Hey there restaurant pros. It's David Scott Peters and welcome to episode 64 of the restaurant prosperity formula. I've been coaching restaurant owners since 2003. And the restaurant prosperity formulas based on what the most successful restaurant owners I've worked with do on a daily basis to achieve their success. The basic premise of the formula centers around achieving prosperity, freedom from your restaurant and the financial freedom you deserve. To achieve prosperity you have to follow a very specific formula made up of leadership systems training, accountability and taking action.

As you know, I've been coaching in the restaurant industry since 2003. And I can tell you that with 100% certainty that almost every restaurant owner wants to know is how you can control your food cost. It doesn't matter if you're brand new to the restaurant business or you're a seasoned veteran food costs, challenges present themselves all the time. Think about it. Every time a food purveyor drops us food at your back door. Every invoice has at least 123 Half a dozen prices that have gone up. Like what are you supposed to do when you sit there and see your costs rising right in front of your eyes? About your sales rep your broadline distributor your your your good friend who walks in on a quarterly basis and tells you about the natural disaster. Oh, remember the hurricanes that hit Florida? Well, they wiped out the citrus crops. So you're going to have this new commodity product your oranges your limes your grapefruits go through the roof as there's a shortage of product and the price goes up. Like every quarter there's some commodity product that is tied to some natural disaster, a shortage and product an increase in price. They care they're telling you it's coming down the pike. How about this? Holy cow. Why is my order so high? Like you look at your final order and go holy crap. How can we be spending so much money? Like nobody looks to see if there's a problem in the restaurant? We just look man, my vendor, my purveyor, my distributor? They're screwing me something's wrong. Look at this. Now, not to mention, when you look at your profit loss statement and you gasp but a high food cost percentage. Now that's what if you're doing your food cost properly, like are we taking inventories? Are we just taking purchases divided by sales which is not your food cost? It requires the formula beginning inventory plus purchases minus ending gives us us use divided by sales. That gives our food cost percentage. So if we're not taking inventory, we really don't know what left the shelves I'll come back to this in a moment. This episode is being brought to you by repeat returns. If you're a restaurant owner of a medium to high volume, independent restaurant, multi unit or franchise operator and you're looking for a proven and realistic solution to attract, grow and retain customers. Then you need to visit repeat returns. Repeat returns is a modern marketing platform created by a restaurant owner for restaurant owners. It studies each customer's habits and patterns predicts the most profitable outcome for your restaurant every single day. And the boys are marketing to make that happen. You'll never lift a finger to see if repeat returns is right for you. Visit repeat returns.com forward slash DSP. What if I told you that while food prices are certainly certainly having a negative impact rates as the food prices go up, it's having a negative impact on your bottom line. The truth is the majority of the issues of high food costs are self inflicted. Let me explain. Did you know that most restaurants operate seven and nine points above their ideal food cost now if you've been falling for any length of time, you should know that with with recipe costing cards, your product mix from your point of sale system, what your customers actually purchase, we can come up with what your ideal food cost is something that's some national average of 34% that was just pulled out of the air because you're not average. Maybe you're a pizza pasta place and should be in the low 20s Where your Steakhouse and you could be in the high 30s and still make money. We're not going to grab onto a national average of 34%. That's not going to work. What we need to know is what your food cost should be based off accurate up to date recipe costs and cards. What your customers actually purchase. And by putting this together, we're gonna have items that have a small food cost five 6% of these hand cut french fries you make but you also have these anchor appetizers out of a box into a fryer and they have a 38% food cost but ultimately based on what your customers order something called a weighted average your menu mix, we're going to discover your ideal food cost should be 30%. Maybe it's 22. Maybe it's 32. Doesn't matter what is your food cost based on your menu and your operation. So with that said if it's 30% Did you know that typical restaurant runs seven to nine points above that number. So is that all the distributor? No, but