

# FOOD COST

**Definition** - The price of goods used up, sold or consumed and service rendered. Items are said to be consumed even when they are wasted, stolen or discarded, as happens frequently in hotel industry. This is because they are no longer available for the purpose for which they are purchased. For example, the cost of a piece of meat is incurred, when the price is no longer available for the purpose for which it was purchased, because it has been cooked, served or thrown away because it has spoiled or even because it has been stolen.

## Components or Elements of Cost:-

In every food service industry there are basically 3 types of costs involved -

- A) **Cost of material** - This includes raw food and other ingredients that make up a dish, meal and is commonly referred to as food cost or prime cost.
- B) **Cost of employee** - This cost include the salaries of staff and the value of all benefits provided to them, such as meals, housing, insurance, bonus, pension etc. It is generally referred to as labor or payroll cost.
- C) **Overhead cost** - This includes all such cost which cannot be directly identified with food products or selling cost such as taxes, transport, insurance etc.

## Behavior or Nature of Costs:-

The manner in which costs respond to change in the volume of sales is referred as the behavior of cost. They are as follows-

- A) **Fixed Cost** - These costs remain virtually unaffected by changes in the volume of business of establishment. Since these costs are paid generally on an annual basis, they remain unchanged over an accounting period.
- B) **Variable Cost** - These costs are directly related to the volume of the business. As business volume increase, variable cost increase; as volume decrease, variable costs should decrease as well. In practice however, it may be noted that actual variable costs tends to decrease as the volume increase, because food purchasing in bulk can reduce costs and labor too become more productive with greater time utilization.
- C) **Semi Fixed Cost** - It is a cost which is neither fixed or variable to the extreme. It includes cost of fuel, cleaning materials etc., and change in the output but meet in direct proportion. It is common experience that if more meals are prepared and served, the gas or other fuel used to cook them will increase, but not as much as the increase in the output.

## Factors Responsible for LOSSES:-

- 1. Lack of proper supervision at the point of receiving food from supplier -**
  - i) Improper weights of commodities.
  - ii) Improper weighing equipment.
  - iii) Variable quality of foods received.
  - iv) Pilferage of delivery point.
  - v) Inaccurate ordering.
- 2. Inefficient menu planning -**
  - i) Menu are planned without the use of standard yield recipes.
  - ii) Portion numbers for each dish on the menu are improperly forecasted.
  - iii) An item is used for a dish for which it was not meant.
  - iv) There is no flexibility in menu plans, it incorporates left over foods.
  - v) There is an imbalance of high and low price dishes on the menu.
- 3. Kitchen production -**
  - i) Poor peeling or trimming.
  - ii) Using improper cooking method.

## Cost Control

It is a process by which managers attempt to direct, regulate and restrain the actions of people in order to achieve goals. In an ongoing process and in values every step in the chain of purchasing, receiving, storing, issuing and preparing F& B for sale as well as training and scheduling the personnel involved. The two basic principal causes of exercise cost are inefficiency and wastage.

### **Objective:-**

- A) **To reduce the wastage.**
- B) **To increase the efficiency of the staff.**
- C) **To increase the profit.**
- D) **To increase the productivity.**
- E) **To minimize the cost.**

### **Control Process:-**

1. ***Establish standards and standard procedures for operation*** - It is the first process in the central process. Most operation establish standards for each of the key services or procedure they provide. This is the most difficult part of the system. It is often expressed in terms of the percentage of the revenue they generate.

In this step standards of everything is set up such as the standard fixed cost, standard portion, quality, quantity etc. After establishing up the standards for everything, then the standard procedure for operations are planned, i.e how they are going to achieve the pre-determined standards. For obtaining this, a standard procedure is made and make to practice this in entire hotel to achieve above set-up standards.

2. ***Train all individuals to follow established standards and procedures*** - This is the second step in the control process. It include the training of staff. In this step the staff are trained to follow the standard procedure to obtain the pre-determined standards. They are trained how to achieve the standards. Different training programs are held to train the staff.

