Quick and Easy à la Carte Food Costing

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Private clubs are often pressured by board and committee members to explain high food costs associated with the club's à la carte restaurant operations. With most clubs nationwide experiencing significant losses in food and beverage, it's no wonder that members are curious to know why such losses

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are occurring — and how they might be controlled. If you are unlucky enough to have an influential member or two with commercial restaurant experience breathing down your neck about food costs, you might appreciate a simple costing approach we routinely recommend to our private club clients.

The Commercial Approach

Before describing the simplified approach, let's take a look at the traditional — and more complex — approach used by many commercial restaurants. This approach begins with the premise that the restaurant's food and beverage costs can be reduced when purchasing is handled through a computerized system — one which creates purchase orders, records inventory received, and interacts with the restaurant's POS system using recipes for menu items. With such a system, each menu item sold through the POS system contains a list of ingredients that comprise the item recipe. For example, the club's "signature cheeseburger" might be comprised of the following ingredients:

- 8 oz. ground sirloin
- 2 slices of tomato
- 1 slice of onion
- 1 lettuce leaf
- 1 sourdough bun

The cost of this recipe is automatically derived by the associated ingredient costs from purchasing. For each ingredient in the recipe, the system references the latest cost information and calculates the ingredient cost based upon the portion size for that ingredient. In the example above, if ground sirloin was last purchased for $4 per pound, then eight ounces of that sirloin would have a recipe ingredient cost of $2. Each of the recipe ingredient costs is automatically derived from the purchasing system, and the total represents the cost for that menu item.

Commercial restaurants, especially high-volume/low cost chains, must have tight food cost controls to maintain profits. For a chain of fast food outlets, an extra dime of cost for each cheeseburger would put a real dent in the bottom line. Most commercial establishments rely on tight margins and high volume to create profits. Here's how the profit model works.

Assume the average high-volume restaurant has annual food revenue of $3 million, all running through the POS system. Also assume that the food cost for the average restaurant is 30 percent. That means that the restaurant spends $900,000 dollars annually on food purchases. Now assume that this average restaurant employs a full-time staff person to handle the details of this purchasing and costing activity. Such a person would carry a salary and benefits cost of $35,000 for our average restaurant. Now add a $5,000 annual cost for the needed computer software, equipment, training, software enhancements, and support — for a total cost of $40,000.

Given the above scenario, how much would the restaurant have to lower its food cost percentage just to cover the cost of the additional employee? That $40,000 employee costs 4.4 percent of the restaurant's $900,000 annual food cost.

Commercial restaurants have proven that they can lower food costs by five to six percent with strong, accurate cost controls. That makes the process worth the effort. Here's the rub. It takes a lot of work and expense to manage this type of recipe costing system. It's too much effort, in our opinion, to be justified for most private clubs. That's because private clubs don't generally have enough sales volume to fit the commercial restaurant profit model. Let's do the numbers to prove this point.

The Club Approach

Assume the average club has annual food revenue of $1 million that is run through the club's POS system (only sales that go through POS can receive recipe costs). Also assume that the food cost for the average club is 45 percent (about the average nationwide). That means that the club spends $450,000 dollars annually on food purchases. Now assume that this average club does not have a staff person available to handle the details of this purchasing and costing activity (an accurate assumption in most clubs).

Hiring such a person would add a salary and benefits cost of $35,000 for our average club. Now add a $5,000 annual cost for the needed computer software, equipment, training, software enhancements, and support — for a total cost of $40,000. Given the above scenario, how much would the club have to lower its food cost percentage just to cover the cost of the additional employee? That employee would cost 8.9 percent of the club's $450,000 annual food purchases.

In other words, the club's food cost would have to be reduced by a whopping 8.9 percent (to 36.1 percent) just to cover the cost of the additional employee. For most clubs, a food cost percentage reduction of that magnitude just isn't going to happen — no matter how tight the controls are. (The exception is a club whose F&B operation is totally out of control, but we are assuming that most clubs are generally well-run and that basic controls are in place.)

The Quick and Easy Approach

For most private clubs, we recommend a much simpler approach to à la carte food costing that is almost as accurate as the traditional approach, but much less labor-intensive. It's called standard costing. Here's how it works:

Instead of using a computerized recipe/ingredient costing system, the person(s) responsible for food purchasing simply meet for a few hours to "cost the menu" by determining the costs of each menu item. We have worked with numerous private clubs over the years and have found executive chefs and purchasing managers to be quite capable of deriving accurate costs for menu items based on a quick review of the latest pertinent purchase orders. These "costing sessions" are scheduled each time a new menu is introduced.

In addition, each new item that is added to an existing menu (including "specials") must have a standard cost assigned. This includes buffets, where a standard per-cover cost is assigned. And, if certain ingredient costs experience a significant and long-lasting change, menu items that contain that ingredient must have their standard costs revised.

This simplified approach then, requires each menu item in the POS system to have a sale price and a standard cost. From that point forward, all sales and cost analysis reporting is identical to what would be expected from a recipe/ingredient costing approach. The only thing missing is the workload (and labor cost) of maintaining recipes and ingredients.

Costing Accuracy

We are often asked about the accuracy of standard costing versus the more precise recipe approach. We reply with a reference to the 80/20 rule: 20 percent of the effort for 80 percent of the value. Except that in the case of standard food costing, our clients using this approach report the relationship to be more like 90/10. Clubs using standard costing find that their ability to manage food costs is much improved — with no additional staff and a very small time commitment.

What's Required

In order to use standard costing for à la carte food, your club's POS system must be able to assign a standard cost to each menu item. This might be done directly in POS, or in an inventory module that works with POS. If you plan on using this approach, be sure to confirm that your club's POS system handles standard costing. Not all do.

For the vast majority of private clubs, à la carte food sales are not large enough to justify the cost and time commitment of a recipe costing system. Standard costing simplifies the process while offering nearly the same benefits as the more complex alternative. We encourage clubs to try this simple yet effective method of costing. We think you'll be pleasantly surprised at how effective it can be. CM

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