EDITOR'S NOTE: Since launching ***Restaurant Startup & Growth*** in 2004, the magazine has built a large library of what we call in the publishing industry "evergreen" content — nearly timeless useful material. We realize that a great deal of the restaurant management educational features in this magazine over the years is highly relevant to your operation today. We also recognize that many new readers have not seen these articles. To that end, we look forward to publishing reprints of past features, updated as appropriate, in this "From the Archives" section.

We invite you to review our editorial index at www.rsgmag.com/public/464.cfm. If you would like reprints of any of these articles, please call 816-741-5151. Also, nearly all of these articles are archived on our official website, **RestaurantOwner.com**. Members have unlimited access to this content, as well as the many other features and benefits of this site.

Money Is Where Your Mouth Is

How Your Restaurant Loses Money Working With Food … and How to Stop the Leak

If you don't manage the weaknesses in your food production process, money can flow out of your business like a sieve.

By Jim Laube

A restaurant is not a thing. It is not structure. It is not a group of people. It is not a recipe, concept or a brand. It is a process that brings product and people together to create a pleasant experience for your guests and profits for the owners.

By definition, a process is fluid and can spring leaks. The last place you want leaks to occur is in your cash flow. If you think you'll be able to spot these leaks without careful analysis of your business, you might be in for a rude awakening. Individually, they can be very small and escape detection. But if you develop enough of them at once, they can bleed your business dry.

Perhaps the best place to start looking for cash leaks is in your food production process, from start to finish. Plug those leaks and you've shored up the area of your business that is perhaps the most vulnerable to crippling losses.

You're a Retailer and a Manufacturer

When you own and operate a restaurant, you're running two distinct businesses. You run a retail store in that you resell items purchased wholesale. But you're also in the manufacturing business. Welcome to the restaurant business!

You manage a small but complicated factory. And like all businesses that assemble parts and materials into finished product, you have a large inventory of raw materials, which are highly per-

ishable. (RestaurantOwner.com members, for more information, see "How Better Inventory Management & Weekly Food Costing Can Lower Your Food Cost" at www.restaurantowner.com/members/377.cfm.) You have a number of people that handle and add value to your raw materials.

At some point all of your products are placed in temporary staging areas, before being placed into final production. Finally, orders are received with instructions, final preparation occurs and the finished goods are delivered immediately to hungry, waiting customers.

In short, you oversee an assembly line process that begins with the purchase of raw materials and ends with your customers' acceptance and payment for finished products. I emphasize the manufacturing analogy of running a restaurant because when you look at your restaurant in these terms, the level of organization, procedures and controls needed to make the food production process work in an efficient, cost-effective manner becomes much more apparent.

If my analogy is weak in any respect, it is because, in some cases, you have more pressure than an average manufacturing plant. For one, you produce finished product based on almost immediate demand. And your products can't be in storage for long. Unlike engines, golf clubs or even pretzels, once your products are taken out of inventory, and prepped, peeled, cut, mixed, cooked or baked, they need to be used quickly.

It's easy to see that your food production process deserves attention. To a large degree, the ultimate profitability and success of your business depends on it.

The purpose of this article is to help you gain an appreciation for just how many areas in the restaurant are potential food cost leaks. If you don't manage the weaknesses in your food production process, money can flow out of your business like a sieve.

Purchasing Perils

Purchasing includes all activities and functions involved in choosing suppliers, negotiating fair prices, determining the types and quantities of products needed and completing the order with the suppliers. In any manufacturing company, the purchasing department is a critical profit-and-loss center.

Here are some of the typical problems that can create obstacles in your quest for profitability. Please note that a number of these examples seem to be critical of supplier representatives. Our point is not to single out suppliers or suggest that they are unscrupulous. That is clearly not the case. Reputable representatives are ethical and customer-focused. Our point is that you have responsibility to monitor your end of the transaction. People are people, for better or worse.

Overpurchasing. Buying more food than you really need is a common (and very expensive) practice for even experienced operators. One reason why it's easy to have more than an adequate supply of product on the shelves is because nobody wants to "run out" of anything. If you've ever managed a restaurant, you know what it's like to have to scramble for a key product at 6 p.m. on a Friday. It's no fun, so to prevent that from happening again most managers react by factoring in a bigger cushion or safety factor into their order quantities or ratchet up the par levels on their products.