3. ***Monitor performance and compare actual performance with established standards*** - This is one of the major step and one of the crucial step in the control process. In this step the staff work are monitored. They see that, whether, they have attend their pre-determined standard. If they are not then the causes are found out. They find what is the major cause for which it is not achieving the established standards. Comparison must be analyzed by the top management responsible for attaining cost goals. It is important that comparisons are made frequently, routinely. It measures how well actual performance meets the standard checks and control should be part of control system i.e a person responsible for attaining standard should not be allowed to collect actual information alone.

4. ***Take appropriate action to correct deviation from standard*** - If there is variance between the actual and standards then it is time to take corrective action. For example if the standard food cost is 32% and actual measure is 33% then corrective action have to be taken in order to bring the food cost near about 32%. But this doesn't mean that the food cost has to be same all the time. At times it is obvious that the food cost has increased due to some forces, which are not in the hand of the management. In that case one has to change the standard itself or think of changing the entire operating procedure.

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 has either increased or decreased the variance between the standard and actual.

### **General methods of controlling food cost:-**

- A) Ordering perishable foods in quantities for immediate use in preparation & service.
- B) Ordering semi or non-perishable items in quantities which can be turned over fast enough to prevent spoilage.
- C) Close supervision and regular checks at strategic points in the catering cycle.
- D) Using modular equipment for storage, preparation and service so that portions are not lost in transferring food from one piece of equipment to another.
- E) Portioning in the kitchen and recording the number of portion before sending them for service and then recording the numbers that are returned to the kitchen.
- F) Offering incentive scheme to staff for achieving sales target at established gross profit margins.
- G) Forecasting the quantities of each menu items that will sell so that excess left over are avoided.
- H) Using standardized simple recipes from which portion can be clearly identified.
- I) Substituting low cost ingredients for those which are very expensive, out of stock or rarely used.
- J) Maintaining control amount to enable periodic assessment of profitability and efficiency.

Such assessment help to pinpoint area at variance with expected results so that corrective action can taken in time.

### **Break Even and Contribution:-**

Establishment whose sales are big just cover their variable and fixed costs are said to break even. There is a thin dividing line between profit break even point and cost about 1% between profit and loss. Every establishment therefore plans for some projects to avoid loss. Break even point in terms of cover may be calculated by using this formulae:

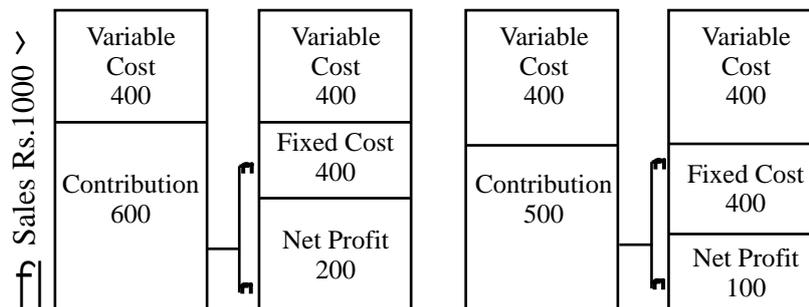
#### **In terms of quantity**

$$\text{Break even point (BEP)} = \frac{\text{Fixed cost}}{\text{Average spending power (ASP) - Variable cost per cover}}$$

## In terms of volume of sales

$$\text{Break even point (BEP)} = \frac{\text{Fixed cost} \times \text{Selling price}}{\text{Selling price} - \text{Variable cost per unit}}$$

Contribution therefore are % of sales depends on the cost of structure of the business, such as



The important factors which can be read from break even chart.

1. The extent to which the production of unit must increase in order to start making a profit.
2. The profit which can be earned at alternate level of activity due to change in prices resulting from inflationary trends, reduce supply or expansion activities organization.

## YIELD MANAGEMENT

We know that in a food production establishment there is a considerable weight loss on the final food product that we obtained after several steps of purchasing. So there is a difference in weight in the food products a purchased & the final product obtained from it. The weight loss due to the following reason.

