

COST CONTROL

Control & the accurate assessment of the cost of food commonly referred to as “the food cost” has always been a critical aspect of the Food & Beverage Management. As with most manufacturing industries the cost of raw material is of prime consideration while calculating the cost of food & controlling them.

In order to know how to control the ‘cost’ one has to understand what is cost & how it is calculated. Only then one can be able to exercise control on them. Control does not mean frugality, but optimum usage of resources.

Elements of Food Costing:

In order to calculate the cost of food one has to calculate the following heads:

Cost of raw materials - This involves the cost of all the raw materials & the ingredients needed to make the food & also involves the cost of carrying the items from the market to the hotel (carriage inwards).

Labor cost - The second most significant head of food costing is the labor cost / payroll cost. One has to calculate the cost of all the employees involved in the operation.

Overhead cost - Apart from raw material & labor cost one has to calculate the over head cost of the institutions. It might include the following:

- ☞ Interest on borrowing.
- ☞ Maintenance cost.
- ☞ Disposables.
- ☞ Laundry.
- ☞ Energy.
- ☞ Insurance.
- ☞ License fees.
- ☞ Professional fees.
- ☞ Taxes.
- ☞ Advertising & Promotion.
- ☞ Transport.
- ☞ Etc.

Nature of costs: Costs can be classified into many ways. The most significant of them are Fixed cost and Variable cost.

Fixed Cost - It is those cost which do not move in response to a change in sales volume. If sales increase or decrease. Fixed costs are Unaffected e.g. Property Tax, Rates.

Variable Cost - It is those cost which move in direct proportion to the sales. If the sale is double the variable cost will also be double e.g. Raw Material Purchase Cost, Laundry.

Semi Fixed Cost - There are certain costs which are neither fixed nor variable to the extreme. They are partly fixed, partly variable in nature. E.g. Payroll is a semi-fixed / semi variable cost. If the foot fall of the guest decreases the need of casual staff will decrease. But the pay roll of the permanent staff will remain fixed. While making the roster, the management will reduce the working hours of the casual staff.

CONTROL

In the language of management ‘control’ means whatever should happen does happen..... Control means that evaluating the performance, and if necessary applying corrective measures so that the performance takes place according to the plans.

ADVANTAGES OF CONTROL

An effective control system is important because the manager must know how the operation is performing - whether , to what extent, is it meeting it’s goals.

Control procedures can help managers to

- ☞ Determine whether the delegated tasks are carried out correctly.
- ☞ Assess the effect of changes required by the economy, market, and reaction to competition.
- ☞ Identify problems early so that they can be resolved sooner than they become bigger problems.
- ☞ Determine where the problem is occurring.
- ☞ Identify mistakes & take corrective actions.

THE PROCESS OF CONTROLLING: The control process follows a series of basic steps.

ESTABLISH STANDARDS

The first process in the control process is the establishment of standard. Standards are the planned on expected results of the operations and are always expressed as a level of performance. Most operations establish standards for each of the key services or products they provide. This the most difficult part of the system. In commercial food & beverage establishment control procedures for the food ,beverage&labour are based on determining allowable amounts of expenses to be incurred in generating the expected amounts of revenue. Standards are often expressed in terms of percentage of the revenue they generate. For example if the standard of food cost is set for 31%, this means of all food revenue generated, 31% will be required to buy the food necessary to generate the revenue.

MEASURE ACTUAL RESULTS

Once the standards has been established, management must develop procedure to collect and assess actual operating information. For example, if the standard food cost is 31%, how close to this goal is the actual food cost. Information about the actual operating performance must be:

- ☞ Easy and simple to collect.
- ☞ Collected in a manner consistent with the procedure and formats used to establish standards.
- ☞ Actual information generated for control purpose should be compatible with the formats used in accounting system.
- ☞ Information should be collected for each fiscal period.
- ☞ Checks and controls should be part of control system itself i.e. A person responsible for attaining standard should not be allowed to collect actual information alone.

