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13 WAYS
to optimize
FOOD COSTS
at your restaurant

Lowering food costs is more important than ever

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You have to spend money to make money, as the saying goes. That's especially true for restaurants which purchase a wide variety of fresh and non-perishable ingredients before a paying customer even walks in the door.

But what if you could spend less money on food and make the same amount ... or even more?

Food costs represent a huge portion — up to 40% — of a restaurant's typical monthly operating costs. Controlling expenses is essential to running a successful restaurant and even more so in the wake of the COVID-19 crisis.

Better managing food costs does not necessarily mean sacrificing quality, portions, or consistency. You don't want customers to leave unsatisfied or feeling like they overpaid.

Instead, you can optimize food costs by evaluating your inventory, calculating precise plate costs, tracking ingredient price fluctuations, and cleverly negotiating with vendors. Set up processes to track and trim food waste, digitally manage inventory, and be efficient in the back-of-house to truly take control of your costs.

This e-book reveals 13 ways to lower food costs to thrive in the new realities of our post-COVID world.

Food costs represent **up to 40%** of a restaurant's typical monthly operating costs. The next highest is labor at **30%**.[1]

Wholesale food prices have **increased more than 25%** in the past five years, so keeping an eye on fluctuations is crucial.[2]

Approximately **4% to 10%** of food purchased by restaurants is wasted before reaching the consumer.[3]

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ANALYTICS REDUCE FOOD COSTS

1. Know your numbers

Food costs are the combined price of all the food you are serving. Remember, that number does not include other big drivers like labor, beverages, paper/plastic products, and cleaning supplies.

To calculate food costs, take inventory at the beginning of the period (let's call that Beginning Inventory), then add items purchased during that period (Purchased Inventory). Subtract what's left at the end of the period (Ending Inventory). The resulting figure not only includes food served but also waste, spoilage, and shrinkage/theft. You can determine food cost percentage by dividing your food cost by your total sales and multiplying that by 100.

Benchmark food cost percentages average between 28% and 30% — with full-service restaurants at the lower end and quick service dining at the higher end.[4]

(Beginning inventory + purchases)

– ending inventory = Food cost

If September's beginning inventory is $10,000, purchases are $3,000, and the ending inventory is $6,000, then the total food cost in that period is $7,000.

($10,000 + $3,000) – $6,000 = $7,000

Food cost/total sales x 100

= Food cost percentage

Calculate food cost as a percentage of total sales. Here is the same example assuming total sales for the period is $25,000:

$7,000/$25,000 x 100 = 28%

ANALYTICS REDUCE FOOD COSTS

2. Analyze costs fluctuations

Food prices can fluctuate dramatically over time and sometimes overnight.

A 2018 strike in Mexico drove avocado prices sky high, leading many restaurant operators to temporarily remove guacamole and other avocado-based recipes from their menus. Major global events may call attention to shortages or supply chain issues, but it's the unseen changes that catch restaurants and their profit margins off-guard.

Analyzing cost fluctuations manually takes a keen eye (or maybe glasses?), good data, and a serious time commitment. Thankfully, today's digital restaurant management systems track costs accurately, automatically, and in real time, allowing you to be alerted and take action when prices change.

WHY FOOD COSTS FLUCTUATE:

- Seasonality and trends
- Supply chain problems
- Vendor pricing changes
- Weather
- Labor strikes
- Natural disasters
- Fuel price increases
- Pandemics

TAKE ACTION

- If costs increase too drastically, **remove an item from your menu** or offer it seasonally.

- Analyze food costs by vendor to **discover how prices trend** over time. Determine if it's time to negotiate or make a vendor change.

- Are different restaurant locations paying different prices for the same items? **Catch those discrepancies and negotiate with vendors** to match lower price points.

3. Evaluate plate costs on an ongoing basis

Knowing exactly how much a dish costs to prepare can be the difference between a profitable product mix and a failing restaurant.

