



ULTIMATE MINI-GUIDE TO

Food Cost Calculation & Control



Increase Your Gross Profit Thanks to Great Food Cost Control

In this guide you will find a method to gain in-depth insights into your food cost. You will discover how to accurately calculate and compare ideal food costs with actual food costs.

The average food cost in the hospitality industry is between 30% and 45% of the turnover, regardless of whether you manage one or more branches. That is enormous.

The good news, however, is that food cost is a manageable cost. When food cost is under control, profits go up, without having to generate extra income.

The example below illustrates the benefits of accurate food cost control.

Gross Operating Profit (G.O.P.). G.O.P. is the difference between turnover and operational costs, i.e. food cost, personnel costs and fixed costs. As a food cost, we take 35% of turnover.

Impact of Food Cost on G.O.P

Revenue	500.000	500.000
Food Cost	175.000	-5% 166.250
Staff Cost	250.000	250.000
Fixed Costs	60.000	60.000
Profit	15.000	23.750
		▲ 58,5 %

A drop of only 5% in food cost makes profits - in this example - rise by 58.5%.

Knowing and understanding food cost is vital for profitability.

This guide is intended for

- Chefs who want to increase the profitability of their menus.
- F&B managers who want to optimize orders.
- Hospitality entrepreneurs who want to strengthen the growth of their business and stay ahead of the competition.

How to gain real insight into food cost?

Your accountant is traditionally the go-to person for understanding turnover and expenses. Accountants will tell you exactly where you stand in terms of profitability.

However, there are three significant drawbacks when relying solely on your accountant:

- An accountant will only give you a status **after the facts**. When the figures dive into the red, it is already too late.
- If things go wrong, an accountant **won't be able to tell you why**. They only see invoices and POS-data, not the actions on the work floor that lead to profit or loss.
- An accountant is **not a chef**. He has little knowledge of recipes, ingredients or prices.

In this mini-guide you will discover a well-founded strategy to determine and control your own food cost.

The strategy for food cost control consists of three steps:

1. Determine the ideal food cost
2. Calculate your actual food cost
3. Compare the ideal cost with the actual cost

Step 1: Determine Your IDEAL Food Cost

What is your ideal food cost? The ideal food cost is the cost you can expect for a given period of time based on recipe and the number of times a dish has been sold.

Ideal food cost is also called theoretical food cost or target food cost. You determine the ideal food cost in three steps:

- First you calculate the cost of each dish on your menu.
- Then multiply the cost per dish by the number of times it has been sold.
- Finally, you add everything up. The result is your ideal food cost for that period.

A. Cost Calculation of Your Menu

This is a big job, but absolutely necessary. You need to know the cost of each recipe.

What do you need?

- Your menu
- Your recipes
- An overview of the ingredients used
- The cost per ingredient
- Turnover for the given period of time

Based on the recipe, the quantities used and the cost per ingredient, you calculate the cost of each dish on the menu.

In your recipes you will most likely use semi-manufactured products, such as tomato sauce in a spaghetti bolognese. In this case you calculate the cost of tomato sauce separately. Then re-calculate the cost for the quantity used in one serving of spaghetti



Good to know

Restaurant management software does all calculations for you. If the price of an ingredient changes, the software immediately adjusts the cost of each recipe.

B. Determine Your Ideal Food Cost

Now that you know the cost of each dish and the total cost of your menu, it is time to determine your ideal food cost. In order to do so, you need to know the number of servings you will sell of each dish in a specific period of time. For example, the number of times customers order a spaghetti bolognese in week 33.

The variety of products sold in a specific time period is called the sales mix.

How to determine the sales mix?

In the past, the sales mix was determined by counting each sale manually. Fortunately, that is a thing of the past. Your POS system delivers the sales mix at the push of a button. It generates a report that shows how many times a menu item was sold in a specific time period.

