

CONTROLLING COSTS THROUGH PRODUCT SELECTION

Determination of Products to be Used in Your Program

The menu is the fundamental determinant of product requirements. However, there should always be flexibility in the menu to enable you to take advantage of factors such as seasonality, product donations, special purchase opportunities, etc. Once the menu has been determined, then products should be selected that best fit the requirements of the menu.

For example, if a menu item is spaghetti with meat sauce, then canned whole tomatoes would be a poor item to use for the tomatoes in the meat sauce as they are costly and would need to be chopped or mashed. It would be much better to purchase canned crushed or diced tomatoes for this sauce. Or, another type of tomato product, tomato paste (though more expensive per can) would be a better choice than tomato sauce for your spaghetti sauce as the only difference between the two is the amount of water in the can. Less tomato paste would be used to prepare the same product as water from the kitchen faucet would be added to the product to achieve the consistency of tomato sauce. For another example, if chicken and dumplings was being prepared, purchasing whole fresh chickens, stewing them, then taking the meat off the bones and chopping the meat to add to the dumplings might seem to be less costly than purchasing cooked chicken meat already cut into cubes or chunks. However, the cost of the fuel to stew the chickens and the labor cost to pick the meat off the bones must be considered. Unless the labor was "free", it is likely that purchasing fresh whole chickens is not the most cost effective decision that you could make regarding which chicken product to purchase for your chicken and dumplings.

You want to purchase the product that is the best "fit" for the menu item being prepared and the most cost effective form of that product relative to your program's type of foodservice operation.

When selecting which product is the best option among comparable products, you must always consider the comparative yield for your purpose. To make such comparison, you need to periodically conduct yield tests and calculate the actual costs for the amount of the usable product which you are able to get from an item.

For example, ground beef that is 95% lean and costs \$2.50 per pound may give you a cooked yield of 14 ounces per pound (87.5% usable and a usable cost of \$0.18 per ounce [\$2.50/14 ounces]) while ground beef that is 80% lean and costs \$1.95 per pound may give you a cooked yield of 10 ounces per pound (62.5% usable and a usable cost of \$0.195 per ounce [\$1.95/10 ounces]). Since ground beef is only served cooked, no matter what product is being prepared, based on the yield test data here, the 95% lean beef is the most cost effective ground beef to purchase. The 95% lean ground beef would actually cost you \$2.40 less per USABLE, COOKED pound than the apparently less expensive 80% lean ground beef.

Another example might be canned green beans. Only the green beans in a can are actually served; the liquid in which they are packed is waste unless it can be used in other

products, such as a soup. So, a comparison must be made of the amount of green beans and the amount of liquid in the cans of comparable quality products. As with the ground beef, if 25% of the can weight of brand A (cost per can of \$2.00) is the packing liquid (water) and if 10% of the comparative brand B (cost per can of \$3.00) is liquid (water), then the actual cost of the servable beans from one can of brand A is \$2.67 [$\$2.00/75\%$ yield] and the actual cost for brand B is \$3.33 [$\$3.00/90\%$ yield] Here, because the cost differential in the actual purchase price per can is so substantial, the can with only a 75% usable product yield is still the most cost effective brand to purchase.

You should periodically conduct yield tests on most products - especially meats, canned fruits and vegetables, and fresh produce -- before making decisions as to which products to purchase for your menu items.

Generally, you want to select products that best fit the equipment and space available to you for both production and service (congregate meals) or for both production and transport (home delivered meals).

For example, if you do not have a kitchen with the capacity to do "from scratch" production and want to serve spaghetti and meat sauce, you may need to purchase canned "ready-to-use" meat sauce that can just be poured over pre-cooked pasta and heated for service or you may need to purchase frozen completely prepared spaghetti and meat sauce which you only reheat for service. You would not have any use for raw ground beef or the other ingredients that you would use to prepare the meat sauce for your spaghetti "from scratch". As another example, if you had very limited refrigerator space for produce, you may need to purchase produce that is prewashed, precut, and ready to use to save on storage space requirements.