Down-to-the-penny analysis helps you determine whether an item is making sufficient profit to warrant a place on your menu. Calculating plate costs on an ongoing basis helps monitor price changes (and may show that the shrimp ceviche that was profitable in June became a money loser by February).

DON'T SUBJECT YOURSELF TO MANUAL PLATE COSTING

It's critical that you know **what goes into calculating your plate costs**, but manual calculations are a tedious process that does a disservice to all involved.

It's time to digitize and automate your plate costing process so that you can spend more time training staff, working the pass, or simply getting away for a while.

xtraCHEF is designed for exactly that. Let us handle the calculations so that you can get back to what got you into this business in the first place.

$17.00 Menu Price	8.47% Gross Margin	$ 15.56 Food Cost 100%	$ 0.00 Labor Cost 0.00%	$ 15.56 Prime Cost Per Serving: $ 15.56 / each

Cost as of 07/01/2020

Details | Ingredients | Labor | Tools | Allergens | Preparation & Procedures

Manage >

Ingredient	Measurement		Yield	Cost	
Tortilla Group	3	each	100.00%	$ 0.60 3.86%	
Chicken, Breast Group	4	oz	100.00%	$ 0.96 6.17%	
Onion, Scallions Group	.15	Bunch	100.00%	$ 0.17 1.09%	
Cilantro Group	1	oz	100.00%	$ 0.81 5.21%	
Tortilla chips PrepRecipe	4	oz	100.00%	$ 0.48 3.08%	
Guacamole PrepRecipe	3	oz	100.00%	$ 12.54 80.59%	

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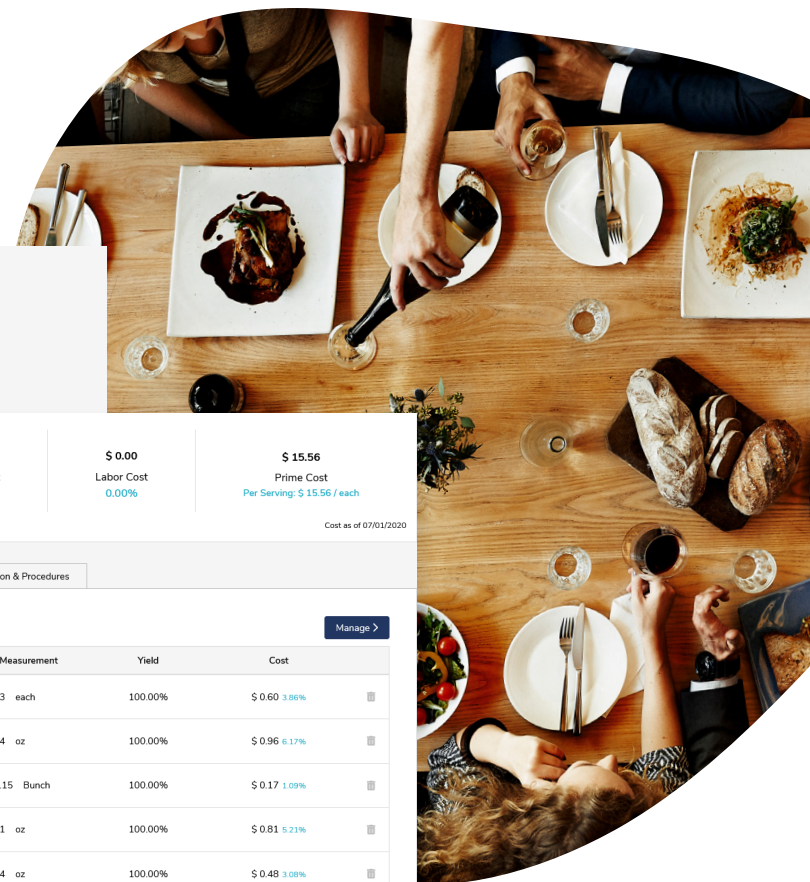
4. Work with your vendors

Having good relationships with the right vendors are crucial to a restaurant's success. Vendors are the source for fresh meat, produce, paper products, and so much more. Typically, restaurants create relationships with multiple vendors — and consistently evaluate them based on price and reliability. That process is far easier with digital restaurant management solutions that let restaurant operators analyze cost data, identify trends, and negotiate with vendors from a position of power.