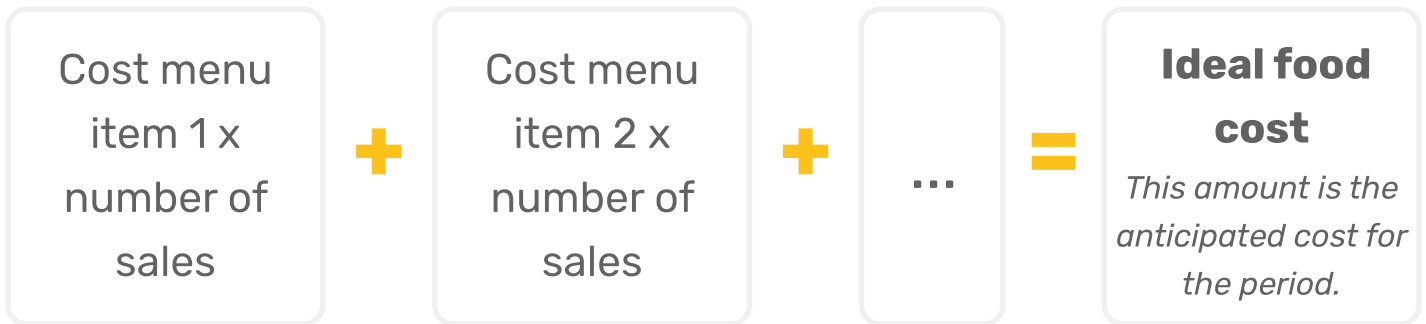
How to calculate the ideal food cost?

The ideal food cost is calculated by multiplying the cost of each menu item (see A) by the number of times it was sold in a given period of time (see sales mix). Now you have the ideal food cost per menu item.

Add up the food cost per menu item to know the ideal food cost for this period.

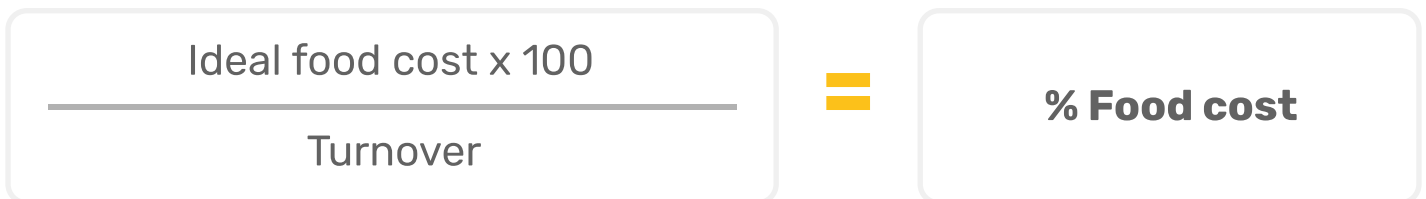
Just so you know: ideal food cost is also known as theoretical food cost or target food cost.

The formula looks like this:



Later on we'll compare ideal food cost with actual food cost. Let's convert the food cost into to a percentage for easy comparison.

The formula: divide the ideal food cost for a given period of time by the turnover for this period and then multiply by 100.



Good to know

Restaurant management software integrates directly with your cash register. It automatically retrieves the sales mix and immediately determines the ideal food cost and the percentage of turnover at recipe, menu and ingredient level.



A great hint for better profitability

Menu engineering: profitable menus lead to successful businesses

Before we discuss the next step, first this:

Use the costing of your dishes not only to control food costs, but also to create profitable menus.

Your menu is your main marketing tool. Success in the restaurant business can only be achieved when you have every detail of your menu under control.

Use the insights into costs to determine realistic margins. Create a menu with prices that customers are willing to pay and that provide ample profit to keep the business going.

Use the POS data to identify plates that sell well. Filter out the poor performers in terms of costs and popularity. Compensate popular, but costly menu items with dishes that have a high profit margin. This way you keep your bottom line up.

Thorough menu engineering leads to profitable menus.



Good to know

Restaurant management software automates the food cost analyses and integrates the POS statistics you need to optimise your menus.

Step 2: Calculate Your ACTUAL Food Cost

How to calculate the actual food cost?

The actual food cost is the value by which your stock decreases over a given period of time.