Your product requirements must reflect your production capabilities and your storage facilities, i.e. the type of foodservice system in your operation.

PROGRAM SELF-EVALUATION:

1. Examine the items that are currently being purchased for use in your program. Is there another form of some of these products that would better fit the menu items being prepared (save in labor or utilities, result in a better quality product, etc.) Would the alternative form actually be cheaper for you (i.e. using non-fat dry milk instead of fresh low fat milk when preparing menu items).

2. Is there an item that you are currently purchasing in more than one form, i.e. are you purchasing both sliced and diced peaches? Could only one form of the item be used in your program; thus, reducing the number of items needed in inventory?

3. Have you conducted yield tests on key items, especially meats, canned goods, and produce, to determine which products to purchase from which vendors? If not, why not? Can you do so now for key products and, if necessary, make a change in the items you are purchasing?

4. Are you making the best possible use of your production and storage facilities with the items you are currently using for your menu production?

Acquisition of Needed Products and Services

The time and effort invested to achieve the best menu planning and determination of the best possible products to purchase may be wasted if proper purchasing procedures are not developed and consistently implemented. Effective management of costs through purchasing does not "just happen", but is the result of closely monitoring all facets of the purchasing process.

Effective purchasing entails several steps. The steps to be completed prior to making any purchases include the following:

1. Determine method of purchasing to be used for the types of products to be purchased
 - A. Cooperative purchasing arrangement with other programs
 - B. Prime vendor contract
 - C. Bid purchasing
 - D. Use of daily/weekly price quotations
 - E. Perpetual or Periodic
2. Prepare specifications for all products to be purchased
3. Distribute specifications to potential suppliers
4. Determine which products will be purchased using the perpetual inventory approach and which will be purchased on a periodic basis -- or if all products will be purchased on a periodic basis
5. Solicit bids or price quotations
6. Determine which suppliers will be used by your program for the different categories of products to be purchased (i.e. produce, meat, canned goods, cleaning supplies etc.).

Bear in mind that while careful control of the purchasing process is very important for effective cost management, the proper receiving of products is just as important as following the proper purchasing process. If your program does not receive the products (and the quality

of products) that are ordered and paid for, then all the care taken to purchase properly is not effective in managing your costs. Many foodservice operations fail to carefully monitoring the receiving of their purchased products. Suppliers will quickly note how carefully you monitor your receiving and will soon "off-load" poorer quality products, make product substitutions, and/or not deliver the amounts charged for on the invoice to operations which are lax in their receiving.

The steps to be followed to purchase and receive items with effective control include the following:

1. Determine product needs and the quantity of each product needed
2. Have the responsibility for doing the purchasing for your program assigned to one person who is trained in foodservice purchasing practices and procedures. Have that person prepare purchase order(s) for needed items at the appropriate order times and submit the purchase order(s) to the selected vendor(s)
3. Make copies of all purchase orders for whomever will be receiving the purchased items.
4. Have a person(s) designated as your receiving personnel, and have all receiving done by this(these) person(s).
5. Make sure that all necessary receiving equipment is available in the receiving area when items are delivered. Such equipment would include an accurately calibrated scale, a thermometer for checking product temperatures, a writing area, a file for purchase orders and other related documents, and other small items, such as marking pens.
6. Have your receiving person check all items being delivered against the listing on the invoice and on the purchase order (including checking the prices on the invoice to be sure they match the prices on the purchase order) to be sure that the items delivered are what was actually ordered and the prices being charged are the prices that were quoted by the supplier.
7. Have your receiving person check the weights of items (especially meat, poultry, and fish) and the temperature of items (especially frozen and refrigerated items), as may be appropriate for the items ordered.
8. When all items have been carefully checked and they are a match to the purchase order and if the invoice is correct, then your receiving person should sign the invoice, giving a copy to the delivery person and submitting the original to your program's accounting office.

