



MarketMan

The Ultimate Guide to Lowering Food Cost in Your Restaurant

Restaurant Inventory Management Made Easy



If you're like 75% of restaurant operators, food costs are a top challenge in your business. You're constantly struggling to find ways to save money and boost profitability.

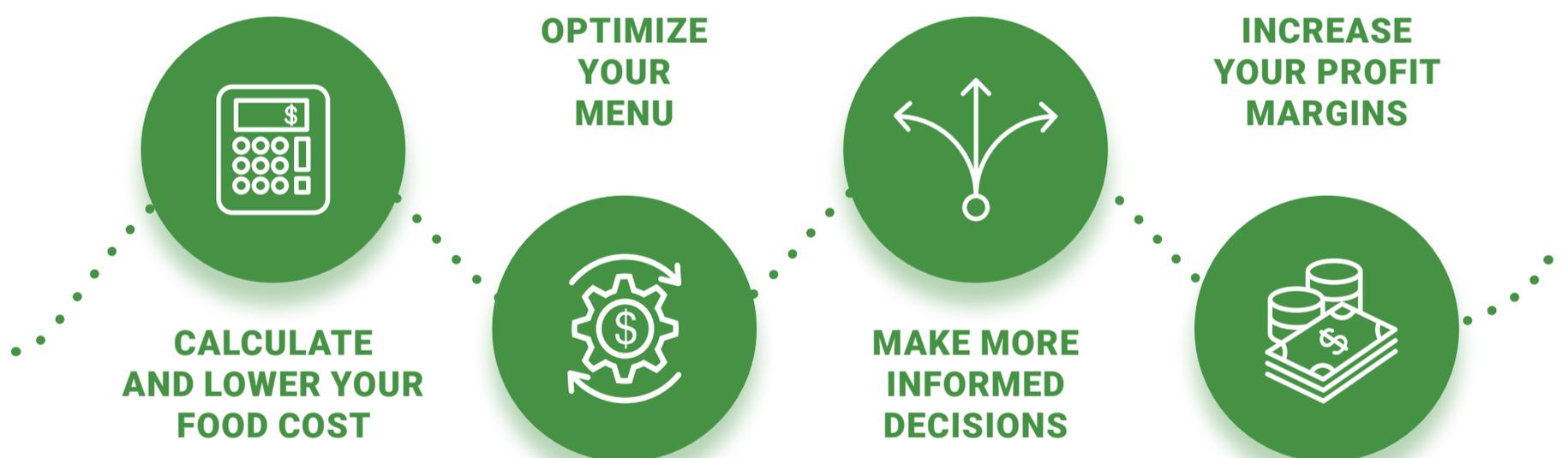
The key? Understanding how to calculate food costs, streamlining inventory, and finding ways to mitigate waste.

**Ready to Increase
Your Restaurant's Profitability?**

Food cost is one of the most important metrics for restaurant managers and owners to track to determine overall profitability. However, for many, it's a tedious and confusing task to calculate overall food costs as well as the cost for individual menu items. If you're not tracking both of these food costs over time, your restaurant's profitability and survival are at risk.

Remember: every expense from the water bill to payroll has to be covered by your revenue, and that revenue comes from your menu. If you're only tracking overall food costs, menu items that are more expensive to prepare may go unnoticed and will eat into your profit margins. Calculating the cost for each ingredient that goes into a menu item can help you identify components that are too expensive as well as help you find ways to improve your food cost percentage.

This guide will help you:



It's important for every restaurant manager to not only understand the importance of food costs but also know how to easily calculate them.

What Should My Food Cost Percentage Be?

Your food cost percentage is the portion of your overall sales that you spend on food and ingredients. Naturally, you want this number to be as low as possible to maximize your restaurant's profit.

The higher your food cost, the more you will struggle to pay for other expenses like overhead, staffing, and marketing.

So what should your food cost percentage be? **The optimal food cost percentage is between 20 and 30%.** As long as you aren't sacrificing quality, use this range as your benchmark for your food cost percentage.





Why Should I Care About Food Cost?

