National Center for ition Leadership The | Nutri

Effective Cost Management for Today's Economy – Part I

September 14, 2010

We will start at 2:30 PM. Please mute your phones #6

Presenter



Audrey McCool

Moderator



Magda Hageman-Apol

EFFECTIVE COST MANAGEMENT FOR TODAY'S ECONOMY

Webinar Series Part I: The Control Process & The Purchasing Process

Audrey C. McCool, EdD, RD, LD

AGENDA

- Foodservice System
- Effective Cost Management
- The Control Process
- Product Selection
- Calculating Costs of Usable Yield
- Yield Test Procedures
- Cost Effective Products
- Purchasing Process Objective
- Purchasing Process
- Product Specifications
- More on the Purchasing Process
- Summary
- Question and Answer Discussion

FOODSERVICE SYSTEM

INPUTS (PROGRAM FACILITIES, MENU, FOOD PRODUCTS, LABOR)

PROCESSING (FOOD PRODUCTION, STORAGE, PACKAGING, DELIVERY)

OUTPUTS (QUALITY MEALS THAT ARE SAFE FOR CLIENTS TO EAT)

Effective Cost Management

- Managing costs effectively means <u>OPTIMIZING</u> costs relative to the revenue anticipated for your program.
- It does NOT mean your costs are reduced to the minimum possible

The Control Process

- Set Standards
- > Implement Standards
- Collect Operational Data
- > Identify Variances
- > Determine Variance Significance
- > Investigate Causes of Significant Variances
- > Determine Appropriate Remedial Action
- > Implement Remedial Action
- Collect New Operational Data
- > Repeat Above Steps





Effective Cost Control Effective cost control is achieved through the development and consistent implementation of an effective control process throughout the entire foodservice system

7

Saving \$\$ Through Product Selection

- Can a product be used for multiple menu items?
- > What form of a product is best?
 - > Production equipment available??
 - > Labor available (amount & skill level)?
 - Costs of alternatives??
- > What is the yield from product alternatives?
 - > Yield tests can cuttings









Match Products To Your System

Your product requirements <u>MUST</u> reflect your production capabilities and your storage facilities, i.e. the type of foodservice system in your operation.

Calculating Cost - Usable Yield

- > AP Cost = unit price paid to vendor
- > EP Cost = Cost of usable (servable) yield.
- > AP Weight (volume) = weight (volume) purchased from vendor
- > EP Weight(volume) = Usable weight (volume)
- > Yield % = EP weight (volume)/AP weight (volume)
- > EP Cost = AP cost/Yield %

Calculating Cost - Usable Yield

Examples:

1. Case of iceberg lettuce = 25 lbs AP; Trim = 5 lbs; usable lettuce = 20 lbs; 20 lbs/25 lbs = 80% yield

Lettuce cost = \$30.00 AP; so cost of 20 lbs usable lettuce = \$30.00/.8 = \$37.50 or \$1.87/lb or \$0.117/oz



A salad using 2 oz of lettuce would have an ingredient cost of \$0.234 per portion.

2. #10 Can of cream corn = 7 lbs & has an AP cost of \$4.00

Cream corn is 100% usable from the can, but there is some production loss during heating and portioning – about 3%. So the EP cost/can = \$4.00/.97 = \$4.12 for 6.75 pounds of corn or \$0.61 per pound or \$0.038 per ounce or, if a 3 oz portion is served, \$0.114 per portion



Calculating Cost - Usable Yield

Examples:

3. 25lb bag of dry rice costs \$20.00 AP, or 1 lb costs \$0.80 AP Rice absorbs water in a 3:1 ratio when cooked; therefore 1 lb AP dry rice = 3 lb EP cooked rice. Yield = 3/1 = 300% EP cost = \$0.80/3.0 = \$0.267 or \$0.017 per oz . If 3 oz of rice are served/portion, then the EP portion cost = \$0.051



4. Ground beef A costs \$2.95/lb AP – cooked yield = 85%; so EP cost/lb = \$2.95/.85 = \$3.47/lb.



Ground beef B cost \$2.65/lb AP – cooked yield = 82%; so EP cost/lb = \$2.65/.82 = <u>\$3.23/lb</u>.

Ground beef C cost \$3.10/lb AP – cooked yield = 94%; so EP cost/lb = \$3.10/.94 = <u>\$3.30/lb</u>.

Your choice for ground beef should be B, unless there were service problems with the vendor – then C would also be acceptable.

Yield Tests

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.