CREATE A VENDOR BID SYSTEM

When vendors compete, you pay less. Rather than manually hunting for new partners, digital restaurant management systems help you set up bid systems so vendors compete for your business. Determine your most frequently purchased items, solicit competitive bids, and compare.

4 WAYS VENDOR BID SYSTEMS CUT FOOD COSTS:

1. **Compare the same item across vendors.** Why buy broccoli from the same vendor just because you've been doing it for years? Comparison shop instead.

2. **Shop for similar or substitute items across vendors.** Buying a very specific item from a vendor — like more exotic meats or tropical produce? Don't let that stop you from shopping around.

3. **Get ahead of price creep.** Vendors can slowly increase prices for weeks or months. It's hard to notice unless you've got a digital system that alerts you of fluctuating price trends.

4. **Keep vendors honest.** Soliciting competitive bids gives you leverage with existing vendors to make sure you're always getting the best deals.

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5. Forecast sales to set food cost goals

To control food costs, you need to know what you're aiming for. Let past sales be your guide to predicting future revenues. Keep in mind that variables like weather, special events, or holidays affect forecasting accuracy. Establish ideal food costs based on those sales figures — then check the variance between your goals and actual costs.

3 WAYS DIGITAL RESTAURANT MANAGEMENT MAKES FORECASTING EASY

1. **Digital invoices.**
Rather than analyzing heaps of paper, digitize invoices so they are easily saved, sortable, and searchable.

2. **Automatic coding.**
When coding is automatic, it removes human effort (and errors) from the process.

3. **Digital data dashboards make cost analysis simple.**
Easily analyze food cost trends with automatically generated digital charts and dashboards. The best systems allow you to manage budgets on the reporting period that works best for you — fiscal year, calendar year, quarter, month, or week. You can even track daily spending at a glance.

6. Know your inventory

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Inventory management can seem like an unmanageable task. It's complex, time-consuming, and often corrupted by inaccurate data. Plus, it must be an ongoing process because you are constantly selling food and replenishing supplies.

This is why digitial inventory management systems are must-have tools for any restaurant today. Their invaluable automations, efficiency, and accuracy give you clean data to make actionable decisions and put hours back in your day.

PRACTICAL TIPS FOR INVENTORY MANAGEMENT

- Make sure inventory is neat and organized.

- Change inventory responsibility every few weeks so a variety of employees understand the process.

- Take daily inventory of high-cost/high-usage items like proteins and produce.

- Check all incoming orders against invoices to ensure correct weight and quantity. Note discrepancies to get vendor credits.

DIGITAL RESTAURANT MANAGEMENT SYSTEMS CAN ...

- Generate searchable and sortable inventory data, making it simple to create lists and take counts.

- Track and analyze inventory in real time.

- Automatically convert pack size and unit of measure so there are no calculation errors.

- Set automated alert triggers based on over/under supply.

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7. Trim food waste

Restaurants waste food every day. Portions are too large. The chef burns a chicken breast. The busboy spills a pot of gazpacho. The milk spoils. How you handle food waste is critical to your bottom line.

PRACTICAL TIPS FOR TRIMMING WASTE:

Food waste costs restaurants **$2 billion** in lost profits per year.[5]

U.S. restaurants generate an estimated **22 to 33 billion** pounds of food waste each year.[6]

Approximately **4% to 10%** of food purchased by restaurants is wasted before reaching the consumer.[7]

- **Optimize inventory management.** Implementing a programmatic inventory system empowers you to more precisely order what you need over any given period.

- **First in first out (FIFO).** Organize your kitchen so it's easy and intuitive for staff to utilize food closer to its spoil date — and keep the fresher items for later.