As a restaurant owner or manager, profitability is your #1 priority.

Your menu is the lifeblood of your restaurant. A well-planned menu pays the bills, keeps happy customers coming back, and keeps you in business.

The pricing of your menu items and the cost associated with preparing them determines the amount of money your restaurant generates. The more accurate your food cost calculations are, the better you can understand how to price menu items, or which dishes to leave off the menu, due to them being high-cost.

Conducting a food cost analysis has many benefits:

1. GET MORE CONTROL OVER YOUR RESTAURANT'S PROFITABILITY.

Lowering your food cost percentage allows you to keep more of the revenue coming into your restaurant.

Here's an example:

You sell 100 gourmet burgers a week for \$15 each. Your food cost for the burgers is \$6 (40% food cost percentage).

If you can lower your food cost by 15% (down to \$5.10/burger), you're looking at **an additional \$4,680 in revenue** by the end of the year.

$\$6.00 - \$5.10 =$ **\$0.90 additional profit per burger**

$\$0.90 \times 100$ burgers a week = **\$900**

$\$900$ in extra profit per week $\times 52$ weeks = **\$4,680**

You can see how reducing food costs for all menu items will quickly result in an improvement to your bottom line.





2. MAKE IT EASIER TO PRICE YOUR MENU ITEMS PROPERLY.

Without calculating the exact food cost for each of your menu items, how do you know how much to charge for them so you're making enough profit?

A simple food cost calculation could show you that your Olive Tapenade has an absurd food cost of 60%. With this information, you can decide whether to raise prices accordingly to keep your profit margin, or whether doing so would turn off customers from ordering the item.

Without analyzing your food cost, you'll never know if your prices are allowing you to maximize your profits or if they're eating into your overall profitability.

3. YOU GAIN A BETTER UNDERSTANDING OF YOUR INGREDIENTS.

When you know your food costs, you know how each of your ingredients are affecting your menu profitability. If there's a sudden spike in the cost of pork, for example, you could adjust your menu prices for pork dishes or even temporarily remove them.

Another option is to substitute an expensive menu item with a less expensive option. For example, if the price of a certain spice or ingredient gets too high and makes a dish unprofitable, you can substitute it for a more affordable option while keeping the dish relatively the same.

4. YOU CAN OPTIMIZE YOUR MENU.

How you present your dishes on the menu matters. When a restaurant menu has an item in bold or boxed with a different color, it attracts the customer's attention, and may increase orders of a particular item.

Once you know your food costs, you can highlight profitable menu items to drive sales.

How to Calculate Your Food Cost

To calculate food cost, we will look at two formulas: overall food cost percentage and food cost per menu item.

OVERALL FOOD COST PERCENTAGE

To calculate your overall food cost percentage, examine your weekly inventory and perform the following steps:

1. Compile a list of supplies you receive at the start of the week.
2. List how much you paid for each ingredient.
3. Track all other food purchases made during that week.
4. Repeat inventory at the start of the next week to determine how much of it was used in the previous week.
5. Find the sum of all food sales for the week.

Once you have this information, you can use the equation below to determine your overall food cost percentage:

$$\left(\frac{\text{Starting inventory} + \text{Food Purchases} - \text{Final Inventory}}{\text{Food Sales}} \right) 100 = \text{Overall food cost percentage}$$

To illustrate this point:

$$\left(\frac{\$12,000 + \$3,000 - \$13,000}{\$8,000} \right) 100 = 25\%$$

This percentage falls into the ideal range of 20-30% for food cost. However, even if your food costs are in the preferred range, you should always check to make sure you aren't missing out on any savings opportunities.

FOOD COST PER MENU ITEM

Next, you'll need to analyze each of your dishes and break down their cost by ingredients. You need to account for every ingredient from a pinch of saffron to an 8-ounce slab of Kobe beef to get your food cost per menu item. Diligent inventory tracking is essential in helping you know these costs.

1. Multiply the cost of the ingredient by the number sold during one week.
2. Calculate the total sales per item by multiplying the sale price by the amount sold that week.

