Chapter 1: Cost and Sales Concept

Introduction

The hospitality industry, particularly food and beverage operations, relies on managing two primary financial variables: **cost** (what is spent) and **sales** (what is earned). Understanding the relationship between these two is fundamental to achieving profitability. Effective management means maximizing the difference between sales revenue and the cost of producing those sales.

Cost Concepts

Cost represents the expense incurred in the process of generating revenue. In a restaurant, costs are generally categorized into **Fixed Costs** (expenses that remain relatively constant regardless of sales volume, like rent or insurance) and **Variable Costs** (expenses that change directly with the volume of sales, such as raw food materials or hourly wages). The cost of food or beverage items sold is often referred to as the **Prime Cost**, which is the sum of food cost, beverage cost, and labor cost. A key objective is to minimize controllable costs without negatively impacting the quality or guest experience.

Sales Concepts

Sales, or revenue, is the money received from customers in exchange for products and services. Sales can be analyzed in terms of both **Monetary Sales** (the total dollar amount earned) and **Non-Monetary Sales** (the number of customers served or the quantity of items sold). A deeper understanding of sales involves looking at the **Sales Mix**, which is the proportion of different menu items sold. Analyzing the sales mix is crucial because some items have higher profit margins than others, meaning that changing the mix can significantly affect overall profitability even if total revenue remains the same.

Cost to Sales Ratio: Cost Percent

The Cost to Sales Ratio, commonly expressed as the **Cost Percent**, is the most critical calculation in food and beverage control. It is calculated by dividing the Cost of Goods Sold (Food Cost or Beverage Cost) by the total Revenue (Sales).

Cost Percent = (Cost of Goods Sold/Revenue) * 100

This ratio shows what percentage of every sales dollar is spent on the product itself. For example, a food cost percent of 30% means that 30 cents out of every dollar earned from food sales goes toward purchasing the ingredients. Managers use this ratio to compare actual performance against established financial goals and industry benchmarks.

Chapter 2: Control Process

Introduction

The control process in the food and beverage industry is a systematic cycle designed to ensure that operational results meet the organization's financial and quality standards. It involves setting clear goals, monitoring activities, and taking corrective action when performance deviates from the planned standard.

Control

Control, in a business context, means regulating activities and measuring performance against predetermined targets. The primary purpose of control is not merely to catch errors, but to foster consistency, efficiency, and profitability. Control systems provide managers with the necessary information to make timely and informed decisions.

The Control Process

The control process follows a logical sequence of four steps:

1. **Establishing Standards:** Defining specific, measurable, achievable, relevant, and time-bound (SMART) targets. This includes standard recipes, standard portion sizes, and standard cost percentages.
2. **Measuring Actual Performance:** Systematically tracking and recording the actual outcomes of operations, such as actual sales, actual food waste, and actual labor hours.
3. **Comparing Performance to Standards:** Analyzing the collected data to identify variances, or the difference between what was planned (the standard) and what actually occurred.
4. **Taking Corrective Action:** Implementing changes or adjustments to policies, procedures, or training to eliminate negative variances and bring performance back in line with the established standards.

Control Systems

A control system is a set of interconnected procedures and records designed to provide a continuous flow of information to management. An effective system must be tailored to the specific operation and its organizational structure. Systems can be manual, relying on paper documentation, or automated, utilizing point-of-sale (POS) systems and specialized inventory software. The goal is to create a structure that prevents issues (preventive control) and identifies them quickly when they occur (detective control).

Cost Benefit Ratio

The Cost Benefit Ratio in control refers to the balance between the expense of implementing a control system and the financial benefits gained from its implementation. A control system that costs more to maintain (e.g., highly complex tracking, excessive administrative labor) than the losses it prevents is not beneficial. Managers must always strive to find the most cost-effective controls that deliver the maximum return in terms of waste reduction and profit protection.

Chapter 3: Control Cycle

The control cycle focuses on the flow of product through the operation, from the initial need to the final use. It is a critical path for controlling the food and beverage cost percentage.

Purchasing

Purchasing is the first step in the control cycle and often the point where costs are most easily controlled. The goal is to acquire the right products, at the right quantity, at the right time, and at the best possible price. Effective control here involves:

1. **Establishing Purchasing Specifications (Specs):** Defining the precise quality, size, and packaging requirements for every item.
2. **Determining Par Stock Levels:** Calculating the minimum and maximum quantity of an item that should be on hand at any given time.
3. **Competitive Bidding:** Ensuring that prices are competitive, often by obtaining quotes from multiple approved suppliers.

Receiving

Receiving is the process of verifying that the products delivered match the quality and quantity of the items ordered. It is a vital control point to prevent losses due to short shipments, damage, or poor quality. Key controls include:

1. **Trained Personnel:** Designating a specific, trained person to handle all receiving.
2. **Standard Procedure:** Comparing the delivery invoice against the purchase order and the product's quality specifications.
3. **Immediate Storage:** Promptly moving perishable items to proper storage to prevent spoilage.