- A) Peeling or wastage.
- B) Trimming.
- C) Cooking.

Definition: the amount of the final product that remain after the processing & preparation technique performed as required with as purchased products within an establishment is called the yield.

### ADVANTAGE OF STANDARDIZED YIELD:

- A) They reduce labour costs in valued in the time consuming process of performing yield tests & will give result that are approximately accurate.
- B) These resources generally use yield percentage & weight to volume equipments which help to make decision about how much raw food to buy.
- C) The weight to volume equivalents is very helpful when converting a recipe from purchased y weight but often used by volume.

### DISADVANTAGES:

- 1) Standardized yields can not allow establishments compare prices & quality making it more different to determine to perform from.
- 2) Standardized yield are not an accurate an in house calculation. They are based on average that may or may not apply to a specific vendor.
- 3) Standardized yield do not take into consideration standard purchase specification for specific establishment.

### YIELD PERCENTAGE:

It is the percentage of a whole purchase unit that is unavailable for portioning after any requirement in house processing has been completed.

$$\text{Yield Percentage} = \frac{\text{Portion Weight} \times 100}{\text{Original Weight}}$$

One determines yield percentage can be used in a number of quantity calculation.

$$\text{Quantity} = \frac{\text{Number of Portions} \times \text{Portion Size}}{\text{Yield Percentage}}$$

### **THE FLOW DIAGRAM:**

- ? As purchased or original weight.
- ? Processing & preparation techniques (peeling, trimming etc).
- ? Edible portion.
- ? Cooking loss.
- ? Weight of final product or yield.

In some cases while preparing vegetable dishes in most cases we lose weight because we have to de-skin the vegetables & sometime by cutting them so as to get the desired shape. But for the meat & the fish cookery the weight is lost due to many reasons like trimmings, de-boning, de-skinning & of course due to cooking.

We can find out yield of each & every step that is involved before we get the final product.

**TRIMMING YIELD:** All the excess fat or unusable meat or the fins or gills of fish that has to be trimmed.

$$\text{Trimming Yield\%} = \frac{\text{Weight of fully trimmed joint}}{\text{Weight of untrimmed joint}} \times 100$$

**BONING YIELD:** Sometimes the bones of fish & meat are being removed for making desired dish. They may be fully deboned or partially deboned.

$$\text{Boning Yield\%} = \frac{\text{Boneless weight}}{\text{Weight with bone}} \times 100$$

**DESKINNING YIELD:** While we deskin the product like fish & vegetables the yield obtained can be given as,

$$\text{De-skin Yield\%} = \frac{\text{Weight after de-skinning}}{\text{Weight with skin}} \times 100$$

**COOKING YIELD:** All the food product will shrink in weight due to cooking as they are subjected to lots of physical & chemical changes & also loss of moisture. But the food which are made in moist method of cooking, there the subjective weight loss will be less as compared to other method of cooking.

$$\text{Cooking Yield\%} = \frac{\text{Weight after Cooking}}{\text{Weight edible portion}} \times 100$$

### **YIELD GRADE.**

Not all of the live weight of a beef animal or lamb becomes edible meat, & not all of the meat obtained from a carcass in high priced steaks or chops. The yields of differences result from differences in the amount of fat & muscles among carcasses. Yield grade is the term used in the beef & lamb markets to define the amount of usable meats obtained from a carcass.

Many establishments want to save money by purchasing large quantities of meat. For these consumers, United States department of agriculture (USDA) yield grades offer many advantages. Those who buy only retail cuts need not be concerned with yield grades, since they apply only to carcasses & wholesale cuts.

### **WHAT ARE THE YIELD GRADES?**

The USDA yield grades are rated numerically & are 1,2,3,4 & 5. A yield grade denotes the highest yielding carcass & yield grade 5, the lowest. According to USDA, all quantity graded beef or lamb carcasses must also be yield graded.

Thus we can conclude that obtaining the yield is very essential for deciding the portion size of a particular dish.