

Module Title: MENU PLANNING AND COSTING

Department: Hospitality Management

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Lecture 8 : Managing Revenue and Expense

- This chapter presents the relationship among **foodservice revenue, expense, and profit.**
- As a professional foodservice manager, you must understand the relationship that exists between controlling these **three** areas and the resulting overall success of your operation.

- At the end of this lecture, learners will be able to:
 - ✓ Apply the basic formula used to determine profit.
 - ✓ Express both expenses and profit as a percentage of revenue.
 - ✓ Compare actual operating results with budgeted operating results.

Professional Foodservice Manager

- There is no **doubt** that to be a successful foodservice manager you must be a talented individual.
- Consider, for a moment, your role in the operation of an **ongoing profitable facility**.

- As a **both a manufacturer and a retailer.**
- A professional foodservice manager is **unique** because all the functions of product sales, from item conceptualization to product delivery, are in the hands of the same individual

- As a manager, you are in charge of **securing raw materials, producing a product, and selling it—all under the same roof.**
- A foodservice manager is one of the few types of managers who actually has contact with the ultimate customer.
- This is **not true** of the manager of a tire factory or automobile production line

- The face-to-face guest contact in the hospitality industry requires that you assume the responsibility of standing behind your own work and that of your staff, **in a one-on-one** situation with the ultimate consumer, or **end-user** of your products and services.

❑ The management **task checklist** below shows just some of the areas in which foodservice, manufacturing, and retailing managers vary in responsibilities.

<i>Task</i>	<i>Foodservice Manager</i>	<i>Manufacturing Manager</i>	<i>Retail Manager</i>
1. Secure raw materials	Yes	Yes	No
2. Manufacture product	Yes	Yes	No
3. Distribute to end-user	Yes	No	Yes
4. Market to end-user	Yes	No	Yes
5. Reconcile problems with end-user	Yes	No	Yes

Profit: The Reward for Service

- There is an inherent problem in the study of cost control or, more accurately, cost management.
- The simple fact is that management's primary responsibility is to deliver a quality product or service to the guest, at a price mutually agreeable to both parties.

- In addition, the quality must be such that the consumer, or end-user of the product or service, feels that **excellent value** was received for the money spent on the transaction.
- When this level of service is achieved, the business will **prosper**.

- If management focuses on controlling costs more **than servicing guests**, problems will certainly surface.

- It is important to remember that guests cause businesses to incur costs.
- You do not want to get yourself in the mind-set of reducing costs to the point where it is thought that **“low” costs are good and “high” costs are bad.**
- A restaurant with \$5,000,000 in revenue per year will undoubtedly have higher costs than the same size restaurant with \$200,000 in revenue per year.

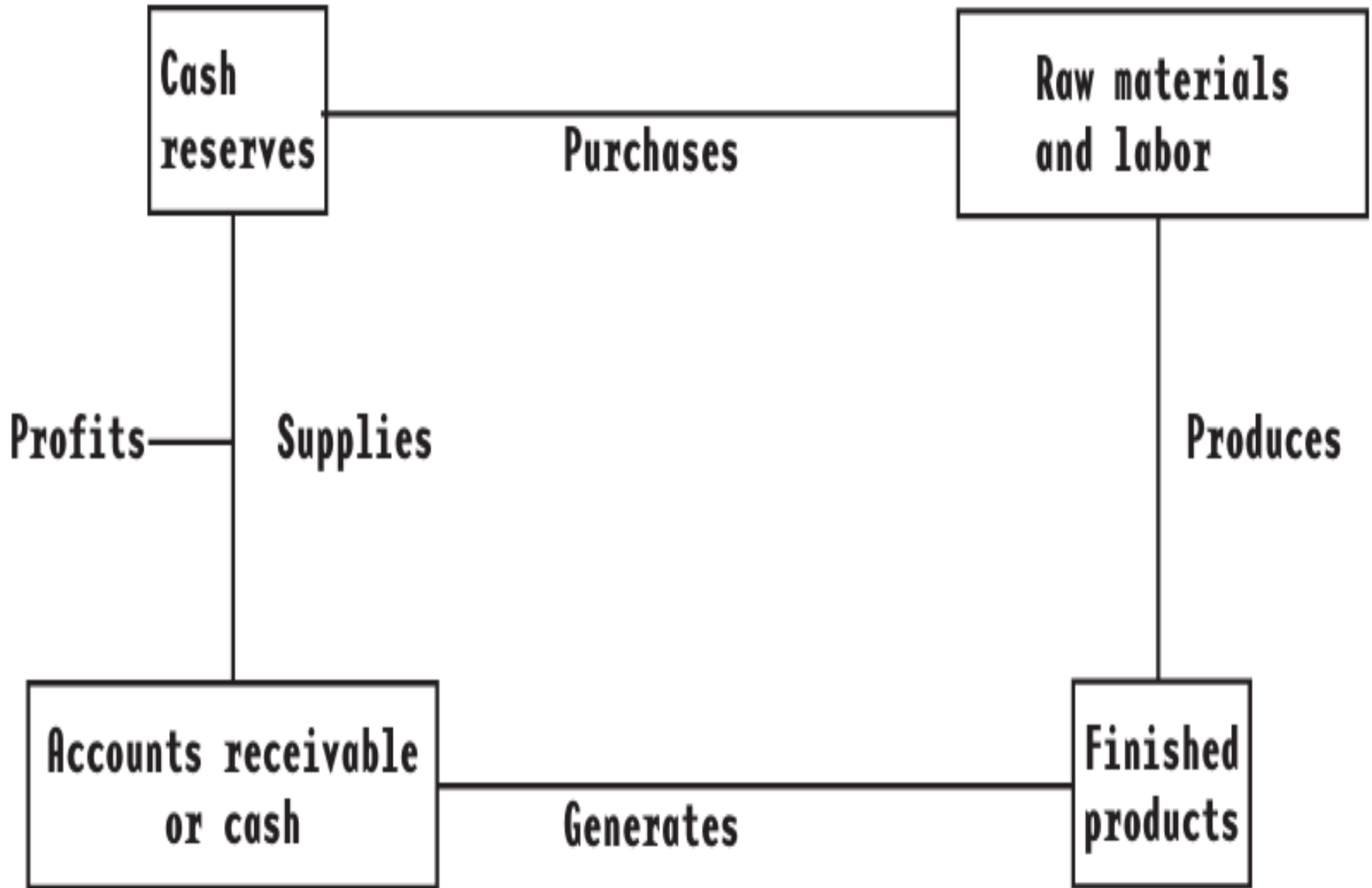
- The reason is quite clear. The food products, labor, and equipment needed to serve \$5,000,000 worth of food is likely to be greater than that required to produce a smaller amount of revenue.

