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CONCENTRATING ON EXPENSE LOSS

Expense Loss is the variance between money unsystematically expensed on product, services, or equipment, and the amount expensed using practical methods of spending behavior, being a lessor amount. Expense Loss occurs when behavior is disorganized and money is expensed without regard to the benefits of considering alternatives, along with possible long term repercussions of your decisions.

If you are in any business you are expensing money on equipment, maintenance, repairs, sellable product, food and beverage, fertilizer, chemicals, water, oil, electricity, and other material goods. Expense Loss occurs for many reasons and often because staff, manager, or owner is busy concentrating on building and running the business and the payment of invoices and doing business as usual becomes routine without a thought to other options. Failure to maintain a constant review and evaluation of expenses will always have a negative effect on profits and result in what I coined as, Expense Loss. I have included ten examples of Expense Loss along with solutions in the coming pages. An evaluation of operations helps alert you to the risks to your business solvency by determining areas causing such risk. With a proper assessment the results can provide a program for reducing and minimizing Expense Loss, and offers improved profits going forward. This is achieved without reducing internal service or product quality, and delivers a higher return on both.

While payroll can be a big contributor to Expense Loss I suggest keeping scheduling and the costs associated with this as a separate review process, for reasons that are manifold. Payroll is a fluctuating cost that can produce more profits even when high, and destroy profits even when low. Managing payroll is not like other costs that can be evaluated by reviewing invoices or comparing costs across a sample of goods or proposals, or by changing simple processes. There is much more to payroll costs than just reducing them. Alongside payroll is competency of each individual, the affect change has on product, service, cleanliness, and other factors, and to evaluate payroll costs properly the ability of each individual versus their performance, return benefits, and other factors must also be part of the analysis. Therefore, I always recommend keeping this a separate review process.

People have said the following for as long as I can remember, “Get the customers in the door and expenses take care of themselves”. From my perspective if you are more diligent with your expenses your chances of succeeding greatly improve, however a change in mind set may be necessary for this to occur. Even if you are managing a successful business and you are earning good profits there are always overlooked opportunities, and if you think you have achieved all you can, look again. I have met with business owners telling me they are running a tight ship and at the same moment I am observing a 12 count alcohol pour at their bar, or a plate of served food that has an obvious cost close to or higher than the menu price, or signing an invoice for a product delivery that is out back and not inspected upon arrival. Also look to see if an employee has a higher amount of voids over all other employees, as this may be a red flag. Looking at all operations, food and beverage, pool, golf, tennis, facility management, receiving, repair and maintenance, and the accounting department, there are Expense Loss variances to be improved across all departments.

We all want the best price and quality product when we make purchases, but most locations are not doing everything they can to meet this goal, and certainly not across all departments. Very common responses to my encounters are; not having enough time, not having the knowledge, this is the way we have always done it, or I use the same companies to make my job easier. These are all excuses that will shorten the lifespan of your company.

Try and argue that it does not make any sense to learn new ways of lowering expenses. If you think about it, you could certainly have someone randomly watch over expenses if the results were continually positive. Having a weekly or bi-monthly review should be an acceptable method to consider, and a great way to maintain cost versus results on a long range plan. No one likes to spend money without assurance, although the carelessness that occurs in many business operations is much more devastating than spending money on someone to help you. Having a professional review your business can offer long term results, as long as the evaluation turns up a scenario of positive changes(s) that offer the return of the professional's expenses, and an ongoing additional profit to the business going forward. A solid evaluation will provide a positive result because there are always ways to improve. Additionally, a proper evaluation should be performed by someone not associated directly with the business. Family members helping to run the business are great, but an outsider evaluating operations offers an impartial assessment with an open mind to differences that can be rewarding.

If you could take all of your expenses for the month, every month, and reduce them by three percent across departments, the decision to have someone evaluate your business is made easier. Most businesses achieve this modest result without any difficulty, and I have evidenced much greater results with only a little effort. On $30,000 of purchases per month (product, equipment repairs, and maintenance cost reductions) or procedures that reduce waste (receiving, storage, and inventory) this translates to $10,500/year in additional profits on achieving a 3% difference.

Stop paying for something just because you have been handed an invoice, told an amount, or this is how you learned how to operate. Every dollar that you do not spend on expenses is profits, because if you did not spend it, the money is still in your bank account.

Here are some examples of where Expense Loss can occur, with an example solution on each topic. A short list, but it provides a range of what businesses encounter and some of the reasons why they may have burdening costs or even fail over time. A proper evaluation and training is always the best method for results.

<u>#1 Cause for Equipment Expense Loss</u>
Equipment breaks down and a quick call to the mainstay vendor for repairs to get this off your mind. Not including emergencies, an immediate acceptance on costs, therefore not taking the time to research the part(s) and labor to determine if there is an alternative option. In many cases the invoice for repairs is received one to three months after the work is performed, hindering your recollection of what transpired.

Reducing Equipment Expense Loss

Take the time to evaluate the reasons for the breakdown before you call for repairs, ie: preventative maintenance or staff not keeping equipment clean, obstruction from other equipment or airflow, abuse, review of maintenance vendor performance over time. Review internal training procedures to determine if repair can be performed in house. Check if equipment remains under warrantee. Request signatures and an invoice at the time the repair is made. Initiate an internal and external Repair & Maintenance Log to support repair or replacement decisions, and to document the occurrence.