Once you have these numbers, you can plug them into this equation:

$$\left(\frac{\text{Total cost per item}}{\text{Total sales per item}} \right) 100 = \text{Food cost per menu item}$$

Let's illustrate this.

Hamburger ingredient cost = \$5.10 per burger

Sales = 100 per week

Dollar sales = \$1,500

\$5.10 per hamburger x 100 sales = \$510 weekly cost

$$\left(\frac{\$510 \text{ weekly cost}}{\$1,500 \text{ total sales}} \right) 100 = 34\%$$

This 34% is a bit outside of the ideal range, so you might want to find a cheaper supplier of buns, cut back on the amount of cheese, or charge extra for bacon. These strategies will reduce the cost and you can recalculate the cost per menu item.

It can be helpful to break down the menu item costs by ingredient to see where your profit is leaking. Here's what a quick food cost calculation for a burger might look like:

Burger Menu Price	\$15.00
6oz beef patty	\$2.19
1 gourmet hamburger bun	\$0.55
3 avocado slices	\$0.70
1 slice of tomato	\$0.30
1 slice of premium provolone cheese	\$1.10
Lettuce	\$0.11
Pickle	\$0.15

Total cost of production **\$5.10**

When avocados are out of season, they're cutting into your profitability. Your options are:

<p>Charge more during peak season (temporary menu increase isn't ideal)</p>	<p>Reduce the number of slices</p>	<p>Charge as an add-on</p>
---	------------------------------------	----------------------------

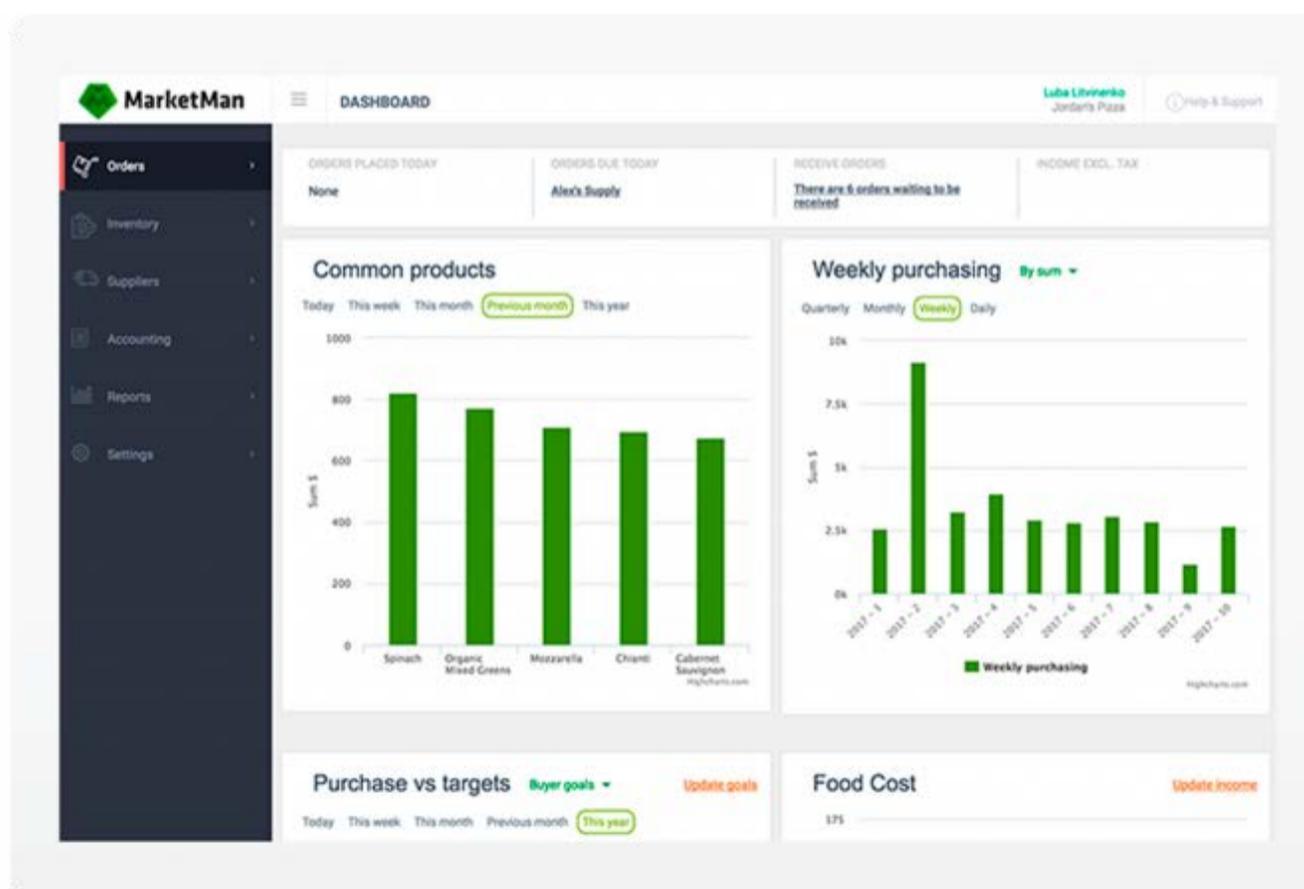
Additionally, you might find a cheaper supplier of cheese that could cut your cost down. You could also raise the menu price, but the question is: will customers pay more than \$15 for it?