9. If the products and/or the prices do not match the purchase order or if there is an error on the invoice, then your receiving person must secure an adjustment to the invoice prior to signing the invoice. That adjustment might be through the delivery person issuing a credit memo, making a correction on the invoice and initialing the correction, or some other method which makes it clear to both the supplier and your program accounting personnel that an adjustment has been made to the invoice. Once that adjustment has been made, then your receiving person should sign the invoice.

10. Move all products to the proper storage area as soon as possible when the receiving process is completed.

Bear in mind that when your receive person signs the invoice for delivered products, your program owns the products that were delivered, as they were delivered, and your program is legally responsible for paying the stated amount on the invoice. Therefore, it is ESSENTIAL for your receiving person to take great care when receiving products and take the time to do a thorough inspection of all delivered products.

Both the purchasing and receiving processes are critical components of effective cost control. Neither process will be as effective as it should be without the other.

Cost effective purchasing and receiving provides you with the quality of products you desire in the quantity that you desire when and where you want it

--

OR, put another way, you have the right amount of the right product at the right place at the right time.

The purchase of many items, which might include your entire meal service system, is often done through contracting. Contracting for products or services entails steps which parallel the general purchasing process. To contract effectively, the following steps apply.

1. Develop detailed specifications for the exact products or services for which you wish to contract (purchase via a contract). The time period for which you want the contract to be effective should be indicated in the specifications.

2. Submit your specifications to all possible suppliers whom you have researched and believe may qualify as a contractor for the desired products or services. Solicit bids from all of these possible suppliers. Requiring suppliers to submit their bids as sealed bids is recommended as bids from one supplier should not be available to another supplier prior to the bid opening. Do not just send your specifications

to one or maybe two suppliers as, by following such a practice, you limit your options and may not receive the best possible products or services at the best possible prices.

3. Set a deadline for receipt of the bids; open all received bids and evaluate them relative to your specifications.
4. Depending on the products or services desired, it is quite possible that no one bid will meet all of your requirements. Thus, you will likely need to do contract negotiations with the most promising supplier until you and the supplier can reach an agreement acceptable to both of you.
5. Once an agreement has been reached, prepare and sign the contract and begin working with the contracted supplier.

Contracting can be a cost effective approach to the acquisition of products and services when the process incorporates careful preparation of specifications, and the bidding process is carried out carefully and thoroughly.

PROGRAM SELF-EVALUATION:

1. Do you have someone designated as the person responsible for your program's purchasing? If so, has that person been trained how to purchase correctly?
2. Do you have one or more persons designated as the person(s) to receive products when they are delivered to your program? If so, has that(those) person(s) been trained how to receive products correctly?
3. Do you have standard procedures developed and implemented for your program's purchase and receiving activities? Do the persons carrying out these functions for your program know what these procedures are?
4. How carefully and consistently are persons in your program following standard purchasing and receiving practices? How do you know if they are doing so? If they are not following standard practices, why not?
5. Do you have specifications for all products that are purchased by your program? If so, are your suppliers aware of your specifications? If not, why not?
6. Are received products periodically checked against the specifications to be sure that suppliers are meeting your specifications?

7. Do you have temperature standards for frozen and refrigerated products and reject products that do not meet these standards? Are these standards posted in your receiving area? If not, why not since the safety of the food items served to your clients may be compromised here?

8. Are there properly calibrated scales and thermometers available for the use of your receiving personnel? If so, are they being used correctly to check product deliveries? If not, why not?

9. If you have contracts for any products or services that you purchase, were these contracts established on the basis of a competitive bidding process? Did you have more than one or two suppliers bid on the contract(s)?

10. Are you selecting all your suppliers on the basis of a competitive bidding process or on the basis of competitive price quotations? If not, how are you selecting your suppliers -- because they are "handy" locally? or because they are "friends" of your program? or because of some other similar reason?