While this may alleviate the "running out" problem, it creates a situation of having a lot of excess food in the storage rooms, which is one of the most expensive things you can do in this business. Buying and having on hand more food than you need results in poor portion control, excess spoilage, waste and even a greater likelihood of theft.

Underpurchasing. Having insufficient amounts of food on hand when you need it can cost you money, too. When operators don't buy enough it can lead to sending employees to the local grocery store. The restaurant ends up paying retail prices. When this happens the restaurant also temporarily loses the services of the person who goes to the store. That affects labor productivity and potentially labor costs.

Another costly practice is using a more expensive substitute product in place of an out-of-order item. You end up paying more and if nothing is done you might lose sales opportunities and disappoint your guests by not having what they really want. Remember, if a guest wants a $5 hamburger and you give him a $20 steak dinner, you've still not met his wants.

Inferior yields. Inferior yields can result when detailed product specifications haven't been developed or just aren't used consistently. If you don't tell your vendors exactly the grade, type, size or brand of each product ordered, you may get products of inferior quality, which affect your food taste and consistency, and can also result in higher waste or shrinkage.

It's also important to choose the appropriate quality and grade of each product in light of its intended use. For example, you spend the extra money to purchase the high-quality, large-sized, name-brand lemons that are squeezed in the kitchen for batch recipes, when a lower-quality, no-name lemon would work just as well and save money, too.

Paying premium prices. Some supplier sales representatives have been known to entice restaurant owners to give them their business by presenting bids with very attractive prices on a restaurant's high-use products. After the owner has committed to buy from the supplier, they discover that those high-use products are frequently out of stock and are forced to receive a more expensive substitute product instead. In retailing, this is called "bait and switch."

Another potential problem with chasing low prices on certain products is that some suppliers then inflate the prices on the restaurant's other "nonhigh-use" products to make up the difference and then some. In retailing, this is called "loss leading."

To be a smart businessperson, you need to be a smart consumer. Check the prices on everything you buy to make sure you are not overpaying for any product.

Improper rebates. It's fairly common practice for suppliers in this industry to give away "gifts" to their restaurant owner and manager customers, particularly if those folks make purchasing decisions on their products.

At the low end of the gift spectrum are things like concert and sports tickets; however, I've seen situations in which chefs and managers have received items of much higher value like exotic vacations, high-end merchandise and even cash.

I recall my first seminar in New York City several years ago when a gentleman raised his hand and asked what he should do with the cash his meat vendor gives him. Well, I suppose if he's the owner he can do what he pleases, but be aware that employees doing your purchasing can be offered these same "sweet" deals, in return for their continued patronage. Over time and even right away, the restaurant or owner will end up paying for these so-called "gifts" in the form of higher prices on the supplier's products.

There is nothing wrong with suppliers trying to gain business and patronage by treating their customers well. Just don't let gifts cloud your and your staff's judgment in making decisions that affect the business's profitability. That's the name of the game.

Receiving. When I work with restaurants having food cost problems, it's not uncommon to discover that more than half of their food losses occur because of what's happening — or not happening — on the receiving dock or back door. The receiving dock or back door is one of the most vulnerable areas in your restaurant. The potential to lose money during the receiving process is great. (RestaurantOwner.com members, for more information, see "The Buck Stays Here! Seven Ways to Halt Receiving Losses" at www.restaurantowner.com/members/360.cfm.)

Accepting a 'padded order.' It's possible to find a few more boxes or cases of product coming in the back door than were actually ordered. Say two cases of iceberg lettuce are ordered and four cases are delivered. If nobody notices or the driver convinces the receiving clerk to accept the two extra cases because "you'll need it eventually," the restaurant has just overpurchased. Chances are good that at least a portion of that "excess" lettuce will be lost because of poor portion control (because there's more lettuce on hand to use), spoilage and/or waste.

Stealth pricing. Some suppliers use many different pricing scales and programs depending on a variety of factors and characteristics of their restaurant customers. With the large number of products and potential price differences customers can be charged, it's possible for pricing errors to occur.

When an operator is quoted one price for a product at the time of order, it's possible for a different, higher price to find its way on the invoice. When this happens, food cost is inflated by the amount of the price difference times the quantity purchased.