Without knowing your food costs, you can't begin to make these kinds of money-saving decisions, much less know if the menu item is profitable or not.

To get a complete, accurate picture of food costs at your restaurant, you'll have to do this calculation for ALL of the items on your menu. That includes appetizers, main courses, a side of rice, beverages — everything. It takes a lot of work, but it's the only way to truly optimize your menu for profitability.

And speaking of accuracy, it's extremely important that you have your recipe ingredients drilled down to **exact** quantities for the calculation. Even being slightly off will skew your calculations. A well-trained kitchen staff knows how to measure ingredients precisely to not only ensure consistency in flavor but also to manage food costs.

Now that you know how to calculate food cost, it's time to dive into the ways you can effectively lower food costs at your restaurant.



Lower Your Food Costs and Increase Your Profitability

Before you can begin lowering food costs, you first need to identify where any problems may exist. For example, you need to determine if food costs are high due to waste, spoilage, theft, etc. Once you know where the problems are, you can address the issue. Here are a few ways to to lower your food costs and bring more money into your restaurant:

1. IMPLEMENT RIGID KITCHEN PRACTICES.



You created and analyzed each of your recipes with a specific quantity of ingredients in mind, both to create certain flavor results and to stay within budget for that menu item. Without food scales and established kitchen practices, you can't know if your line cooks are using the correct amount of each ingredient in your dishes. If your kitchen staff hasn't been trained to measure ingredients accurately, then the portion sizes of your meals won't be consistent, skewing both the taste and the cost of the dish. A cook that uses an extra ounce of sauce per pasta dish will increase your food cost percentage and cut into your profits. **Require your staff to use a kitchen scale for every dish they prepare, and train them from the start about reducing waste.**

2. KEEP AN EYE ON WASTE.



Another thing you can do is keep an eye on plates as they come back to the kitchen. If customers request to-go boxes on a regular basis or leave a significant portion of food on their plates, you have a food cost savings opportunity on your hands. If people are consistently taking home some of your shepherd's pie, you can cut back on the portion size and reduce your food cost in the process.

3. IMPROVE INVENTORY TRACKING.



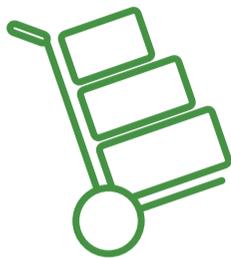
Inventory tracking is essential to the success of any restaurant. You should always know how much your ingredients are costing you and track the amount of ingredients you're using to serve your customers. If you have too much inventory on hand, you'll be hurting your bottom line by losing food to spoilage. If you have too little inventory, you might have to tell a regular customer that you're out of her favorite dish, which can degrade customer loyalty to your restaurant.