- Remember, if there are fewer guests, there are likely to be fewer costs, but fewer profits as well!

- Every foodservice operator is faced with the following profit-oriented formula:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

- Thus, when you manage your facility, you will receive revenue, the term used to indicate the **dollars you take in**, and you will incur expenses, **the cost of the items required to operate the business.**
- The dollars **that remain after all expenses** have been paid represent your **profit.**



- Profit is the result of solid planning, sound management, and careful decision making.
- Profit should not be viewed as what is left over after the bills are paid.
- In fact, careful planning is necessary to earn a profit.

Revenue – Desired Profit = Ideal Expense

- **Ideal expense**, in this case, is defined as management's view of the correct or appropriate amount of expense necessary to generate a given quantity of revenue.
- **Desired profit** is defined as the profit that the owner desires to achieve on that predicted quantity of revenue.

- This formula clearly places profit as a **reward for providing service**, not a leftover.
- When foodservice managers deliver quality and value to their guests, anticipated revenue levels can be achieved and desired profit is attainable.

- Desired profit and ideal expense levels are not, however, easily achieved.
- In these competitive times, it takes an astute foodservice operator to consistently make decisions that will lead to maximizing revenue while holding expenses to the ideal or appropriate amount.

- Revenue dollars are the result of **units sold**. These units may consist of individual menu items, **lunches, dinners, drinks,** or any other item produced by your operation.

- Revenue varies with both the number of guests **frequenting** your business and the **amount of money spent by each guest.**

Expenses

- There are four major foodservice expense categories that you must learn to control.

They are:

- 1. Food costs
- 2. Beverage costs
- 3. Labor costs
- 4. Other expenses

- Food costs are the costs associated with actually producing the menu items a guest selects.
- They include the expense of meats, dairy, fruits, vegetables, and other categories of food items produced by the food service operation.

- Beverage costs are those related to the sale of alcoholic beverages.
- It is interesting to note that it is common practice in the hospitality industry to consider beverage costs of a **nonalcoholic nature as an expense in the food cost category.**

- Thus, **milk, tea, coffee, carbonated beverages, and other nonalcoholic** beverage items are not generally considered a beverage cost.

- **Labor costs** include the cost of all **employees** necessary to run the business.
- This expense category would also include the amount of **any taxes** you are required to pay when you have employees on your pay roll.