I'll get to that. Oh, there's this stuff called waste and spoilage. Waste and spoilage. That means every time you order too many tomatoes, you throw them away. Because well they're bad. That's usage that's product that left the shelves money you didn't get for it. What about waste that when Lerch is on the line and uses his hand to put what you think is supposed to be six ounces of French fries on a plate but eight or nine goes on the plate every single time you're wasting product. It's when that server says hey can I need to get some dressing and you say just go into the cooler grab it and they pour four ounces of dressing into a portion cup instead of a two ounce portion cup and filling it up for every two ounces. Extra that's going out is money out of your back pocket. So over portioning and throwing away product product because you you butchered it improperly, right you're not getting the right yields or you're throwing away product because it's spoiled. Doesn't matter product that you're wasting that spoils increases your use. I want you to think about this. Do you remember that 30% ideal food cost we came up with? Well we use this a theory right? Well, I said a typical restaurant runs seven and nine points above ideal. But look at this. beyond anything else. One thing alone can make a huge difference. Do you know that if your staff over portions by 10% So if I were a Mexican food restaurant, could you see 10% More shredded cheese on a plate? No. Could you see 10% More shredded beef? No. Do you see 10% more sauce? No. Could you see 10% more chips no beans, no rice? No. So if you're I can't see 10% More being over portion 10% And it goes out Dish after dish after dish. You take that 30% ideal food cost and you now make it 33% So on a million dollar business that's a lot of money. If your 2 million, 3 million and so on. This can break your bank for lack of a better term. What about theft? I know you don't have any thieves. Whatever. It happens in the restaurant business. This is gonna be very important about culture and you might say Hey, David, I've got security cameras. Well, I love security cameras. I really do. But they're great for acts of violence, theft, harassment. Burglaries there after the fact that you're gonna watch the video it's already happened. What I want is systems in place to control or prevent theft and managers inspecting those systems. But if you have product go out your back door that wasn't paid for by your guest instead it was paid for by you, then your food cost is gonna go up. What about the owner you the owner taking tax advantage of your business? I would. That's where you say I'm gonna have a barbecue this weekend. You pull up your truck and you you say take a keg of beer you take you know bottles of vodka and bottles of whiskey and you get ribs and hotdogs and buns. And burgers and fries and you help yourself like it's your own grocery store. Well, I would do that. Absolutely. But if you don't put it on a waste sheet and understand that you're kind of taking that as a benefit of your business. Your food costs is going to look high because that product disappears and no money came in for it. Trust me you your kitchen manager your chef is going to one credit for that meaning you took product my food costs aside but it's not my fault. What about the price of your food purchases going up? Well, we already went over that that is a factor. When when we are in the pandemic and chicken wings from $70 a case to $160 a case that has a major impact on your bottom line. Now that was a freak of nature event. But as we know today, our food costs keep going up because there's always a freak of nature event if you will. And so it is your broadline distributor, all of your vendors they do have an impact on your bottom line. But again, let's be very clear. See the food cost formula is beginning inventory plus purchases. That's the inventory you took at the end of last period. Hopefully that's on a weekly basis could be on a monthly basis. Let's now assume it's a weekly basis. So Sunday night, your Monday through Sunday work week you close Sunday night you take your inventory Sunday night, what's the value of the product of everything on my shelves, that components to dishes, soup, side dishes, sauces, desserts that I make? Those will be my batch recipes, plus all the products I purchased from all my vendors. Well, that's my beginning inventory plus all the purchases. So every invoice that comes through the door whether paid for or not. It's an expense that day and only the food portion of those invoices. So take my beginning inventory plus purchases that gives me what I could use. That's my total product available. I subtract from that my ending inventory at the end of the week. They ended that next Sunday. And by doing so, I'm going to find out how much product actually left the shelves for the money that's come in. Right so whatever left the shelves does not matter if it was sold stolen, wasted spoiled. We'll talk about that again in just a second.