By tracking your inventory consistently, you'll be able to hone in on exact numbers and optimize your supplier orders. **On average, [4-10% of the inventory restaurants purchase doesn't end up being sold to customers.](#)** That's a significant amount of money. Minimizing wasted inventory is one of the easiest ways to improve your food costs and increase your profitability.

In addition, inventory tracking is the only way to determine the profitability of your menu items. You need to have accurate and up-to-date data that breaks down each of your menu items in real-time. Prices change all the time, and each one will affect your bottom line. If your overall food cost percentage is within acceptable limits but your revenue isn't reflecting this fact, you may have problem ingredients on your hands. This is why calculating the food cost percentage per each menu item is critical. It can reveal meals that aren't turning enough of a profit.

Inventory tracking can also help identify instances of theft. If the starting and ending inventory don't align with ingredient purchases and meals sold, you know you may have a theft issue. While minor discrepancies may be the result of a waste issue, any significant variances are worth investigating.

4. NEGOTIATE WITH YOUR SUPPLIERS.



Negotiating prices with your suppliers can do wonders for your profit margin. Ask yourself a few questions:

Are there any ingredients that I can buy in bulk to bring down the price?

Can I purchase more items from one supplier to get a bulk discount?

Can I get a discount for signing on to a long-term contract?

Have I researched market prices for my inventory items and found the best deal?

There's often plenty of wiggle room in supplier negotiations. The more ingredients you're purchasing, the more willing a supplier will be to accommodate your request.

5. OPTIMIZE YOUR MENU.



Once you've done all your food costing and learned what your most (and least) profitable menu items are, you can start to play around with menu optimization.

Restaurant menu items can be broken into four categories:



Stars Extremely popular dishes with high profitability



Plowhorses Popular dishes with low profitability



Puzzles Dishes that only appeal to few people, yet are highly profitable



Dogs Unpopular dishes with low profitability

The categories you should focus on the most are the Plowhorses and Puzzles. These offer you the greatest opportunity to improve your restaurant profitability. Meanwhile, the Stars are doing great and the Dogs should probably be removed from the menu entirely.

For the Plowhorses, you need to focus on lowering food cost. Is there a key ingredient that you can buy in bulk to lower the cost? Can you decrease the portion size? Is raising the menu price a realistic option? Is there an expensive ingredient in the dish that you can substitute with one that's more cost-effective? Keep in mind that you can apply these questions to of all your menu items, though **Plowhorses offer the greatest profit potential.**

For the Puzzles, you've already got profitability down. Now, you just have to make them sell. There are a number of psychological tricks you can use to entice your customers with certain menu items.

A proven sales method is to emphasize the items you want to sell more of. You can use bold type or draw a box around your Puzzle dishes.

**Today's Special
Chicken Fried Steak with Salad**

See how it catches your eye on the page?

