LOWER AND CONTROL OPERATING COSTS

Restaurant Operator Tips to Reduce Operating Costs
and Increase Profit

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CONTENTS

1. AGGRESSIVE PURCHASING TECHNIQUES
2. INVENTORY MANAGEMENT
3. LEARN, MEET AND CONTROL YOUR TARGET FOOD COST
4. COST-SAVING ALTERNATIVES TO THE TRADITIONAL DISTRIBUTOR
5. CHANGING BUYING PATTERNS

When to use a club store versus a distributor
Controlling costs is more important than ever in today’s economy where everyone is being squeezed from every direction. Supply cost increases, coupled with reduced guest counts, are resulting in even tougher economic times for operators. These challenges are even harder for small businesses, especially small restaurants, and their owners who are in charge of managing the bottom line through aggressive purchasing techniques and inventory management.

AGGRESSIVE PURCHASING TECHNIQUES

*Restaurant Startup & Growth*, a magazine dedicated to educating independent operators who are starting, improving and growing their restaurant business, advises operators to base the choice of supplier on pricing, versus the relationships with the representatives. This is especially important given how high commodity costs were in 2009 and what small relief experts see for 2010 is probably temporary. Take a clue from what many of the larger restaurant chains have been doing to combat rising costs through aggressive purchasing habits:

- **Consolidate your purchases:** Ordering and receiving goods takes time and labor. With consolidation there is less time spent ordering from several suppliers and paying and checking invoices. Fewer deliveries mean less time and labor spent on receiving and storing, as well as fewer checks cut.

- **Negotiate costs:** You may be able to negotiate lower markups with a supplier if you give them more of your business.

- **Audit your invoices:** Ask your supplier for an audit on a few regularly ordered items to see that manufacturer cost reductions are being passed on and to be sure that the supplier is in compliance with your contract.

- **Review your volume:** If your volume has risen over time, then that may be a basis for a lower markup.

- **Compare invoices:** Do a cost comparison of a week’s, or four weeks’, purchases from your current supplier and competitors, including warehouse clubs. As noted in Technomic’s August 2009 Distributor Intelligence Report, cost reduction is the main reason independent restaurants and small chains switch from broadliners (food distributors) to warehouse clubs.
• **Leverage buying power:** See if you can leverage your supply partner’s buying power with manufacturers to get deals on your highest-volume products.

• **Switch to similar lower-priced products:** Ask your supplier if there are similar products in stock that match your quality specifications and could reduce your costs.

  (1) For example, substituting a number two avocado for a number one to use for guacamole that is made in kitchen could result in a considerable savings. Trash can liners and disposables are other areas to review that could help the bottom line.

  (2) Stage product cuttings or run tests in your operation to see if different, less-expensive products are a fit. Clubs may not provide cuttings but often will provide a sample at cost, or make it complementary, for comparison purposes if the situation is explained and a request is made.

• **Be diligent about checking yields:** Do product cuttings with your supply partner or on your own to determine the true yield and finished cost of important products.

  (1) A case of low-priced shrimp, for example, may have more broken pieces than a pricier case, proving that the finished cost may work out to be better with the higher-priced product.

  (2) Lettuce is another product that may actually yield a lower food cost by buying a different brand of higher quality.

• **Take advantage of sales tax certificates:** Most states offer sales tax relief on specific items, such as to-go paper products and containers. Ensure that your supplier has a sales tax certificate completed and on file.

Source: *Restaurant Startup & Growth*, August 2009, p. 23

**INVENTORY MANAGEMENT**

In addition to aggressive purchasing techniques, it is just as important to keep track of inventory management because of its direct effect on profit margins. Efficient purchasing and inventory management techniques have the potential to lower costs without sacrificing any quality on your menu or in your portion sizes. The following techniques will help to keep your operation’s inventory list stable and competitive:
• **Customize your order guide** to the way you organize your storeroom for truckload deliveries. If you pick up orders yourself, load them in your vehicle so that the first items out go in the back of the storeroom.

• **Utilize online ordering** so you can place orders when it is most convenient for you. Most suppliers can provide information on out-of-stock items and substitutions at the time the order is submitted.

• **Set par stocks** for all your ingredients and supplies so that they can be easily tracked and not left off of orders. Adjust by season, and order enough to get you *through* the next delivery, not just *up to* the next delivery, as a buffer in case an order is late.

• **Rotate all products:** first in, first out.

• **Use food storage labels** to date perishables and containers of products made at the restaurant.

• Continually look for ways to *improve storage of perishables*. Do a walk-thru of your storage areas with your sales rep or an expert from the supplier to identify areas for improvement.

• **Check catch weights**—this is a system of measuring product quantities, and *open boxes of produce* to check quality. Refuse any product on the spot that does not meet quality specifications. Check against your order guide to be sure everything has been received.

