest profile by describing any particulars such as their eating habits, gender, age, frequency, spending power among others.

Menu Planning and Pricing

The menu acts as a marketing tool as it represents guest needs and provides information on the operation's offerings, style, price levels etc. menu planning ensures that business activities are aligned to the overall goals as it points to how the facility should be set up and managed, specifies on purchasing needs and methods, informs on staffing needs, customer preferences etc.

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Menu pricing ensures that guests get value for their money as the business maintains profitability. Menu planning and pricing is extensively discussed in lecture 13 of this course.

Establishing Food and Beverage Standards

Development of standards is the first step in the food and beverage control process as observed in lecture 1. Standards determine the level of outcome hence aim to achieve financial business goals. They include; standard purchase specifications (SPS), standard recipe, standard yield, standard portion size and the standard portion cost. The menu is used to develop standards in this stage, which are then used to manage or reduce food and labour costs (Coelho, 2010).

Volume Forecasting

According to Miller et al. (2005), it is essential that food and beverage managers predict the number of guests to be served for the day, week or year. This provides a means of telling whether the business will be able to cater to its operational costs. Low guest numbers could mean that the business is not able to cover certain costs regardless of how low they are. This then informs on the purchasing decisions to be made.

Volume forecasting enables the operation to serve available guest numbers since covers will be provided according to predicted numbers, labour will be scheduled adequately and specific quantity and quality of raw materials will be purchased. Eventually, the number of guests served then forms the basis of any future forecasts.

OPERATIONAL PHASE

This phase is designed to ensure that food waste is minimized as much as possible in order to maintain a low food cost. The control system identifies loop holes that contribute to increased costs and suggest appropriate actions geared towards mending them. It is a lengthy process that requires close monitoring with a view to revenue management.

In order to maximize on sales revenue, food should be purchased in the right quantities, stored appropriately, prepared and served according to the specified portion sizes. Customer and employee fraud should also be closely monitored to promote the same efforts (IHM, 2018). The operational phase includes:

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FOOD PURCHASING

Purchasing control efforts curb any form of pilferage that adversely affects the cost food and drink. Purchasing involves the procurement of raw materials required, by searching for the best applicable source, placing orders, receiving and storage of all purchases. Purchasing is concerned with the acquisition of the best quality or as stated in the standard purchase specification at a favorable price. This is achieved through;

- Preparing the standard purchase specification
- Developing a supplier's list
- Establishing the order size or quantity
- Determining particular receiving and storage practices

The aim of the purchasing section is to ensure a supply of goods, maintain purchasing, receiving and storage records, evaluate products, markets and trends and seek alternative sources of supply if need be.

Purchasing procedure

Purchasing occurs through the following steps;

- a. Receive requisition forms
- b. Contact suppliers through a written order, electronically or through phone
- c. Receiving orders and reporting on any discrepancies
- d. Storing the goods appropriately

There are three main sources of supplies identified. These include: - contracted suppliers, wholesalers and direct market. Selected suppliers are periodically evaluated to ensure that they offer the best price and quality.

The process of selecting a supplier for the first time requires that the purchasing personnel look into their: reputation, reviews, current prices, terms of trade, quality of samples, the minimum order quantity and ordering and delivery procedures. The supplier that best fits the operation is then added to the approved suppliers' list.

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All items purchased are either perishable or non-perishable. The quality of the items is determined before purchase through the standard purchase specification and the yield test. The quality of food is judged based on attributes like weight, color, texture, shape, size, firmness etc.

Methods of Purchasing

1. **Contract** – a supplier delivers goods based on an established contract that specifies the quantity and price at regular intervals. The contract may be based on a specified period of time or on specified quality.
2. **Daily market list** – the daily market quotation is used in purchase of highly perishable items on a daily basis. Suppliers provide quotations before delivery of goods.
3. **Cash and carry** – the purchasing personnel heads to the market, bargains for the best deals, selects the items needed, pays in cash and makes the arrangements to have them delivered.
4. **Periodical purchasing** – the operation's orders for a specified period as a week to a month are estimated and ordered.
5. **Paid reserve** – items are paid for in large quantities and well in advance; however, they are retained by the supplier and delivered over time as agreed.
6. **Cost plus** – mostly applicable to welfare catering, the supplier is paid some profit in addition to what they spent in the purchase and delivery of goods.
7. **Standing order** – highly perishable items such as milk are delivered on a whim after which current prices are communicated to the receiving and accounting personnel.
8. **Tender purchase** – as a form of sealed bid, different suppliers submit their quotations and the operation considers the lowest price at the best possible quality for orders.
9. **Centralized purchasing** – in chain operations, the main office receives orders from all operations and makes the purchasing decisions.
10. **Emergency purchase** – a risk purchase form is filled and forwarded to the supplier in the event of an emergency for delivery of requested items.
11. **Total supply method** – applies when a supplier is able to deliver on all that is required. The operation only negotiates with one supplier saving on time and reduced paperwork.