Its use is use meaning it's gone. Use again is you sell it use again is wasted spoiled use again is stolen. Use again is you taking product out of the kitchen see the math of it the arithmetic if you will, is blind. It just knows that you started this with this much product you purchase this much You ended with this much and the difference of that is what you used. It has no idea if it was stolen, whether it was wasted spoiled or you sold it or you took it out the back door. Now you can see very quickly how your food cost if the equation is use divided by sales if your use goes up because of theft, your use goes up because you're over portioning use goes up because you throw away product use goes up because you took it out the back door. Anything other than selling it, you can quickly see how that could increase your food cost percentage and the dollars you use. So many of the practices that we do in our internally are a factor. Now again, use your food sales your sorry your use the product that left the shelves divided by your food sales gives you your food cost percentage. So if I if I use that to come up with a 30% food cost that means for every dollar that comes in, I use 30 cents in food product. Hopefully I sold it but it could have stolen wasted spoiled took it out the back door myself. So while many get upset at it, well the price of cheese has gone up 15 cents on a pound for you want to just yell at your distributor What are you doing to me? How you operate your kitchen has more to do with why your food cost is high, not your distributor. Now look, let me be very clear. High food cost is a direct result of two things. One lack of systems to control your food cost and two, the lack of leadership in your kitchen that's right. You running your kitchen, not having controls in place and not having management to lead control. Teach hold people accountable to those systems is why your food cost is high. It's not your really your distributor, you see systems allowing you impose your will without being there. That people are following your recipe costing cards to a tee. People are following your systems to ensure the guest gets the same experience every single time which not only controls your costs but increases your sales because they are consistent with your product systems ensure everyone is doing things your way but without management inspecting those systems, each and every one of the system. Every shift every day means your systems are not going to be used. See putting systems in place is very easy. That's a task making sure people know how to use them, making sure they're being used on a daily basis and holding people accountable to those systems. That's where the magic happens. It's the people part of the business. That's the challenge. And it ain't easy. But that's why we have managers. So here's your restaurant owner reality check. If your food cost is higher than you think it should be. You're not managing your kitchen correctly. You don't have the right systems in place to control your food costs. And if you have recipe costing cards, you don't know what to do with them. So what systems am I talking about? That would reduce your food cost prevent theft and ensure you hit your target food cost? Let me provide you with a list of systems every restaurant needs to have in place. Before that. Let me remind you to know where your food cost should be. You must have a budget. That's a whole nother discussion. Let's run down these kitchen systems to control your food costs to lower your food costs to ensure you are going to make the money you deserve. You're going to put in the key item tracker. That's where we count five to 15 items every shift to make sure those items are not stolen. The little more complicated. We start with what we had we bring in what we prepped or purchased what we ended with we go to our POS system finding how many we sold and see the difference. Along with that, it should all match. There should be no variance if there's a variance of better beyond the waist tracker. If not I have worse than death. I've managers not using the damn systems I put in place to control that. But the waist tracker all we're doing is writing down things that we wasted whether we ended the night and had to dump a knife pit and ninth pan of rice or we throw a case at tomato so as I said in the past, or maybe we lost the case of salmon because it spoiled. Maybe we have a new cook on the piece of and burned a pizza and we threw it away. See doesn't matter why it was wasted. It's a proactive management tool. Not only do we know the product value we wasted but when you see there's a problem right then in there. It's a proactive system that you can change your trajectory. Hey, John's been burning steaks I'm going to retrain John reposition John before he hits the grill independently or maybe it's gone on for so long. I'm going to terminate John, I'm going to stop losing steaks instead of waiting for the end of the month and looking backwards going why is my food cost high? A system I call the restaurant checkbook Guardian otherwise known as the purchase allotment system, where I give my managers based on my budget, my forecast, my actual purchases and my DSR. I tell each one of my managers how much money they can spend on their next order to be within budget. And by doing so I can put my kitchen manager my chef on a budget with a little leeway. And if they want to go over that budget, they need to find what the problem is. They need to tell me what they did to fix it. And I get to make the final decision because there's only one person allowed to go over budget that's me in my business. Now all of a sudden just think about that if you can stop dumbass mistakes, you can reduce theft and you can put your kitchen team on a budget. You can see how quickly I'll guarantee you a two three point drop in your food costs alone right then and there without any other systems. But then we get in time temp checklist to make sure we don't lose product because it's spoiled. We then get into we're going to do practices of Mies imply that the French term for those you don't know. Now, I'm going to tell you I had to learn it because I'm a front house person but Mises class is a French term for having all your ingredients measured cut, peeled, slice, graded, etc. Before you start cooking pans or prep mixing bowls, tools equipment are set out. Well what can I do Meezan plus, let's be done with the following systems having a prep system that makes sure all your prep is done that you're prepared and ready for the shift that you're pre portioning items so that when it's time to make something instead of grabbing well 12 chicken wings with your hand and a glove or whatever it may be. You actually grab a portion bag just dump it and you know the perfect portion every single time saving time and money because you're not giving away product portion controls on the line which means you need a portion control line checklist where you are