

Increasing the Accuracy of Recipe Costing

By Mark Kelnhofer, MBA

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A fairly accurate assessment of current restaurant and catering operations today do not have accurate recipes costs. Recipe costs are the foundation of much more strategic functions such as the menu engineering process and theoretical benchmarking. The recipe is the base for many other aspects of the business, and is all too often something not given enough attention. Too often recipes generally are written in cookbook terms and not manufacturing terms. There are several concepts to assist in obtaining accurate costs.

The first is to understand what it means to treat recipes like manufacturers. The basic rule states that anytime a product or production item changes form, no matter how simple it may seem, the costs should be accounted for. As an example, let's take fresh basil. When purchasing fresh basil from your local produce company, it comes packaged usually by the pound. The basil is still on its stems when it is received by the restaurant. In order to make the basil usable, all the basil leaves need to be picked off. If we paid \$7.50 a pound and did not account for the loss properly, we would have used the incorrect cost \$0.469 an ounce on our recipes. The reality is that not everything is useable. In the example we used, it was determined that only 11 ounces were useable resulting in a new cost of \$0.682 per ounce.

In addition to accounting for proper yields, the second piece of recipe costing is taking a recipe written by a culinary professional and converting it to proper weights and measures. As an example, many recipes will call out for a spoodle, tablespoon or teaspoon of an ingredient. Utilizing these utensils ensures portion control and proper execution. However, for recipe costing, we

need to account for the associated weights. For example, a one ounce spoodle of feta cheese is not going to be an ounce for costing.

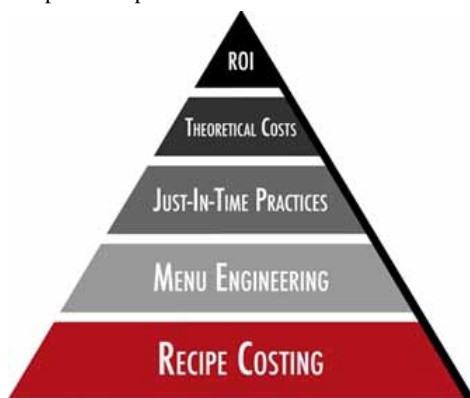
Up to this point we have discussed only ingredient costs and their change in the process. We have not mentioned as of yet the two other factors of cost: labor and overhead. Many industries have been in the practice of costing out their products to include prime and total cost. Why is it then the restaurant industry doesn't identify these costs? It becomes an incredible tool once we have added these two cost components to the recipe cost. With this information we are now able to determine make-buy decisions with accuracy and to engineer our pricing to drive proper profitability.

A time motion study is what is required to determine proper labor and overhead costs. With time motion studies we are able to determine a proper labor standard in time to produce the recipe. Multiple tests should be conducted with

the personnel that are actually responsible to execute the recipes. Once the time standard has been established we can then multiply that against both a labor rate and overhead rate per hour to come up with our total costs.

Labor rates should include more than just the base rate, but also all the other benefits and fringes that are paid to employ and retain that employee. Examples include unemployment insurance, payroll taxes, health insurance, and 401(k) contributions. Overhead rates are determined through the budgeting process (pre-determined) where all the other expenses, other than direct ingredients, direct labor and fringes, are then taken in account against the total amount of prep production hours to develop an hourly rate. With this, now we can assign proper costs to labor and overhead which is typically the missing component that most operators do not have. Labor rates are typically by market and overhead rates need to be specific by store location.

Accurate recipe costs become the base of many other things such as menu engineering, obtaining theoretical costs and commodity price impacts. Without determining accurate costs, the operation cannot possibly plan properly for success. A good combination of passion and emotion for art combined with the numbers of business. Although pursuing a higher level of accuracy may take some initial work and investment of time, it is energy and money well spent in the end. It will surely assist in improving the profitability of the restaurant operation.



ACF Chefs Las Vegas - March Meeting Hosted by the Gold Coast



Photos by Chef Joey Campos