Struggles with expenditures...

The customer's challenge to obtaining accurate recipe costs

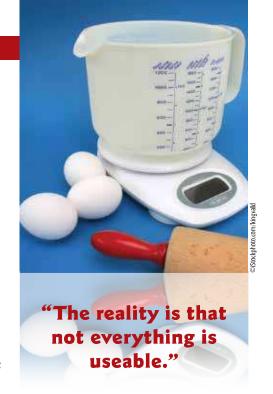
Contributed by By Mark Kelnhofer, MBA
President and CEO of
Return on Ingredients LLC

As a food processor, we sometimes don't realize how our end customer struggles with cost identification. Whether your customer is a restaurant, hotel, casino, school or other foodservice related location, the challenge to identify the proper cost is always there. Especially in times where commodity costs are on the increase or have high fluctuations. It is a fairly accurate assessment to state that current restaurant and foodservice operations 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. Too frequently, recipes are not written to determine accurate costs. They are generally written in cookbook terms and not manufacturing terms. Thinking about a restaurant as a manufacturer is a unique concept and not typically applied. It is a concept that can bring about greater benefits such as improving profits and greater efficiencies.



There are two primary concepts to assist in obtaining accurate ingredient 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. The reality is that not everything is useable. Just think about all the applications of loss with the other products we sell (i.e. beef, poultry, seafood, etc.). As an example, seafood can be sold whole or in various stages of processing. Depending on how it is purchased, the customer may need to take the skin off, debone and remove the bloodline of the product and then cut it down to proper portion size. Cutting beef is yet another example where we have a beef short loin that is being cut down to porterhouse steaks. When the initial cut of the loin is done, it is 35 ounces before additional trimming at the purchased cost of \$0.70/pound. Once trimmed, the final porterhouse steak is 27 ounces in portioned trimmed size resulting is cost of \$0.905/ounce before any labor and overhead costs are applied. When working with fine dining and high end restaurants, the recipes can be very complex and the examples above only reinforce the need to account for the known losses and the associated costs.

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. When the spoodle of cheese is placed on a digital scale, what you will discover is that the true weight is not close to an ounce (0.3 ounce). Just as accounting for the proper yields is important, it is equally important to account for the proper weights and measures to determine your recipe costing as well.

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. With the high level of competition in the industry, it would be detrimental not to make the most informed decisions. Some of the emotion of a new menu item needs to be combined with the analytical side to confirm the addition or the removal of an item. 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 assist in improving the profitability of the restaurant operation.

Mark Kelnhofer is the President and CEO of Return on Ingredients LLC and has over 20 years in management accounting experience including the restaurant industry. He is an international speaker on the topics of recipe costing and menu engineering. He can be reached at (614) 558-2239 and Mark@ ReturnOnIngredients.com.