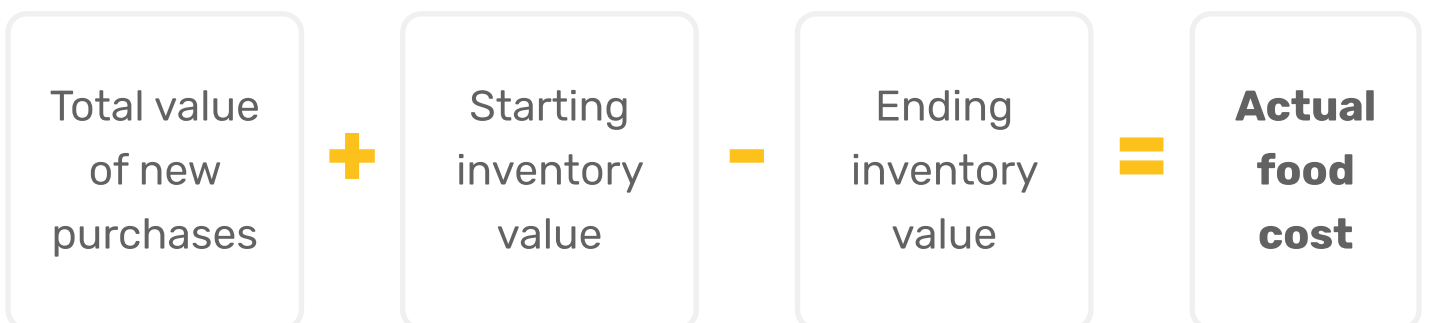
To determine your actual food cost, you need to know four things:

- starting inventory value,
- purchases,
- the ending inventory value,
- turnover.

At the start of the period you are investigating count everything in stock and multiply by its value. Add everything up to know your starting inventory value.

Add the value of new purchases to the value of the starting inventory. From this you subtract the value of the ending inventory. This is a stock count at the end of the period you are investigating.

The formula to calculate the actual food cost looks like this:



For example:

Starting inventory = 10,000 Pounds

New purchases = 4,000 Pounds

Ending inventory = 11,000 Pounds

Actual food cost = 3,000 Pounds

Convert the actual food cost to a percentage of turnover in the investigated period:

The formula looks like this:

$$\frac{\text{Actual food cost} \times 100}{\text{Turnover}} = \% \text{ Food cost}$$

Suppose the turnover for week 33 is 9,000 pounds, then the percentage of actual food cost is:

3,000 pounds/9,000 pounds x 100 = 33%.

Step 3: Compare ACTUAL Food Cost With IDEAL Food Cost

This is the ultimate test to know if your food cost is under control. In a perfect world, your actual food cost would equal your ideal food cost. This would mean you are in total control food cost.

This is the ultimate test to know whether your food cost is under control, or not.

When ideal and actual food cost aren't the same it means that somewhere in your kitchen processes you are losing money. Food cost goes up and gross profit goes down.

By periodically comparing ideal and actual costs, you get a better understanding of what your costs really are. You understand how they arise and get insights into how to improve kitchen processes.

How to compare actual and ideal food cost?

Subtract the percentage of actual food cost from the ideal food cost percentage. The best possible scenario is that the result is zero. This means that food cost according to recipes is the same as food cost according to inventory. Your food cost is under control.

However, a small deviation is normal. But don't let it get out of hand, because it will end up costing you a lot of money.

When do you need to take action? A deviation of up to 2% is considered acceptable in the sector. Everything above is problematic and requires immediate action.

Keep the deviation below 2%



Good to know

Restaurant management software calculates the deviation between ideal food cost and actual food cost automatically.

This will also interests you: **7 reasons your actual and ideal food cost aren't the same**

Conclusion

The impact of food cost on gross profit is enormous. Strong food cost management gives companies **a distinct edge over competition.** Controlling food cost helps to minimize 'waste' and is the first step towards profitable menu engineering.

To understand your food cost, you need to compare **the ideal food cost with the actual food cost.** The closer the difference is to zero the better. If the deviation is greater than 2%, you have to take action immediately.

Find the cause of the irregularity and fix it. Well-performing foodservice businesses manage to make their actual food cost and ideal food cost fall together.

Restaurants that closely monitor food costs grow their bottom line without having to generate extra income.



Save Time

Thanks to digital inventory and procurement



Streamline Workflows

Get clear insights on kitchen procedures



Increase Profit

Minimise waste and maximise control



Centralise Knowledge

Easy management and team training