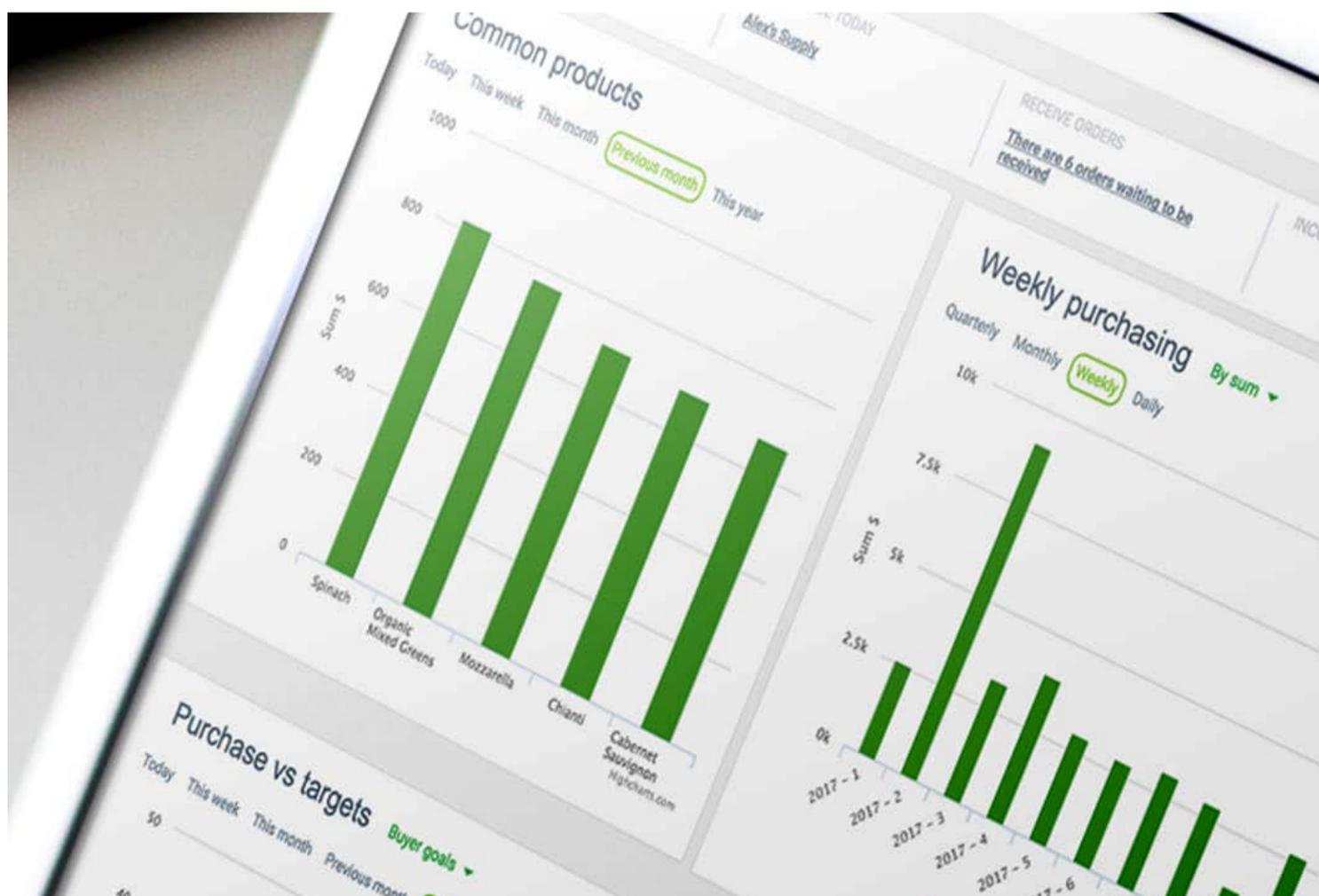
Something else to consider is to dress up the description of your Puzzle dishes. For example, consider renaming your *Pasta with Vegetables* to *Venetian Pasta Primavera*. It sounds more exotic and is more likely to capture a customer's interest. Don't be afraid to be colorful with your menu presentation.

Having Measurable Goals Keeps You In Line

Food costs are the foundation of your restaurant's success. Knowing your food cost percentage can help you build up your restaurant in a more calculated way and ensure that it remains profitable. However, your restaurant's success depends on how well you control your food costs.

Before you implement any of these suggestions, establish goals for what you're trying to achieve. Are you looking to reduce food cost percentage by 5%? That's a goal you can measure against as you try different strategies.

Implementing changes to reduce food costs is a great start, but **these efforts are worthless without measuring the results.**