Accepting inferior products. Even if you use detailed specifications (explained earlier) for all your products, if the receiving clerk doesn't verify that what gets delivered is "on spec," you have just received inferior products.

Accepting products that don't meet your specifications can mean inconsistency, inferior quality and lower yields, which translate into higher food cost. When I was in the barbecue restaurant business, we told our beef purveyors exactly what cut and grade of brisket we wanted. We also conducted yield tests on a regular basis to make sure we were getting what we wanted. Whenever the shrinkage levels were above the norm, it was usually due to receiving meat that was below our specifications. After communicating our findings to our supplier, it was quickly fixed. It's important to not only have detailed product specifications, but to also check up in some way to verify that you're getting the correct grade and quality of products from your suppliers.

Damaged goods. Lack of thoroughly inspecting the condition of products at the back door costs you money. Receiving bruised produce, smashed boxes or leaky containers means less usable product and more waste. What you inspect and accept (and reject) will influence the type of products you'll get, especially when it comes to produce, and fresh seafood, poultry and meat.

Short weights. One thing you can count on is for a food supplier's driver to notice what goes on at the back door of every restaurant they service, including yours. They know exactly what restaurants do and don't do at their back door and notice which operators check weights and which ones just blindly accept whatever they unload. Some drivers have been known to share this information with the people who put the orders together back at the warehouse. On days when some of the supplier's products are in short supply, which restaurants do you think are most likely to be targeted for an order that's less than complete?

If you purchase products sold by weight and don't verify the weight, at least on a random basis, you're a prime target for being short-weighted at some point. If this happens, you will be paying for product you never received, either through an oversight or intentionally.

Storage Caveats

Storage losses frequently occur when you assume your products are protected in coolers, freezers and dry storage areas. This can be a false sense of security. You need to monitor how well your inventory is faring in these critical areas.

Not placing goods immediately in storage. When products received are not placed immediately in the appropriate storage areas, they're susceptible to theft. Also, frozen and chilled items deteriorate quickly in the warm air. The bacteria count doubles every six days on food that's been cooled to a few degrees above freezing. It doubles every six minutes on food at room temperature. A head of lettuce loses a day of shelf life for every hour it's kept at room temperature. Shorting your products' shelf life increases waste, spoilage and increases the risk of serving unsafe products.

Spoilage. Much of a restaurant's food inventory can be made up of perishable products. Spoilage can occur when too much product is purchased or when products are not properly rotated in the storage rooms. Improper rotation means products sit on the shelf beyond their shelf life. When this happens these products can't be used and have to be thrown out.

Spills and breakage. Storage areas are highly susceptible to spills and breakage. Spills and breakage can occur when employees are careless in the storage areas and bottles slip through hands or jars are knocked off shelves. Breakage of glass jars and bottles also poses a safety hazard.

Theft. Unfortunately, theft is a common and constant challenge in every restaurant. When you consider the large amounts of food products that have value and utility to everyone and couple that with the many people who can gain access to a restaurant's storage areas, it's easy to see why theft can be difficult to control.

Any storage area is a ripe target for theft. Employees have been known to take products out of storage rooms and remove them from the restaurant in backpacks, trash cans, "empty" boxes and other clandestine ways.

Preparation Predicaments

In the preparation phase, products are requisitioned out of storage and prepped, trimmed, mixed, processed and prepared in myriad ways with many hands involved in the process.

Cooking errors. When someone puts the wrong ingredients into a sauce, dressing or some other recipe, the taste or texture may be altered to the point at which there may be no alternative but to throw out the entire batch. Leave something on the stove or in an oven too long and its only home may be the kitchen trash can. Cooking errors are expensive and also interrupt the flow and efficiency of the kitchen, especially during busy meal periods.

Overproduction. Most products at this stage of the process have very limited shelf lives. Some might last another day or two but many must be served by the end of the shift or even within a number of hours or even minutes. Prepare too much and you have product and dollars that end up in the trash. Don't prepare enough and you may miss a sale and disappoint a guest.

Overportioning. Prep or line cooks can become overly generous or careless and put too much food on the plate. If your smoked turkey sandwich calls for 3 ounces of turkey and is consistently prepared with 5 or 6, your food cost for turkey is 20 percent to 30 percent more than it should be even if you're doing everything else perfectly.