• **Reconcile invoices** against the order guide. Use a different person from the one who received the order to do this chore as a “check and balance” tool.

Source: *Restaurant Startup & Growth*, August 2009, p. 27

**LEARN, MEET AND CONTROL YOUR TARGET FOOD COST**

It is common knowledge that one of the largest, if not *the* largest, cost areas for a restaurant is food cost. While many small-restaurant owners feel they have cut their food costs as much as possible, there are some basic tactics for meeting and controlling target food cost, starting with establishing your own food cost target.
• **Start by costing out your entire menu**—an arduous task but necessary for making intelligent decisions on cost-cutting. Sam’s Club provides menu costing sheets and cost work sheets online.

• **Then calculate your ideal food cost**—cost expected for a given sales mix over a period of time. Multiply the cost times the number of sales for a given period to arrive at an ideal cost per item. Add the ideal cost for all items to arrive at total ideal food cost for the period, but realize that this is an ever-changing target.

• **Compare ideal food cost to actual food cost.** You will need to determine the change in inventory values as well. Total food purchases + beginning inventory – ending inventory = cost of sales. If you have a difference of more than 2 percent, you have a cost control problem.

• **Once you identify the problem, take these steps to correct it:**
  1. **Waste:** Systems should be in place to minimize and record all wasted product, such as meals returned, spoilage and kitchen errors.
  2. **Portion control:** Be sure your staff is sticking to established measurements and not eye-balling portions.
  3. **Receiving problems:** Ensure that all deliveries are visually counted, verified and weighed.
  4. **Theft:** Taking daily inventory discourages and pinpoints theft, as does good point-of-sale controls.
  5. **Unrecorded sales:** Sending orders to a bar or kitchen printer can reduce food costs anywhere from 2 percent to 5 percent. The rule when you have requisition printers is that nothing gets made unless it is run through the register first.
  6. **Accounting errors:** Always double-check the math before jumping to conclusions.
  7. **Take time to look at your menu costs:** Incorrect menu costs can be due to either rising vendor prices or a mistake in your cost calculations.

• Here are some **cost-cutting strategies and menu engineering tips** that can help you lower your target cost without across-the-board price increases.

  (1) “Made from scratch” sounds good on your menu but may not always be profitable. Labor for in-house prep plus cost of ingredients may cost much more
than preportioned or ready-to-serve product. Review everything and see if you can reduce labor costs and produce the same quality using prepared items.

(2) Try experimenting with less-expensive ingredients. If the quality does not suffer, the cost savings can be significant. Remember the avocado?

(3) Do not change the portion size of popular menu items, but offer reduced portion sizes to combat patrons splitting entrees. The price reduction is not as great as the quantity reduction so the margin is higher. And you are selling two entrees instead of one.

Source: *Restaurant Startup & Growth*, May 2009, p. 30

**COST-SAVING ALTERNATIVES TO THE TRADITIONAL DISTRIBUTOR**

Foodservice operators traditionally use distributors as well as cash-and-carry outlets (C&Cs) to provide the inventory of food and nonfood items necessary to run a restaurant. A warehouse club store, however, may provide a viable, convenient and cost-saving alternative.

Distributors may be a restaurant operator’s obvious first choice, but you might want to consider other solutions both for convenience in unexpected ways/areas and cost effectiveness. In this economic climate, it is more important than ever to manage even the smallest operational cost.

According to an August 2009 *Technomic* Distributor Intelligence (DI) survey, distributors say 83 percent of their customers who regularly patronize the club channel do so primarily because of *price*. Additionally, the inability to meet order minimums is now thought by distributors to drive 62 percent of existing street customers to shop at the club channel regularly.

Interestingly, distributors in this survey do not perceive their pricing to be so dramatically above what is found in club stores. Operators who swear by them would beg to differ, and *comparison charts* such as those posted by *Sam’s Club* point out just how striking price differences can be. Of course, the “cost” of time away from the restaurant to shop for and transport foods from club to restaurant should be factored in as well. But for operators like those mentioned above, the
bottom-line savings are more than worth the time and effort. One restaurant owner uses Sam’s Club only for paper goods, dairy products, sugar and flour and saves $100–$150 per week.¹ Are those customers the ones that the distributors reference as the ones they do not necessarily want and cannot afford to service anyway, as has been the industry’s mantra? Perhaps, especially as distributors seek to eliminate operating costs by raising minimums and reducing delivery frequency. The DI survey data shows that independent restaurants (one to three units) are the heaviest regular users of clubs/C&Cs (71 percent), followed by noncommercial operators (42 percent).

Similarly, the heaviest occasional users of club stores and C&Cs are small chains (4 to 10 units), followed by independent restaurants (58 percent) and hotels/motels (50 percent). Distributors note that close to 50 percent of their customers shop at club stores regularly or on occasion, up from 34 percent three years ago. What is more telling is that 60 percent of distributors have noted an increase in the number of customers shopping at club stores during the past year. Even for these occasional shoppers, price is the leading driver, followed by emergency fill-ins, the ability to purchase other products—both personal and business—on the same trip, and no purchase minimums.