- **Keep a waste chart.** Allow staff to easily report waste after an accident. Include space for a number of categories like spillages, burned food, returned portions, and incorrect orders.

- **Ensure cooks don't overuse items.** Are they using precise measurements or just winging it? Make sure they follow specific recipes.

- **Recycle leftover food.** It's not just the right thing to do; it counts as a donation for tax purposes.

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8. Reduce costs with incentives and training

Food cost management is best when everybody chips in. Getting collaboration from all parts of the organization starts with training. Everybody should have a deep knowledge of the menu, specific training on mistakes that lead to food waste, and incentives for proper action.

INCENTIVIZE CHEFS, MANAGERS, AND EVEN SERVERS TO CONTROL FOOD COSTS

- **Provide bonuses** if food cost figures remain below a certain threshold.

- **Develop specific action items** for front-of-house staff. For example, instruct them to offer just one piece of bread per person and carefully watch beverage refills.

- **Institute an ideal cost threshold** that a chef/manager can't fall below so you know they're not sacrificing portion sizes or food quality to hit bonus metrics.

PREVENT ORDERING MISTAKES WITH TRAINING

Many mistakes come at the ordering stage. Perhaps a server failed to note that the diner had an allergy to a certain item. That leads to food waste. When servers or quick-service cashiers are properly trained and know the menu, it reduces misorders by customers and mistakes returned to the kitchen.

9. Purchase and prep strategically

From cost-effective purchasing to strategic reuse, being smart about reuse, getting creative with prep will help you cut food costs immensely.

BUY SMART

- **Buy smart.** Are whole carrots cheaper than peeled baby carrots? Buy bags of them and cut them into smaller portions. Is bone-in chicken cheaper than filets? Buy the whole chicken and cut it into proper portions.

REUSE WHATEVER YOU CAN.

- Recycle parts of the food, like using chicken bones as soup stock or day-old bread for breadcrumbs.

- If produce is on the edge of spoiling, use it to make sauces, soups, juices, jams, smoothies, or daiquiris.

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10. Be intentional about employee meals

Restaurant operators want employees to taste food, learn about the menu, and be equipped to offer pointed advice to diners. Many restaurants have a family-like atmosphere — and eating together is part of the culture. Being intentional about employee meals will naturally dissuade them from snacking as they work and eating away at your profits.

THREE WAYS TO SET EXPECTATIONS FOR EMPLOYEES:

1. **Give clear instructions.** Tell employees what they are allowed to nibble on and what is off limits.

2. **Offer staff meals.** Staff family meals are great for morale, show your employees that you're invested in them, and provide an opportunity to test new recipes or use up food that will soon spoil.

3. **Let staff buy food at a discounted rate.** It's a great way to let them taste the menu.

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11. Keep an eye on theft

Restaurants are fast paced, have high turnover rates, and frequently accept cash payments — creating a perfect opportunity for thieves and scammers. Employee turnover rates range from 80%[8] to 150%[9] — meaning there is a constant flow of new workers who may or may not be trustworthy. Even with smaller staff due to COVID slowdowns, it's important to stay on top of theft.

Internal employee theft accounts for **75%** of restaurant inventory losses.[10]

40% of manager discount codes are used fraudulently.[11]
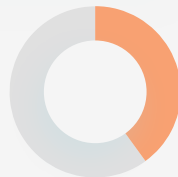
New restaurant workers exposed to peers who steal within the first five months of their employment are likely to become habitual thieves themselves.[12]

WHY YOU MIGHT MISS THEFT OR FRAUD:

- **Too much trust.** Being too trusting may lead you to miss theft happening right under your nose.

- **Lack of experience.** Some restaurant operators who aren't seasoned in the business don't know the signs.

- **Too busy.** It's a fast-paced environment with workers (and cash) moving quickly.

- **Tech is too open.** Using restaurant tech solutions without proper safeguards may expose sensitive data to junior employees.