While consistent overportioning is bad enough and leads to excess food costs, what's worse is to portion in an inconsistent manner. One day the customer gets a corned beef on rye with 7 ounces of meat and the next time gets the same sandwich made with only 4 ounces of beef. Inconsistency is the surest way to turn off even your most faithful regulars.

Employee nibbling. You may think that your employees' helping themselves to a few food items now and then is not a big deal. But just think about the potential cost of each employee consuming just one product, like a dessert, piece of meat or a few strawberries on each shift and calculate the cost of this happening over a year. For many restaurants this amount would probably exceed their profit margin.

While unauthorized snacking and grazing usually occurs in the kitchen, it can occur in the front of the house, too. For those of you who have a bar, there is a particular area that is popular, especially when it's slow. The servers and bartenders stand around the garnish tray and as they discuss their social lives you'll see copious amounts of olives and cherries being consumed. The last time I checked, the cost of a large green olive was more than 10 cents. While your servers are consuming your garnishes, they're also consuming what could be a large portion of your profit for the day.

Serving and Settlement Issues

Finally, after all the work it takes to buy, receive, store and prepare great food, all can be lost if there are problems in the serving of the meal and the settlement of the check.

Wrong orders. The first thing that can go wrong is miscommunication between the server and the guest or miscommunication between the server and the kitchen regarding what the guest really wants. The steak that that guest wanted medium rare is sent to the kitchen as medium well. Wrong orders generally end up with something being returned to the kitchen that will probably end up in the trash.

Even worse, wrong orders often cause the meal to get out of sync for one guest. This can become a major mood killer for the entire table and can be difficult if not impossible to overcome.

Customer returns. Similar to wrong orders, customer returns can occur because food that's supposed to be hot arrives cold or the wrong dressing was put on a salad. As in wrong orders, when food comes back to the kitchen, it usually ends up in the trash.

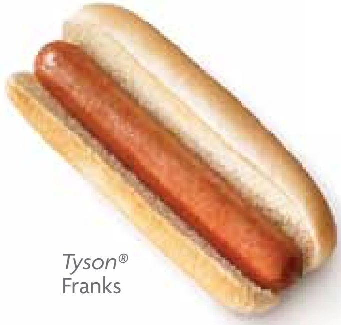
Unrecorded sales. People who are really serious about stealing normally don't mess with food; they go for the cash. Never underestimate the lure of quick cash and the lengths some people will go to get it. There are two activities that must take place on each sale. Each sale needs to be "recorded" and "collected."

When unrecorded sales occur, the bartender, cashier or server place all the cash they receive from customers exactly where it's supposed to go, in the cash drawer or their server bank. However, every fifth soft drink or small order of fries isn't rung up or an item is rung up at a lower price. The customer, however, is still charged full price for everything. This means more cash is going into the cash drawer than the amount of sales getting rung up on the register.

Dishonest employees will have some type of counting scheme to keep track of how much unrecorded money has accumulated. Then, at an opportune time (when no one is looking) they will pull the excess cash out of the drawer and pocket it. Or they have a friend come in and purchase something at their register with a $5 bill and give them change for a $20 or $50 bill.

While unrecorded sales don't affect food cost dollars they do affect a restaurant's food cost percent because sales are lower than they should be. Unrecorded sales are an operator's worst nightmare because they represent sales you earned but never knew you had. There's no expense category on the P&L (profit-and-loss statement) for "unrecorded sales." The losses are simply manifested as missing sales and inflated cost percentages.

Although it may seem like mission impossible to control all of these potential leaks, be encouraged in knowing that it is doable. There are many operators and companies that do a marvelous job of plugging the holes just described. And they are rewarded handsomely, on their bottom lines, for their efforts. **RS&G**



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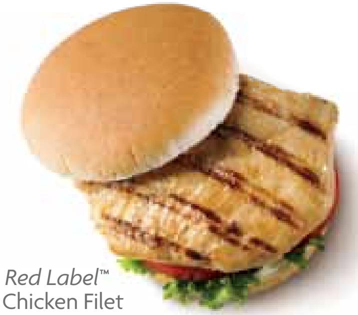

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