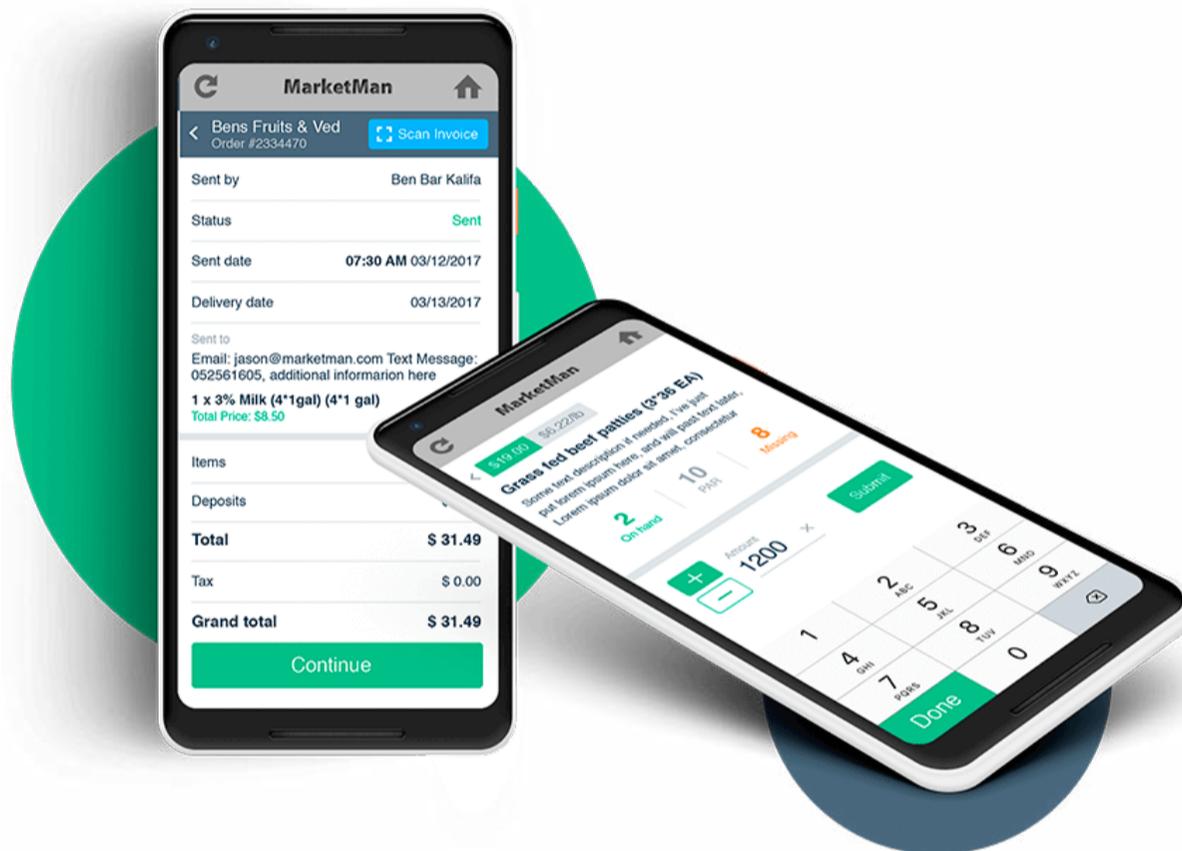


For example, if you determine that you're spending too much on a pricey ingredient and decide to swap it for a more standard version, you will need to measure both the expense and how it affects revenue. If the switch saves you money on the inventory end but tanks sales, it is likely not worth it and you may need to look to other areas to improve your margins. You could consider increasing the price for the meal to account for the more expensive ingredients. If customers continue to purchase the meal at the same frequency despite the price increase, then you know you found your solution.

When you make changes, allow some time before measuring and assessing results. If you increase the price of a popular but expensive-to-produce menu item, there may be a small dip in sales at first. However, if the dish is popular enough, sales will likely return to baseline so long as the price increase was not too drastic (i.e. \$1.50 vs \$5.00).

