

HOSPITALITY OPERATIONS

MEAT ME IN THE RECEIVING DEPARTMENT A TRAINING SESSION IN RECEIVING PROCEDURES AND MENU COST CORRELATIONS



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This session is for many of our foodservice Owners and Managers, and especially startups or businesses that struggle to reach profitability. This is a detailed receiving procedures example and how it influences your menu pricing decisions.

I start by asking; who is watching over your receiving department, and are they trained properly?

There are many processes that must be used in order to achieve profitability in foodservice, and a watchful eye on receiving procedures is crucial to the success of your business. For example, poor accountability in a receiving department directly affects accurate menu pricing, and revenue, especially if the product you receive varies in any way from the product you ordered. In addition, without careful checking you have no verification or accountability. There are many other loss outcomes that occur from poor receiving that can overcome a business and cause failure, but for the purpose of this exercise I wanted to concentrate on one beneficial example of procedures.

If you stand at your receiving department and watch your staff check in product are they taking actions to verify count, weight, and quality, or do they just look at the delivery, sign the vendor invoice, and these are your procedures? I know many will say their receiving department is very competent in checking product upon arrival, and I know this to be true. However, there are the many foodservice owners and managers that do not know, or do not realize what they do not know, about how important proper receiving procedures are to preventing theft, reducing spoilage and waste, improving profits, catching mistakes, and in keeping vendors or their drivers honest.

If you take the time to research your product cost and beat up your purveyors on price, but fail to accurately verify what you ordered, the contradiction is hazardous, and potentially costing you much more than you think you are achieving by just paying attention to the product price upon order. If in fact you do beat up your purveyors on price and do not check product in receiving, this is careless and contributes to invoicing and product received errors, as well as, the potential for a dishonest purveyor that lowers their price but may be making up the difference, or more, in your receiving department. Vendors as a whole are honest; however, checking in your product avoids or catches errors and translates to menu pricing accuracy and other positive revenue benefits. Even if you use a computer program driven inventory accounting system you must have excellent receiving procedures, otherwise you are wasting money on software, data input, and their upkeep costs.

Here are three major steps that will significantly improve your receiving department procedures, and profits:

- 1) Opening each and every container or box, at delivery, and verify quality and count (yes count every lime, lemon, each head of iceberg lettuce, check for spoilage, etc.)
- 2) Checking off each item as received, or returned (circle returns and document a reason. Too often accounting pays the full amount of the invoice when returns or discrepancies are not indicated properly)
- 3) Weighing all proteins with a weight certified scale (all proteins, any product purchased by weight, and even bushels of product for random comparison)

If you are concerned with the cost of the product you receive, the quality and quantity you receive, and the correct calculation of the meal cost on your menu, the following information outlines a set of good skills to follow. Unless you follow strict verification procedures in your receiving department you are fooling yourself that the prices on your menu are providing the revenue you are anticipating. Proper receiving procedures and the correlation to menu costing is only one way to make sure you are achieving better profits; however, in my experience the receiving department is a leading attribute to the success or failure of a foodservice business.

There are many important steps to foodservice procedures, and I am going to take you through a process of three basic stages; 1) ordering a product, 2) checking and verification in receiving, 3) how your accuracy in receiving affects recipe and menu cost calculations.

I will illustrate the potential loss in profits (or what I coined as “Expense Loss”) by food service establishments by following the ordering process through to receiving procedures, and the affect this has on menu cost results when proper procedures are not followed. (There is actually a deeper understanding to the ordering, receiving, and menu costing process I am about to outline, so critics please, I am hovering on one improvement process, and following the steps I outline will significantly improve most businesses) If upon reading this material you agree, implement new procedures right away, or locate a professional to help you with the process. The initial expense far outweighs the long term positive results you can achieve.

There are different ways that you can order proteins, and in this exercise I will cover only one. Thoughtfully applying what is outlined here to other BOH procedures can equally benefit your business though. The following material will cost out a pre-portioned steak for your menu, and outline how poor or non-existing receiving procedures contribute to discrepancies.

I am selecting steak as my example due to the high cost and potential loss value that can occur by having this item on your menu. So to begin, we are going to place an order for steak from the purveyor. The meat we will order is the popular New York Strip Steak, and we will be ordering the way many restaurants now place their orders as pre-portion steaks. These are individuals steaks cut to the weight designated by the restaurant according to a weight and price point you want to achieve. This has become a popular way to place meat orders; a) for portion control, b) it can save the chef time in preparation, c) it avoids having to maintain trained cooks with the experience to butcher meats and the waste careless butchering causes. There are other reasons including shrinkage and having on hand more than you need with bulk purchase, but for our purposes we will not extend beyond our goal of portion control, receiving guidelines, and menu pricing.