Distributors do acknowledge that, particularly in this economy and with clubs/C&Cs aggressively reaching out to draw in a broader base of street accounts—the broadliners’ traditional bread and butter, the competitive threat level from clubs/C&Cs is on the rise. Furthermore, out of those categories, distributors say they compete the most with Sam’s Club (83 percent), who they note is by far the most effective of their competition in dealing with foodservice operators.

**CHANGING BUYING PATTERNS**

Today’s independent-restaurant and small-chain operators are changing their buying patterns due to the economy’s effect on their businesses. Cash is tight and cash flow is very restricted. Orders are smaller and more frequent. “In some cases, the proceeds from lunch business are used to
purchase supplies for that night’s dinner business,” said Tom Kinzer, Sam’s Club Senior Buyer, Foodservice.

Regarding cost and inventory levels, it is good practice to review prime costs on a weekly basis to catch small issues before they become so large that they affect your bottom line. Prime cost usually runs 60 percent to 65 percent of total sales in a full-service restaurant; 55 percent to 60 percent in a quick-service restaurant.

The most profitable restaurants know their food and beverage costs at the end of each week. They also know how many days’ worth of inventory is sitting on the self as of “last night.” It is very common for restaurants to lower their food cost by 2 percent to 4 percent of sales in just a few weeks by calculating food cost and tracking inventory levels every week (Source: Restaurant Startup & Growth, September 2009, p. 28). A four-week accounting period versus a monthly accounting period will provide a better comparison of numbers and easier planning for inventories, plus it complements weekly prime costs reports and may eliminate the need to accrue payroll (Source: Restaurant Startup & Growth, September 2009, p. 31).

When to use a club store versus a distributor
With that knowledge in mind, the following are advantages of using a club/warehouse store versus a traditional distributor:

- More frequent purchases equal smaller inventories, which can provide benefits in the areas of finance, storage and control.
  
  1. Depending on storage capacity, you might choose to have a weekly shopping list. For an operation that depends on having the freshest meats and produce, however, there could be two or three orders per week.
    
    (a) By having small quantities on hand (small inventory):
      
      (i) It is easier to stay on top of costs and track food/beverage/cleaning supply/office supply costs weekly.
      
      (ii) You need less storage.
      
      (iii) There is less chance of cross contamination.
(iv) There is less [chance of] waste due to spoilage.
(v) You are more nimble.

- **Ability to control inventory costs and cash flow**
  
  (1) Buy expensive items such as fresh or frozen meats and seafood, dairy products, beer and wine in the quantities you need (and have room to store). When you are watching your cash flow, the last thing you want is to tie up a chunk of money in inventory.

  (2) Unlike most distributors, Sam’s Club does not require long-term contracts or minimum purchases, which can keep inventory costs lower and help with cash flow. Members can simply buy what they need, when they need it.

- **Time is money.**

  (1) By shopping at a club warehouse, you may be able to round up everything you need at one location, thus reducing mileage and time away from the restaurant.

  (2) The fewer orders to unload, the less time staff has to spend away from regular duties.

  (3) Club stores are convenient for emergency fill-ins, although good records, planning and employee training should reduce the need for those.

  (4) Warehouse clubs that offer online ordering save even more time.

    (a) Sam’s Club has a Click ‘n’ Pull®/Fax ‘n’ Pull® program that is an even greater time saver: place your order online before 5 p.m.; the club pulls it and has it ready for pickup at your convenience the following day. And you can place the order during your down time.

- **Personal relationship with management**

  (1) When dealing with a warehouse club, you can get to know the manager of the seafood or meat department and ask to be notified when there is something special in stock.

- You may have **more flexibility in payment terms.**

  (1) If you are dealing with a warehouse club, you should have a personal relationship with the manager. It’s that personal connection to their members that allows club
stores to understand the challenges of independent restaurant owners and provide a variety of low-cost products and unique services designed especially to help you succeed.

(a) There is the option of “revolving” credit, which could be employed for those occasions when cash is short.

(b) Sam’s Club, for instance, offers business members access to affordable health insurance and other services, such as merchant credit card processing and the value of cash-back rewards with up to 2 percent cash back using the Sam’s Club Discover card.

- **Harness the power of break-even.**
  
  (1) This is a calculation of how much sales a restaurant must have to cover all of its costs for a given period of time; it is a good early warning system if there is a problem (Source: *Restaurant Startup & Growth*, September 2009, p. 32).
  
  (2) Break-even is easier to calculate if using a short period of time.

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1 Sam’s Club Foodservice Essentials Catalog 2009, p. 22