Storing

Storing control ensures that products are held securely and under conditions that minimize spoilage, deterioration, and theft. Proper storage procedures protect the quality and value of the inventory. Control measures include:

1. **Security:** Locking dry, refrigerated, and freezer storage areas and limiting access to authorized personnel.
2. **Rotation (FIFO):** Implementing the First-In, First-Out method to ensure older products are used before they expire.
3. **Cleanliness and Temperature:** Regularly monitoring temperature and maintaining cleanliness to meet health and safety standards.

Issuing

Issuing is the formal process of moving products from the storage areas to the production (kitchen or bar) areas. This is the last point of control before the item is prepared, and it ensures that costs are properly allocated to the correct department. Control is maintained by:

1. **Requiring Requisitions:** Using a written document (a requisition form) signed by an authorized manager to request inventory items.

2. **Limiting Issue Times:** Only issuing items at specific times to streamline the process and prevent unauthorized access.
3. **Recording Issues:** Keeping a log of all items issued to accurately calculate the daily food or beverage cost.

Chapter 4: Menu Engineering & Analysis

Introduction

Menu engineering and analysis is a data-driven approach used by food service managers to analyze the profitability and popularity of individual menu items, allowing them to design a menu that maximizes profit. It moves beyond simple cost control to strategic profit management.

Menu Engineering

Menu engineering is the process of structuring the physical menu (design, layout, descriptions) to influence customer choices in favor of items with high profit margins. It classifies items into four categories based on their contribution margin (profit per item) and their sales popularity.

The four categories are:

1. **Stars:** Items that are both highly popular (high sales volume) and highly profitable (high contribution margin). **Strategy: Maintain and highlight them.**
2. **Plow Horses:** Items that are highly popular but have a low contribution margin. **Strategy: Try to increase their price or reduce their food cost subtly.**
3. **Puzzles:** Items that have a high contribution margin but are unpopular (low sales volume). **Strategy: Reposition them on the menu or rename/re-describe them to boost sales.**
4. **Dogs:** Items that are both unpopular and low in contribution margin. **Strategy: Eliminate them from the menu.**

Menu Analysis

Menu analysis is the quantitative calculation used to determine the item's profitability and popularity metrics. The two main metrics are:

1. **Contribution Margin (Profitability):** This is calculated as the Selling Price per item minus the Standard Food Cost per item. This metric reveals the actual dollar amount of profit each sale contributes to covering fixed costs and generating net income.
2. **Sales Mix (Popularity):** This is the total number of a specific item sold divided by the total number of all items sold. This tells managers how well the item is accepted by the customer base, which is compared against the **Menu Mix Percent (MMP)**, a benchmark figure typically calculated by dividing 100% by the number of menu items.

Chapter 5: Controlling Food Sales

Introduction

Sales control encompasses all the procedures and systems used to ensure that every product sold is correctly accounted for and that the full and correct amount of revenue is collected, recorded, and protected from theft or error.

The Goals of Sales Control, Optimizing the Number of Customers

One key goal is to optimize the number of customers served. This involves managing demand through pricing strategies, promotional efforts, and operational efficiency (e.g., speed of service and table turnover). The faster and more effectively a restaurant can serve high-quality products, the greater the volume of sales it can handle.

Maximising the Profit

Another central goal is maximizing the profit derived from sales. This is achieved by combining effective cost control with strategic pricing and menu engineering. Managers must ensure that the price of each item is high enough to cover the standard cost, labor cost, and fixed costs, while still generating an acceptable profit margin, without driving customers away.

Controlling Revenue

Revenue control is the systematic management of the entire sales process to ensure completeness and accuracy. It begins when the order is taken and ends when the payment is deposited. Revenue is most vulnerable to errors or theft during the order taking and payment processing stages.

Revenue Control using Manual Means

Manual control relies on physical checks and procedures. Key elements include:

1. **Pre-numbered Guest Checks:** Using server notebooks with sequentially numbered checks. Missing numbers must be accounted for, preventing the possibility of a server taking an order, collecting cash, and destroying the check.
2. **Centralized Cashier:** Having a designated person (not the server) handle the cash transaction, creating separation of duties and a system of checks and balances.
3. **Physical Sales Records:** Daily manager sign-off on shift reports and reconciliation of guest checks with sales receipts.

Revenue Control using Computers

Computerized control systems, typically **Point-of-Sale (POS) systems**, offer enhanced security and accuracy. They automatically perform many control functions:

1. **Mandatory Input:** Orders must be rung into the POS before they are sent to the kitchen, automatically recording the sale.
2. **Audit Trails:** The system tracks every transaction, void, and error, linking it to the specific server and time.

3. **Sales Analysis:** Computers quickly generate detailed reports on sales mix, server performance, and revenue comparisons, which are essential for management control and decision-making.

Chapter 6: Beverage Control

Beverage Purchasing-Receiving-Storing – Issuing Control

Control over beverages follows the same cycle as food, but with specific differences due to the nature and value of the product.

- **Purchasing:** Focuses on brand quality, vintage (for wine), and container size. Purchase specifications must be strictly adhered to.
- **Receiving:** Requires checking seals, ensuring bottles are full, and verifying case counts.
- **Storing:** High-value products (like spirits) require extremely tight security (locked cages). Wine storage must maintain specific temperature and humidity levels to protect quality.
- **Issuing:** Use standard sized bottles or dispensing systems. Issues are tracked by the bottle or partial bottle count, often based on a shift-by-shift basis.