COMPARE ACTUAL TO STANDARD

After collecting the actual operating information the next step in the control process is to compare the actual operating standards with the standards that have been established for the operation. This operation measures how well actual performance meets the standard. It's important that comparisons are made:

- ☞ Frequently.
- ☞ Routinely.
- ☞ During different time frames i.e. Monthly, yearly etc.
- ☞ As soon as possible.

Comparison must be analyzed by the top management responsible for attaining cost goals.

TAKE CORRECTIVE ACTION

If the variance between the actual and the variance is significant, it's time to take corrective action. For example, if the standard food cost was calculated at 31% then a corrective action should be taken if the actual food cost is above 32%. But taking corrective action dose not mean that every time the food cost will be the same. At times it is obvious that the food cost has increased due to some forces which are not in the hand of management. In that case one has to change the standard itself or think of changing the entire operating procedure.

EVALUATE CORRECTIVE ACTIONS

Taking corrective action is not the end of the process. One has to evaluate very critically whether the corrective actions has been successful in controlling the forces that increases the variance between the establish standards and the actual. A person should remember the following tips while evaluating the outcome:

- ☞ Evaluation should be done as soon as possible but also to be taken care of that at times the evaluation done too early might not give a proper view whether the corrective action was fruitful or not. So timing of the evaluation is very important.
- ☞ Evaluation should be objective and rational.
- ☞ If evaluation refers to other problems or faulty corrective measures, reconsider corrective measures and start a fresh again.

CONSIDERATIONS IN DESIGNING CONTROL SYSTEM

While considering an effective control system, one has to consider the following points while framing them. To ensure that management's time spent in the control function there are several factors that should be considered in the design of control system.

- ☞ **Accuracy** - A good control system should be able to measure the variance accurately. Hence proper system should be developed which gives the most accurate evaluation of the operations.
- ☞ **Timeliness** - Control system should be done as a time specific assignment. A control system should operate

which in a time frame. It may be done daily, weekly, monthly or yearly depending upon the nature of the operation. For example, controls of KOT's are done daily while the cost control of the restaurant might be done on a weekly or monthly basis.

☞ **Objectivity** - The objectivity of any management is to develop the best control system possible within the limited resources available to them. This does not mean that only the manager should take the initiative, but it might involve all the staffs that falls under the system so that they can formulate the best system from the ideas and experience of those who actually will be performing it.

☞ **Consistency** - There should be consistency in the procedure of evaluating the operational results in a standard way. For example if the standard menu cost has taken into account the cost of keeping the food in warmer before it is being served to the guest, then the same factor should also be considered while evaluating the actual food cost of the food prepared.

☞ **Priority** - Priority should be given to the control systems of those operations that is more important than the others. For example cost control of food cost and revenue should be developed before the controls of supply.

☞ **Cost** - A good control system will be of no use if the cost of control process is incurring Rs.10,000/-, while the amount saved by the control is Rs.9,000/-. In that case it will be a wastage of money and time for the management.

☞ **Realism** - One has to be honest about whether the control system is practically possible to execute. A junior staff can not be responsible of the controlling process rather than a senior staff. Also one should think of material reward to those staffs who are achieving the targets and motivates those who can not.

☞ **Appropriateness** - Management should also consider that the control system that they are applying are not affecting the flow of work. One has to see that one has to formulate such control procedures that creates minimum hindrance to the flow of work.

☞ **Flexibility** - Control system are bound to changes and modifications with the changing of time. Objectives and management goals change with the change of time and environment.

☞ **Specificity** - A good control system should address the problem in a specific way. For example there is a big difference between a control system saying that 'the labor intake was more' and 'kitchen steward requirement during the lunch is 15% more than normal requirement'.

☞ **Acceptability** - The control system should be understood and accepted by the staff. They are the people after all who are going to execute the system in a fruitful way.

THE OPERATING CONTROL CYCLE

An operating control cycle divides food and beverage operations into a series of activities involved in providing food and beverage products to the guests. Systems must be designed to manage the flow of food and beverage products through each of the following stages of cycle.

1. **MENU PLANNING** - Every control process starts with the planning of the menu. The most important tool of menu planning is to prepare a standard food recipe and determining the standard yield.