- Other expenses include all expenses that are neither food, nor beverage, nor labor.
- Examples include **franchise fees, utilities, rent, linen, and such items as china, glassware, kitchen knives, and pots and pans.**

Costs in Percentage (%)

$$\frac{\text{Expense}}{\text{Revenue}} = \text{Expense \%}$$

$$\frac{\text{Profit}}{\text{Revenue}} = \text{Profit \%}$$

- Example:

☐ Refer to the following Data of **Pat's Steakhouse**,
calculate expense % and profit %

✓ Expenses \$1200

✓ Revenue \$1600

✓ Profit \$ 400

Let's calculate:

$$\frac{\text{Food and Beverage Cost}}{\text{Revenue}} = \text{Food and Beverage Cost \%}$$

$$\frac{\text{Labor Cost}}{\text{Revenue}} = \text{Labor Cost \%}$$

$$\frac{\text{Total Expense}}{\text{Revenue}} = \text{Total Expense \%}$$

Pat's Steakhouse

Revenue		\$400,000
Expenses		
Food and Beverage Cost	\$150,000	
Labor Cost	175,000	
Other Expense	<u>25,000</u>	
Total Expense		<u>\$350,000</u>
Profit		\$ 50,000

Modified formula of profit

- Revenue - (Food and Beverage Cost + Labor + Cost Other Expenses) = **Profit**

- **Revenue (100%)**

- Food and Beverage Cost %

- Labor Cost %

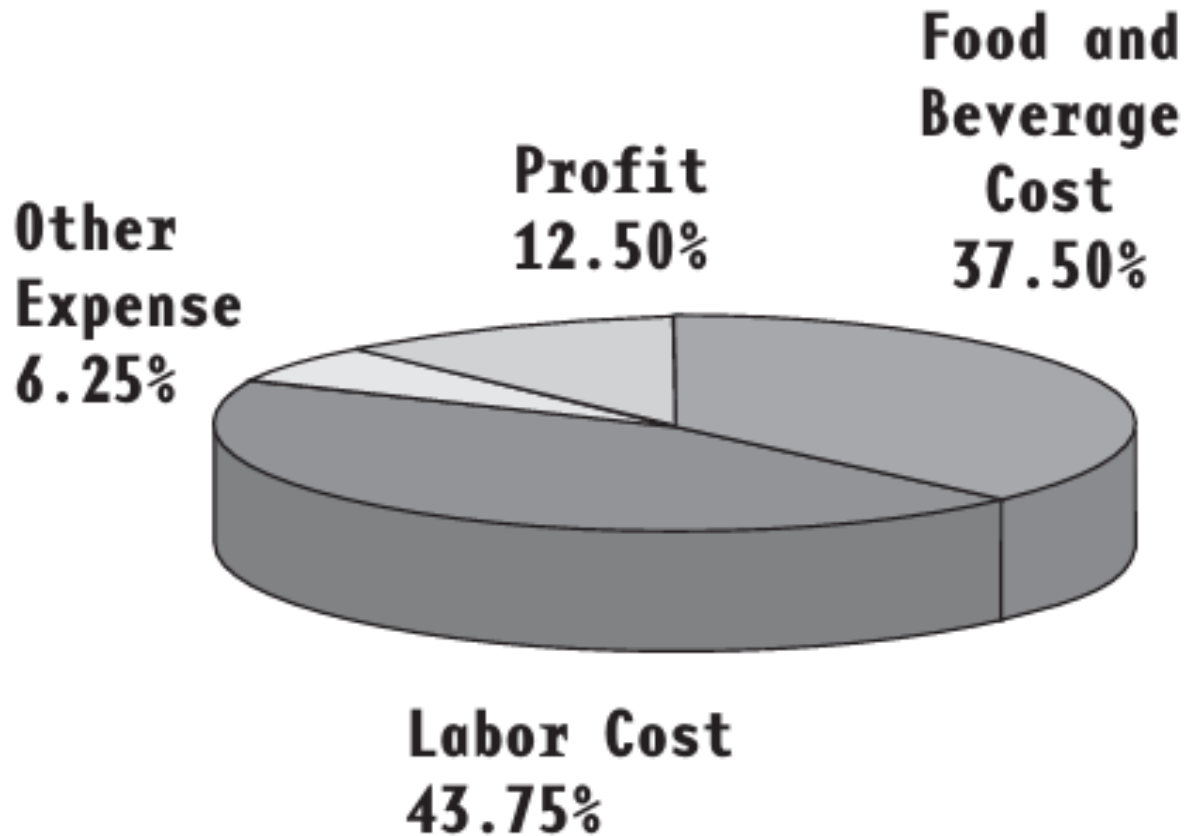
- Other Expense %

- = Profit %**

Pat's Steakhouse: Percentage report

Revenue	\$400,000	100%
Food and Beverage Cost	\$150,000	37.50%
Labor Cost	175,000	43.75%
Other Expense	25,000	6.25%
Total Expense	<u>\$350,000</u>	<u>87.50%</u>
Profit	\$ 50,000	12.50%

Pat's Steakhouse: Pie report



References

[1] Jack E. Miller, David K. Hayes & Lea R. Dopson (2002) Food and Beverage Cost Control, Second Edition, P1-26

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[2] Paul J. McVety et al (2009), Fundamentals of Menu Planning

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End of Lecture 8

Next lecture : Determine Sales Forecast

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Thank you!