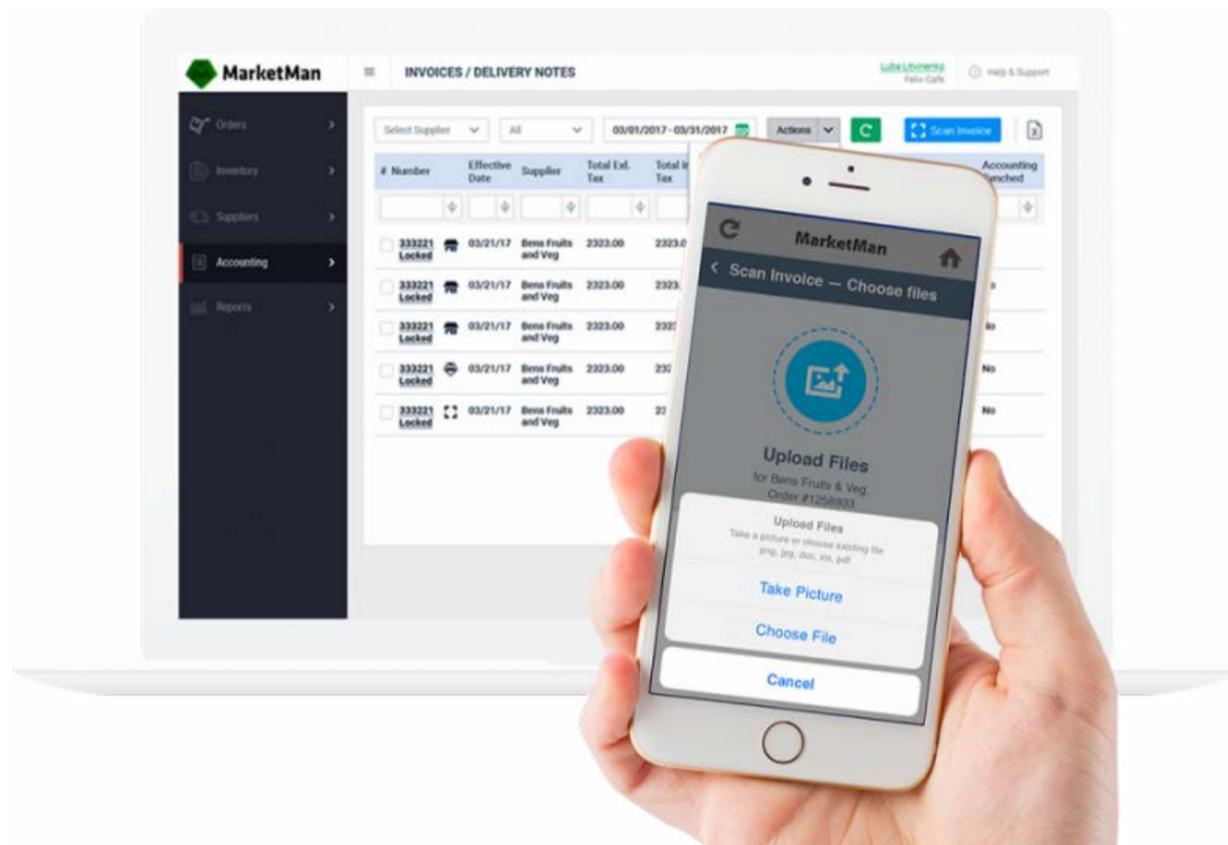
When measuring goals, compare sales from one month prior to the change to one month after the switch. This should provide enough data to make a decision on whether the change is helping you meet your goals.

Make Your Life Easy With MarketMan



Tracking your food cost and performing these calculations can be enormously time-consuming – not to mention an organizational nightmare. Storing and interpreting receipts, spreadsheets, and various paperwork is enough to make any restaurant manager's head spin. Luckily, it's a headache you don't need to have.

MarketMan is a cloud-based inventory management system designed to help restaurants manage their inventory, accurately track food costs, and increase profitability across the board.



On average, restaurants are saving 5% on their food costs by working with MarketMan. What could you do with 5% more profitability?

With MarketMan, you'll always know where your money is going in real-time. You can input all of your recipes for dynamic recipe costing, track ingredient prices, set alerts when menu items become unprofitable, and always know the status of your inventory.

MarketMan gives you all the tools you need to accurately calculate your food costs without any of the hassle. Paper receipts and spreadsheets are cumbersome things of the past. MarketMan's powerful software will give you complete control and a 360 view of your restaurant's inventory from its sophisticated platform.

Save time, boost profitability, and make your back-of-the-house operations a breeze with MarketMan as your partner.

**GET A
FREE DEMO
TODAY!**