Yield Test Procedures

- Weigh (or measure volume) AP product as accurately as possible
- Prepare item to servable form (drain canned items, trim/cut produce, trim/cut/cook meat – as appropriate)
- Weigh (or measure volume) servable (EP) product as accurately as possible
- Divide EP weight (volume)/AP weight (volume) to calculate yield %
- Divide AP product cost by yield% to calculate EP product cost

Cost Effective Products For Your Program

Purchase the products that are the best "fit" for the menu items being prepared and the most cost effective form of that product relative to your overall menu and your program's type of foodservice operation.

PURCHASING OBJECTIVE **TO OBTAIN:** THE RIGHT QUALITY IN THE RIGHT QUANTITY **AT THE RIGHT TIME AT THE RIGHT PRICE** FROM THE RIGHT SUPPLIER

Purchasing Products

Purchasing Alternatives

- Cooperative Purchasing
- Prime Vendor MOW Program
- Local Suppliers
- Bid Purchasing
- Daily/Weekly Quotations
- Contracting

Consider the advantages (possible cost savings) and disadvantages (possible program costs) for all possible alternatives for your program

- A specification may be defined as a ready reference to the standards by which you measure the foods you specify for purchase and inspect upon delivery."
- Specifications are a communication tool between you and your suppliers
- For more information on specifications, you can access the following web site:

http://nutritionandaging.fiu.edu/creative_solutions/bid_specs.asp

- > Are essential for product quality and consistency
- > Are needed for all items purchased
- Can be developed specifically for your program or can be "borrowed" from various reference resources such as:
 - Meat Buyer's Guide
 - > USDA grading standards
 - Federal product standards



- Product suppliers such as the produce industry or canned foods packers
- Multiple references for food product specifications are available on the Internet.

Sample Specification



Beef U.S. Grade Good or Better not to exceed 25 percent fat, 2.67 ounce patty, six patties per pound, no soy, meat by-products, binders, or extenders. Meat shall be free of bone.

BEEF PATTY

Meets Institutional Meat Purchase Specification <u>#1136.</u>

Sample Specification

APPLESAUCE

Quality: GRADE A

Style/Variety: REGULAR OR CHUNKY

Count Size: 6 / #10

Condition: CANNED

Description: LIGHT GOLDEN IN COLOR; FREE FROM PARTICLES OR SEEDS.

LIGHTLY SWEETENED.







Sample Specification

BANANAS





Quality: No. 1 Style/Variety: PETITE - 5/6" LONG Count Size: 150

Condition: FRESH



Description: PLUMP, FIRM, BRIGHT COLORED FRUIT, FREE FROM SCARS AND BRUISES. FRUIT SHOULD BE SOLID YELLOW

Sample Specification

BROCCOLI

Quality: GRADE A

Style/Variety: CHOPPED, SPEARS

Count Size:

Condition: FROZEN



Description: TENDER AND FREE FROM TOUGH FIBER, BRIGHT GREEN COLOR TYPICAL FOR YOUNG, TENDER BROCCOLI.

Sample Specification Form

Sample form that could be used for writing product specifications:
Product Name:
Quality:
Style/Variety:
Packing Medium:
Count Size:
Condition:
Description:

Purchasing Process

Prior to actually purchasing, or ordering, products:

- Distribute copies of your specifications to all potential suppliers
- > Obtain bid prices or price quotations for products
- Determine which suppliers will be used by your program for the different categories of products to be purchased (meats, poultry, fish, produce, canned goods, cleaning products, paper products, condiments, etc.)

Purchasing Process

When ready to purchase products:



- Determine what products are needed and the quantity needed for each of the products
 Perpetual ordering system
 - > Periodic ordering system
- > Prepare one or several purchase orders (PO's) for needed products
- > Retain copies of PO's for your files; submit the original to the selected supplier
- File a copy of the PO's near the receiving area in the kitchen so it is available for reference when the order is received.

summary



TO OPTIMIZE COST MANAGEMENT -

- Standards are essential for all aspects of a program's foodservice operations
- Cost analyses and efforts to control costs should focus on variable costs which are controllable in the short run at the program level.
- Analyses should be conducted on a regular basis. When significant variances are noted, appropriate action should be taken.



summary

Applying the control process to the purchase of foods:

- Match products to your system
- Select the best form of the product for your system and your menu
- Compare costs of product alternatives consider the actual product yield
- Have clearly defined product specifications
- Choose the best purchasing method and the best suppliers for you

QUESTIONS????

If you have any questions specific to your program and want to follow-up this Webinar with a discussion of your question - you are welcome to contact Dr. McCool.

> Audrey C. McCool, EdD, RD, LD Email: <u>audrey.mccool@unlv.edu</u> Phone: 806-698-6956