Food and Beverage Cost Control

Ways to Maintain an Ideal Food Cost

- a. Implement purchase specifications
- b. Formulate and implement effective purchasing policies
- c. Order precise quantities of perishable goods
- d. Maintain a good relationship with suppliers
- e. Monitor the market for any change in price, quality etc.
- f. Advocate for use of standard recipes and precise portioning
- g. Maintain proper records
- h. Take advantage of any appropriate discounts
- i. Streamline the purchasing and receiving procedures
- j. Opt for fixed standing orders

ECONOMIC ORDER QUANTITY (EOQ)

Refers to the amount most economical to purchase and or stock considering factors such as: inventory carrying cost, consumption, interest on capital, discounts and purchase price. The EOQ is also known as the re-order quantity and is based on the; rate of use, ordering cost and time taken.

Rate of usage – speed at which the stock is consumed

Ordering cost – cost of placing an order

Carrying cost – cost of having the items delivered e.g. transport, manpower, insurance, interest, storage etc.

The EOQ is used to reduce costs incurred during purchasing, where applicable. The following equation may be used: $E.O.Q = \sqrt{(2FS / CP)}$

F – Cost of placing an order (fixed)

S – Sales or usage within a specified time

C – Carrying cost (percentage of the price of inventory)

P – Purchase price

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Example:

A pizzeria purchases pizza cartons for all its outlets. Normal sales would require 4000 cartons per year. Carrying cost of the inventory is 15% of the inventory value. The price of each carton is 13 dollars while the fixed cost of placing an order is 10 dollars. Find the EOQ.

$$\begin{aligned} \text{EOQ} &= (2 \times 10 \times 4000) \div (15\% \times 13) \\ &= 80000 \div 1.95 \\ &= \sqrt{41025.6} \\ &= 203 \text{ Cartons} \end{aligned}$$

RECEIVING

The receiving control aims to ascertain that all goods received after purchase are of the right quality, quality and are delivered at the right time. Receiving may be done by the purchasing staff in smaller operations or by receiving personnel in larger ones. Regardless of whom, it should be done by one who understands the receiving procedures and is well aware of what to look for in terms of quantity and quality. The receiving area should be adequately equipped with trolleys, crates, weighing scales, an inclined plane and an elevator in case the storage area is far from the receiving area.

The receiving department ought to maintain proper records and ensure that receiving procedures are strictly observed.

Frauds in receiving include;

- a. Receiving poor quality goods
- b. Receiving less than ordered
- c. Failure to observe the delivery time schedule

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Documents used in receiving

1. Delivery note / Invoice – a form specifying on all items delivered in terms of date, quantity, price, discount if any, supplier and receiving organization. The supplier and the receiving personnel retain a copy while another copy is sent to the accounting section.
2. Credit note – also considered as the credit memo/ credit memorandum, the credit note highlight any inconsistencies in the delivered goods. It describes the issue and quantity of items not being received from the supplier, hence serving as an official means of having items that fail to meet the standard omitted from the bill.
3. Meat tag – attached to butchered goods, meat tags state the cut, weight, price, supplier, date received / issued etc. the item is the issued or stored. The meat tag is essential as it facilitates stock control, management of expensive cuts, yield tests and stock rotation.
4. Goods received book – contains a record of all received items. Contains the invoice number, supplier information, quantity, and cost.

Receiving Procedure

- a. The receiving personnel ensure that all items are delivered on time.
- b. The quality, quantity and price are compared to the invoice to ensure they match.
- c. The invoice is then signed and handed back to the supplier.
- d. In the event there's a discrepancy in place of quality or quantity, a credit note is issued to the supplier instead.
- e. The invoice is attached to the daily receiving report and forwarded to the controller.
- f. The items are sent away to storage or issued to sections for processing and sale.

N.B. It is important that a chef is present when receiving perishables.

Blind receiving

In the event a supplier fails to issue a delivery note or invoice, the receiving personnel are required to prepare a list of all received items which is referred to as a blind receiving report. The list is then forwarded to the accounting section or department where payments and payment records are processed. Blind receiving could be used to test the efficiency of the receiving team.

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Desk Research

Part 1 - Conduct a desk research on how policies are formulated.

Part 2 - Imagine that you are in the process of establishing a new fine dining restaurant in an upmarket region; formulate some catering policies that best fit your new business.

Quiz

1. Explain the essence of volume forecasting.
2. List different causes of an increased food cost.
3. Compare and contrast the 'daily markets list' and 'standing order' methods of purchasing.
4. State the essence of the Economic Order Quantity.
5. Outline the receiving procedure.
6. Differentiate between the invoice and the credit note.
7. Explain what you understand by the term blind receiving.

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