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COST OF GOODS

Determining an achievable budget

- Cost of sales is measured as a percentage of overall revenue and is determined by total cost ÷ total revenue.
- Example: If you spend \$250 on goods to produce \$1,000 in sales your cost of sales is \$250/\$1000 or 25%.
- Most food service outlets look to maintain a cost in the neighborhood of 25%, some go as low as 20% or as high as 30% depending on items being sold.



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COST OF GOODS

Negotiating with vendors.

- Create a list of items to inventory based off your menu.
- Send this list with potential usage to multiple vendors in your market and compare prices at wholesale stores as well.
- Do not be afraid to negotiate. Get the best price possible.
- Break cost down by unit. It is important to know how much each unit is costing you. If a case of hamburgers is \$42.00 and there are 80 burgers per case each patty is \$0.525.
- Have your vendors work for you. Use them as a resources.



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COST OF GOODS

Establishing retail prices.

- Work back from your budgeted percentage to determine a potential price structure.
- If your goal is a 25% cost of sales and a hot dog costs \$0.40 all-inclusive then you know you need to charge at least \$1.60 to maintain your cost. Don't forget to factor in all possible items associated.
- Factor in breakage (waste/theft) as "pure cost" is unachievable. (Roughly 2-3%)
- Know that some items will have a higher mark-up than others and your goal is to maintain overall cost at your budgeted percentage.



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COST OF GOODS

Establishing retail prices.

- Example Cheeseburger: patty - \$.53, bun - \$.10, condiments - \$.06, cheese - \$.20, tomato slice - \$.08, pickle - \$.03, food tray - \$.06, Totaling \$1.06
- Factoring a cost of 25% our price would need to be approximately \$4.24 (cost divided by our budgeted percentage which is 1.06/.25)
- **TOTAL COST ÷ BUDGETED PERCENTAGE = PRICE**
- Allowing for waste/theft the price would be set at \$4.50



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COST OF GOODS

Controlling waste and theft.

- Establish guidelines and monitor staff to ensure they are being upheld.
- Everyone has some sort of theft issue.
- Cash control and tracking sales are key.
- Utilize credit versus cash ratio to pinpoint potential issues.
- Invest in a security camera system.
- Consider upgrading your point of sales system. Are you accepting credit cards for payment?
- Minimize leftovers and train staff to follow recipes/specs for items being sold.
- "People do what you inspect, not what you expect."



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COST OF GOODS

Managing Inventory.

- Take inventory at the end of every month. While time-consuming this is an important step as it keeps you in the loop of all items on hand and enables you to determine the cost percentage of your operation as a whole.
- Determine monthly cost by totaling all bills and subtracting remaining inventory.
- It is important to know the cost of each item to accomplish this.



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COST OF GOODS

Managing Inventory

- There are many inventory programs on the market to assist in this calculation. (Ordoro, Cin7, QuickBooks, to name a few, or even a simple Excel spreadsheet)
- Once you have determined the total cost of all food related items, divide that total by your monthly revenue to calculate your cost of sales percentage for the month.
- Example: Total cost of \$3,590 yielded a monthly revenue of \$13,254 for a cost of sales of 27.1%

$$\$3,590 / \$13,254 = .2708 \text{ or } 27.1\%$$



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COST OF GOODS

Putting your knowledge to good use

- React to the numbers!
- If your cost is high, investigate what could be the culprit and make changes. You could have waste or theft issues, a vendor could be charging you higher than expected prices, or you may need to modify your menu to feature more low-cost items.
- If your cost is low, verify your numbers; there could be extra cost that you failed to account for. If not, relish in your success and adjust your expectations for next month. If the trend continues, consider lowering prices on certain "low-cost items" to boost sales.
- Use your monthly cost of sales percentage as a report card for how well your business is being managed.



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LABOR EXPENSE

Determining an achievable budget.

Maximizing your labor force on busy days and minimizing on slower days.

Choosing the right equipment and layout to increase efficiency.

Realizing the importance of employee retention.

Comparing your actual labor spent versus budget.



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LABOR EXPENSE

Minimizing staff when appropriate

- Cut staff according to actual/expected business levels.
- As a food outlet, don't worry about being open "all the time".
- Review your schedule template a few times a year to make adjustments as necessary.



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LABOR EXPENSE

Choosing the right equipment and layout

- Upgrade equipment when possible. Take advantage of that new technology.
- The right equipment can make a huge difference in speed of service and overall employee productivity.
- Be sure your layout maximizes the given space.
- Production areas should be designed to require the fewest amount of steps possible.



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LABOR EXPENSE

Employee retention

- What is your retention rate? As a seasonal business it should be no lower than 50%.
- Hiring and training new employees is expensive.
- Hire the right candidate who fits the position.
- Know your staff and what motivates them. Personal relationships matter.



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LABOR EXPENSE

Comparing actual labor expense versus budget

- At the end of the month, total your monthly labor expense. Divide this expense by your total monthly revenue to determine your actual labor percentage for the month.
- In food service, labor expense can vary greatly based off revenue generated, which is why we judge success in this area by our percentage against revenue. Some operational labor expenses are fixed. In food service however, labor is a variable expense.
- If our labor percentage is too low, look to possibly add shifts to increase speed of service or to improve cleanliness of the operation. If service speed is at a desirable level as well as cleanliness then congratulations are in order!



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LABOR EXPENSE

Comparing actual labor expense versus budget

- If our labor percentage is too high look for ways to lower it for next month. Shorten the length of shifts, schedule fewer individuals throughout the day, or possibly change hours of operation.
- Lastly, if our labor percentage is too high, consider modifying your menu to include fewer labor-intensive items. Investigate the use of vending machines or adding additional vending machines.



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PROFITABLE OPERATION

Be a knowledgeable owner/operator.

Take the time to analyze your business and act on the data.

Cost of sales percentage is a crucial tool when evaluating how well a location is being managed.



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Q & A

Thank you for your attention.

Have a fantastic weekend!!



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Enjoy your week!

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