* **Standard Food Recipe** - Standard recipe is a formula for producing a food or beverage item. It provides a summary of ingredients, the required quantity of each, specific preparation procedure, portion size and portioning equipment, garnish and any other information necessary to prepare the item. The primary advantage of the product will always look, cost and taste the same. The standard recipe provides consistency in operations which is the prime objective of control.

* **Standard Yield** - The term yield means the nett weight or volume of food item after it has been processed and made ready for sale to the guest. The difference between the raw or 'as purchased' (AP) weight and the prepared or 'edible portion' (EP) weight is termed as production loss. The loss can occur in any or all of the following steps of operations:

- A) Preparation which includes activities like meat trimming and vegetable cleaning.
- B) Cooking.
- C) Portioning of such items which has not been pre-portioned.

2. **PURCHASING** - Purchasing is the series of activities designed to obtain products of the right quality and quantity at the right price and time from the right source. The process of purchasing starts from the Chef of the kitchen or the Bar-tender. They give a formal requisition slip to the stores mentioning the name of the item, quantity etc. The stores sees whether they have them in the stock or not. If the stock is not there they issue a purchase requisition to the purchase department. The purchase then give a formal purchase order to the proper supplier. The supplier then supplies the goods as per the specifications. The items are checked at random basis and then accepted and recorded for accounting.

Control department later checks all the above mentioned record to tally that there are no discrepancies in the purchasing. Besides they also checks that the purchase is made as per Economic Order Quantity(EOQ) label. It is also to be checked that the purchase order is according to the standard recipe needs and requirements. Generally a

LEMON GRASS

Standard Recipe

Recipe No:
 Recipe Name:
 No. Of Portions:
 Portion Size:

UNIT	INGREDIENTS	DATE		DATE		DATE	
		UNIT PRICE	AMOUNT	UNIT PRICE	AMOUNT	UNIT PRICE	AMOUNT
TOTAL COST							
UNIT COST							

Preparation & Service:-

standard purchase specification is needed to provide detailed information about

- | | |
|--|--|
| <ul style="list-style-type: none"> * The Product. * Product code number. * Standard quality. * Quantity. * Size. * Varieties available. * Method of storage. * Minimum ordering level. | <ul style="list-style-type: none"> * Approximate price per serving. * Date of compiling the standard. * Checking procedures. * Weight. * Brand name. * Shelf life. * Usage. * Lead time. |
|--|--|

3. **RECEIVING** - Once the goods are purchased it is expected that it will take some time for the goods to receive. When the goods are delivered by the supplier they are received only after proper checking of the standards as par the standard purchase specification. Branded items may not need such checking, but un-branded and perishables are recommended to be checked regularly by qualified persons. Following things are to be checked before accepting the delivery invoice of the supplier.

- * Check incoming products against the order placed.
- * Check incoming products against standard purchase specifications.
- * Check incoming products against delivery invoices.

If the goods received are to be returned, issue a request for Credit Memo or Good Returned Note.

4. **STORING** - Storing of food items and others is not an easy job because of it's perishable nature hence a proper method and control system has to be formulated for them. The main objective of storing is

- * Keeping products secure from theft.
- * Retaining product quality.
- * Providing information necessary for the financial accounting.

One also has to determine the inventory control policy depending upon the nature of items. It is easier to store non-perishable goods that is rice, refined flour, spices etc., but storing perishable items like milk, poultry, fish etc. has to be stored properly at right temperature in refrigeration.

Following are the steps to be taken in order to maintain a strict control on the items at a regular basis-

- * Food items has to be stored properly. Proper refrigeration of perishable items should be done at right temperature to retain the quality of the items.
- * Bin card of each item should be maintained.
- * Physical inventory of the items has to be done at regular intervals.
- * Proper key control has to be maintained to restrict the entry into the store.
- * Meat tags are to be used in case of storing meat items. The meat tag should contain the day of receiving the item, the date before which it should be used and the items to be prepared from it. A strict control of meat tag is done by maintaining a register.

* A bar par (minimum level of stock in bar) is generally established in maintaining stock at bar cellars. Whenever the bar stock level falls below the par the item is requisitioned to replenish it.