For our ordering example, the wholesale price of the Steak will be \$9.50 per pound, serving a 12 oz. New York Strip listed on the menu for \$23.75. I am not including any other influences into this mix, like vegetables, starch, seasoning, or labor. Under normal circumstances each and every item that is part of the recipe mix must be calculated into costing. However, I am simplifying figures to focus on receiving practices and why menus can end up priced improperly.

I am offering a 30% food cost on my \$9.50/lb. pre-portioned 12 oz. steak to reach the \$23.75 menu price. This calculation extends as:

Wholesale purchase price of \$9.50 per lb. divided by 16 oz. equals \$.59 cents per oz. x 12 oz. (size of my portion) equals \$7.12 per steak. When you divide that by an optimistic food cost of 30% you get a \$23.75 menu price. This is one typical method for calculating menu price (not the only one) and as I said this does not account for all the other recipe mix ingredients. I also want to reference we will order 20 portions of 12 oz. steak from our purveyor. We now have the \$9.50 wholesale price per pound, the 12oz. weight of the individual steak, the \$7.12 cost of the portion, the 30% food cost we want to achieve, and we have calculated the menu price as \$23.75 based on a 12 oz. steak at 30% food cost. How are we doing so far?

Actually, the menu price we calculated above is wrong because we did not take into account the actual weight and cost of the pre-portioned steaks. If you caught this mistake, excellent! However, many owners and managers I come into contact with calculate menu pricing using the above example, or something that produces a similar outcome. Many do not take into consideration the actual total extension on the invoice itself, and they use the weights and pricing from the ordering process. If you are not sure what your current practices are, review them right away.

You only have to look at the invoice extension to know where the difference is, but let us follow procedures and go back to the receiving department. We are in receiving and we place all 20 steaks on the scale. The invoice says 20 each 12 oz. NY Strip Steaks extended as 15.5 lbs., and the scale verifies this as 15.5 lbs. (You should recall our 20 each 12 oz. steaks calculated as 15 lbs. in our prior example) Why does our weight have an additional ½ lb.? Many owners and managers do not take into consideration the actual portion size that is received, which in almost all cases, weighs more than the ordered amount. Why does this occur?

If we ordered 20 each 12 ounce individually portioned steaks and we have the price per pound calculated out, why is the final product costing us more? The answer to this question stems from the purveyor providing you, their customer, the size cut (portion) you want without undercutting you. In order to provide you the portion size, or weight, you asked for, the purveyor will generally cut carefully, zero to a few ounces more on each steak than the size you requested. If the alternative occurs the business can accuse the purveyor of undercutting. Trimming and portioning meat to specifications is an art, and even the professional butcher cannot cut every steak to exact ounce portions with every cut. When ordering portion control expect to receive a slightly larger portion than what you ordered.

So the original order of 20 each 12 oz. steaks calculated out equals 15 lbs., and at \$9.50 per lb. calculates to \$142.50. (20 x 12 oz. equals 240 oz. divided by 16 oz. equals 15 lbs. at \$9.50 per lb. or \$142.50)

Now if we return back to our receiving department and price our menu using the actual invoiced amount for the steak the following occurs. Our receiving department verified that we received 15.5 lbs. at \$9.50 per lb. equaling \$147.25. This revised calculation makes each steak 12.4 ounces on average, which can occur, and when extended and divided by 20 steaks equals a cost of \$7.36 per portion, as opposed to \$7.12 each in our prior assumption. With a cost of \$7.36 per portion on the same 30% food cost, the menu price is now \$24.50, or 75 cents higher. This means \$.75 more revenue per sale, or loss if you have not used proper calculations in your assumptions. When extending this out on a six day open scenario at 20 steaks per day the potential loss in revenue equals \$15.00 per day, \$360.00 per month, and \$4,320 per year. This is lost revenue everyone.

Realize that this is only one example of one menu item using one specific menu costing procedure, but consider all the other menu items that could also be miscalculated and how this can affect your success, or your failure. Let me reemphasize that if the product is not weighed at receiving you cannot confirm if the weight on the invoice and the amount you were charged is accurate. If you do not use efficient receiving procedures and only use invoice data in your calculations the results can be catastrophic to your business, and your business can have significant revenue loss, or what I say contributes to this as, Expense Loss.

If you found this exercise informative. Please weigh in.....

Jim Lopolito is an industry consultant and is available for consultation. He is a former Certified Club Manager and Certified Executive Chef, and has over 40 years industry experience.