#2 Cause for Delivery Expense Loss

Deliveries are not properly received, weights not verified, product not opened and checked, and signatures and shorts or variances not provided on receiving invoice, therefore you are unable to determine if you are losing money on the product you purchased, who checked it in, or what was ordered actually arrived. If you are not following effective receiving procedures, you will experience significant Expense Loss.

Reducing Delivery Expense Loss

Have a verifiable receiving procedure on all goods. Open all boxes and containers, count and weigh all products, record all deficiencies directly on the invoice. Maintain a significant communication practice between receiving and accounts payable, and build a reliable set of procedures that communicate damage, shorts, and other variances to reduce and eliminate costly accounts payable processing.

#3 Cause for Food Purchase Expense Loss

Individual cuts of protein are purchased for portion control (steaks, fish, & chicken) and the quoted or purchased price per lb. is used in the menu price calculation creating a miscalculation in the figures.

Reducing Food Purchase Expense Loss

Calculate cuts of protein using individual product cost extensions off invoice divided by number of portions received to achieve actual portion cost. Using quoted price per pound results in an incorrect price per piece assumption because the weights of each portion vary slightly.

#4 Cause for Cooking Yields Expense Loss

Cooking yields are not taken into account when calculating menu costs for items that are cooked in their bulk weights and portioned after cooking. ie: Prime Rib, Roast Sirloin, and Roast Turkey as examples. This is especially true for caterers, and cuts of meat with the fat cover in place, or when the bones are removed.

Reducing Cooking Yields Expense Loss

Dividing uncooked bulk weight into purchase price or using the quoted price per pound delivers a false assumption of cost. Weigh bulk product before and after cooking for recording yields (the yield is the variance between the uncooked weight and the cooked weight) and apply to purchase costs for correct cost analysis. A 20lb Prime Rib can lose 10%-15% or more in its' initial weight during cooking, thus delivering less portions than anticipated if assumed using the full bulk raw weight. Over time an average assumption can be used in forecasting costs.

#5 Cause for Low Menu Price Expense Loss

A menu price on an item is too low because you did not assume all costs, so you are not earning the amount of profit expected. This is not about loss leaders and pricing decided specifically for specials or on purpose, however if you create arbitrary menu pricing the results are always undesirable.

Reducing Low Menu Price Expense Loss

Evaluate all ingredients into the menu mix by weight, yield or portion, and current price. Maintain an ongoing review of pricing fluctuations in ingredient costs and adjust menu costs and prices accordingly. Adjust for substitution of ingredients into menu mix with unavailable product, as this can have negative effects on results if not accounted for.

#6 Cause for High Menu Price Expense Loss

A menu price on an item is too high, or is not selling, and you are experiencing product spoilage.

Reducing High Expense Loss

Evaluate why a product may not be selling to determine price adjustment or removal off menu. Change recipe based on customer requests to revive the item.

#7 Cause for Same Vendor Expense Loss

There is a practice to use the same vendor for a particular product, piece of equipment, chemicals or fertilizer, a service or goods, or due to proprietary reasons, and you do not question their price, or you have never researched market pricing for the product, goods, or service.

Reducing Same Vendor Expense Loss

Initiate procedures for price evaluations on all products, goods, and services from competitive vendors, and associated or like businesses. Evaluate further when the need to purchase a specific product, good, or service from only one vendor due to quality or specialty needs of the item, and/or if available elsewhere ask for price reduction and maintain same vendor relationship. While I support consistency in vendor relationships, the association must be equally beneficial.

#8 Cause for Warrantee Expense Loss

A repair is paid for without realizing there remains a warrantee on the equipment.

Reducing Warrantee Expense Loss

Review internal procedures for tracking the accounting of equipment under warranty. Initiate an internal and external Repair & Maintenance Log. Review and determine why the vendor did not alert you to this information.

#9 Cause for Inventory Expense Loss

Inventory is not immediately stored or kept under lock and key with limitations and accountability on access.

Reducing Inventory Expense Loss

Immediately remedy inventory control issues when product remains at receiving for too long, is not refrigerated, locked up or guarded, and initiate space allocation and the placement of caging and security measures if available. Being carefree about your inventory translates into early spoilage, breakage, theft, improper HACCP, and can violate Health Department Regulations.

#10 Cause for Oil Heating Expense Loss

You purchase heating oil from the same company that services your boiler. This is common, and while most vendors are reliable and honest, this is a red flag. Heating equipment can be adjusted to burn more fuel than necessary, and running but poorly maintained is not good either.

Reducing Oil Heating Expense Loss

Verify nozzle size on oil burners is within manufacturer specs. Have an independent evaluation of your equipment performed to check that nozzles, pumps, pressure and pressure reducing valves, expansion tank, heat exchanger, and all other parts are operating as required. (An outside review allows confidence in a decision to continue using same company for both).

If you are having any similar circumstances, or would like someone to come in and train your team in improved Expense Loss practices, reach out to me. I am in the New York region, but I will travel to your location if you are serious about improving your profits.

Jim Lopolito Hospitality Advisors