Beverage Production Control

Production control ensures that the exact amount of beverage specified in the standard recipe is used for every drink. This prevents over-pouring, which quickly drains profit, and under-pouring, which compromises quality. Key methods include:

1. **Standard Drink Recipes:** Every cocktail must have a precise, written recipe detailing the quantity of each ingredient.
2. **Jigger or Measured Pouring:** Bartenders use measured devices (jiggers) or specialized pour spouts calibrated to dispense a fixed volume (e.g., 1.5 oz).
3. **Inventory/Sales Reconciliation:** Periodically comparing the amount of beverage product used (based on inventory counts) against the number of drinks sold (from the POS system) to detect pouring variations or theft.

Inventory Turnover

Inventory turnover for beverages, especially spirits, is an important control metric. It measures how often the average inventory is sold and replaced during a specific period. A low turnover rate can indicate excessive inventory (tying up capital and taking up storage space), while an extremely high rate might suggest purchasing in inefficiently small quantities.

Inventory Turnover = Cost of Goods Sold/Average Inventory Value

Beverage Sales Control

This is primarily done through the POS system to ensure all drinks are correctly charged. Key considerations are:

1. **Pricing:** Ensuring prices are current, especially for wines and specialty cocktails.
2. **Separation of Duties:** Separating the function of the bartender (producing the drink) from the cashier (collecting the money), where possible.

Guest Checks and Control

Guest checks, whether manual or electronic, are the core document for beverage sales control.

- **Manual Checks:** Must be pre-numbered and accounted for, with all voids or cancellations requiring a manager's signature.
- **Computerized Checks:** The POS check acts as an electronic audit trail. All drinks must be entered on the check before they can be physically issued from the bar, connecting production control directly to sales control.

Chapter 7: Labour Control

Labour Cost Considerations

Labour cost is typically the second largest controllable expense, after food and beverage costs. It includes not just wages but also all associated costs like taxes, benefits, insurance, and paid time off (fringe benefits). Effective labor control requires balancing the need to minimize costs with the necessity of maintaining adequate staffing levels for quality service.

Establishing Performance Standards

Performance standards define the required output or quality level for each employee role. These standards transform abstract goals into measurable targets. Examples include:

- **Time Standards:** The amount of time allowed for a task (e.g., clearing a table in 3 minutes).
- **Quality Standards:** The required level of output (e.g., all dishes must be garnished according to the photo specification).
- **Productivity Standards:** The required ratio of output to labor input (e.g., a server must generate 150 in sales per hour).

SOP (Standard Operating Procedures)

Standard Operating Procedures are detailed, step-by-step instructions for performing routine tasks. They are essential for maintaining consistency, quality, and efficiency across all employees and shifts. SOPs act as a primary tool for labor control by ensuring that all work is performed in the most cost-effective and standardized way. Examples include the SOP for closing the kitchen or handling a customer complaint.

Standard Staffing Requirements

These are calculations that determine the minimum number of employees required to handle a projected volume of business while maintaining service standards. Management uses historical data (like customers served per hour) or engineering studies to establish these

requirements. This allows managers to create efficient work schedules that match labor supply precisely to demand, avoiding over-staffing during slow periods.

Preparing Job Descriptions

A job description is a written statement that clearly defines the duties, responsibilities, required skills, and reporting relationships for a specific position. Well-defined job descriptions are critical for labor control because they:

1. Ensure that employees are hired with the correct competencies.
2. Provide a clear basis for training.
3. Form the benchmark against which performance is measured and monitored.

Training Staff

Training is a crucial preventive control measure. Well-trained staff make fewer errors, work more efficiently, and adhere more closely to standard procedures (SOPs and recipes). This results directly in lower food waste, reduced labor time, and better guest satisfaction. Training must be continuous, covering not only technical skills but also control procedures (e.g., how to properly record a void).

Monitoring Performance

Monitoring is the process of comparing actual employee performance against the established standards and job description requirements. Monitoring tools include:

- **Direct Observation:** Managers actively watching staff in the workplace.
- **POS System Reports:** Analyzing individual server sales, voids, and error rates.
- **Customer Feedback:** Using guest surveys or comment cards.
- **Performance Reviews:** Formal, periodic assessments of an employee's adherence to standards.

Taking Corrective Action to Address Discrepancies between Standards and Performance

When monitoring reveals a negative variance or discrepancy (e.g., a cook consistently over-portioning, or a bartender's waste being too high), corrective action must be taken. The steps typically involve:

1. **Identifying the Cause:** Determining *why* the standard was not met (lack of training, intentional deviation, poor tools, etc.).
2. **Re-training/Coaching:** Addressing skill or knowledge gaps.
3. **Procedure Change:** Adjusting the SOP if the standard is unrealistic.
4. **Disciplinary Action:** Applying appropriate measures for intentional or repeated failure to meet standards. The goal of corrective action is to solve the underlying problem and restore performance to the required standard.