12. Be smart about comps

You're in the business of giving great experiences. One way to enhance an experience is by giving a customer a free drink, appetizer, or dessert. It's the kind of gesture that can turn a new diner into a loyal customer. It can also please an unsatisfied customer and convince them not post a negative Yelp review. But it's important to keep a record of comps and not overdo it.

THREE THINGS TO REMEMBER ABOUT COMPS

1. **Comps eat into food costs.** Comps can be incredibly valuable if used properly, but they're still a drag on your food costs. Strike the right balance by setting a target comp %.

2. **Know the difference between comps and theft.** When you don't account for a comp by ringing it into the register or keeping a record — it's theft. Even if you have the best of intentions, you are still giving away something for free.

3. **Comp for the right reasons.** If there are massive delays or you happen to serve food in an unsanitary manner, make sure to comp.

CREATE A STRONG COMP POLICY

- **Communicate your comp policy to front-of-house staff.** Transparency will help ensure that employees use comps properly rather than giving freebies to friends and family.

- **Have a comp budget.** Make sure to calculate a workable budget for comps and understand how much that lowers food costs.

- **Strong leadership is key.** A responsible comp protocol must come from the top-down.
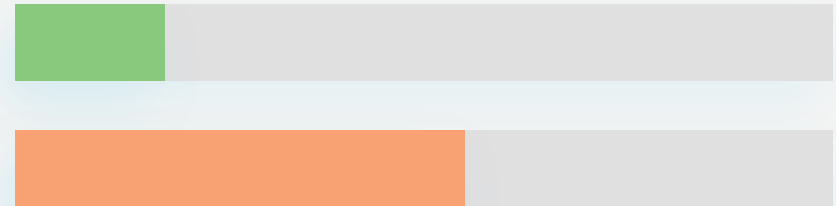
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13. Make sure portion sizes aren't too big

No restaurant wants diners going home hungry but too many businesses are serving portion sizes that are too big and wasteful. In fact, diners routinely leave parts of their meals uneaten. It's important to strike the right balance.

- **If plates consistently return to the kitchen** with food leftover, consider decreasing portion sizes.

- **Survey trusted regulars** or other diners to gather opinions on serving sizes.

- **You don't owe leftovers** to your customers. You may be tempted to continue offering larger portions so customers can leave with leftovers. But that extra food (and to-go containers) comes at a cost.

Diners leave **17%** of their meals uneaten and **55%** of edible leftovers are left at restaurants.[13]

Portion sizes are 2x to 8x larger than USDA or FDA standards.[14]

Cut food costs with xtraCHEF

xtraCHEF helps restaurants control costs through data, analysis, and automations. Here's how:

DIGITIZE INVOICES

Turn paper invoices digital in seconds by emailing, snapping a photo, or batch uploading. Once electronic, your invoices become searchable and sortable.

AUTOMATIC GENERAL LEDGER CODING

With optical character recognition, xtraCHEF automatically codes invoices and categorizes costs. It removes human error and saves time.

PRICE ALERTS

Learn right away if vendor prices have risen on any of your food items.

COST TREND REPORTS

Let xtraCHEF do the calculations — allowing you to analyze the numbers and take action.

EASY-TO-USE INVENTORY

xtraCHEF's inventory management tool is easy to use and automatically accurate since it's fueled by your purchase data.

CALCULATE PLATE COSTS

Rather than manual calculations and error-prone spreadsheets, use xtraCHEF's drag-and-drop menu builder to easily calculate plate costs and watch price fluctuations over time.

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xtraCHEF is a financial and operational management platform built for restaurants. Leveraging a combination of machine learning, data science, and quality control, xtraCHEF provides the power of data and automation to streamline the supply chain.

Restaurants of all sizes and service use xtraCHEF's industry-leading AP automation to fuel productivity and make more informed purchasing decisions. Food cost management reporting and analytics make it easy for operators to make sense of their books and shave percentage points off their prime costs.

xtraCHEF puts the chef back in the kitchen and the profits back in your pocket. Learn more at **xtrachef.com**