making sure that if it says a two ounce ladle a two ounce ledo goes in that not a four ounce ladle in the you're losing product every single time especially if you're using somebody like a demi glaze that's very expensive and very rich. You use four ounces or product instead of two that a recipe calls for you're destroying a dish and you're losing money. Next you need food and beverage control software. This is critical if you've been following me for any length of time you know that I preach this all too well. In fact, in my old company, we created software did this now I don't care which one you use. Well, I will tell you that most of my members who I recommend is margin edge, but it doesn't matter. There's so many different software's out there. When you're gonna have recipe cost guards know what every item you, you sell what it costs. And oh by the way, the magic of it is take a picture to an invoice send it up and every recipe card is up to date. Your next order is up to date your next inventory is up to date, you have all the information you need for your next order. So all of a sudden spreadsheets are dead. Recipe costing cards can only be done properly in software anymore. You can set up shift sheet inventory to take inventory on a weekly basis and under an hour. I have $2 million restaurants I work with it take inventory in under an hour every single week and know their food costs right away. Order guides with par levels so people aren't guessing going well. I could use a little extra that they know what they need because the system tells them and the mic drop of food and beverage software is ideal versus actual product usage because you're taking inventory because you've got your invoices in there because you have recipe costing cards and your menu mix tied in from your POS system. You can clearly see that all of a sudden you use 350 pounds of chicken and you should have only used 300 highlight it and go I have a problem. And finally, menu engineering with recipe costing cards with your product mix. We can find out when not only what your ideal food cost is, but we can make changes using menu engineering science to reduce your food cost anywhere from three to seven points the first time through. From there we battle for a point or half a point or so on to offset the rising costs of our product. See, that's where I'm not so concerned with my vendors if I have recipe costs and cards and I menu engineer at minimum on a quarterly basis, I can offset what's happening in the marketplace. And the only way all these systems get used every day every shift. There must be a chef manager line supervisor or key employee on those on the line whose job is to make sure the systems are used, or they'll just go away just as fast as you put them into place.

Now let me share with you a couple member success stories. Go actually I'm gonna just focus on one because I've gone long enough I'm going to tell you that this member success story is exactly the food costing issues of being too high and needing to bring it down immediately that most every restaurant owner faces at some point in time in their restaurant career. But I'm gonna take you back to June of 2020 Do you remember what was going on in 2020? Remember that COVID thing? Well, Steve eller I'm telling you about Steve Adler, who's actually now one of my member mentors. This man knows his numbers inside now before I met him he was a CFO of a real estate company who opened up restaurants he knew his numbers what he didn't know what was possible. What he didn't know is what systems really needed to be put in place. And like the rest of the restaurant world during COVID He was hit hard and he had to make a change his food costs at that time were running around 33% Well, many of you think that's good because the national average is 34%. Right? That's what the NRA says, Well, I'm going to remind you you're not average. Okay? That average may include, you know, pizza places along with seafood restaurants. It's just an average. What you need to have is recipe costs and cards and your menu mix what your customers actually purchase to know what your food cost should be. Well, he was running 33%. I'm going to tell you today he's running around 26% He adds some flows because he has to keep reacting to rising prices. And that's today when true costs are higher than they've ever been. So all of that is due to Well was it due to because he raised his prices that he reduced his food cost. That helped a small bit. And I'm going to tell you we go through the the exercise dammy on a quarterly basis and we find that if we raise prices, we make a small dent. It is a small tool anymore, and we're reaching a point in time where we can't raise our prices much more before our customers go. I'm not paying that anymore. The value on the plates. Not worth it. The real changes came from really hard work. Steve and his team worked hard to set up all the food and beverage systems that we talked about starting with software. And I'll tell you that he actually uses two software's he started with one and it wasn't given what he needed. He added another over the years we've worked together. So he's got his recipe costing cards. He's got a shelf, the sheet inventory who does on a weekly basis. They've implemented all the systems I mentioned before. Well, they didn't always use them because the labor shortage they were short on managers short online cooks short on cashiers. They would find and have to prioritize what was going to be done but as soon as they got fully staffed again, with managers, which they are today, they got those systems back in place as soon as they could. They look at their ideal versus actual product usage and say, what's going on in my kitchen. How can I change that? Through manual engineering almost on a quarterly basis. Sometimes more than that. They made major changes to their menu. Yes, they raised some prices, they got rid of some items, they move some mix around the added items. In fact, there were sections that went away, came back went away again, because they were always testing and trying to figure out what their customers wanted and what they can have on there to reduce their food costs that they could manipulate their food costs through menu mix. Why they never changed who they were, they didn't change their concept and go from you know, lots and lots of beef to nothing but seafood. Nothing but pasta. Now they stayed who they were they stayed true to their core values, but they were never afraid to add or eliminate items from their menu. Well, that's a half truth early on, there was fear. But nowadays, they make changes including the most recent change of their menu. This last round, where they dropped three three of their top sellers. They determined not only were they costing their money and Rhys making their food costs go up because they couldn't charge enough for them. But it was increasing their labor cost because they needed all this labor to handle the prep. They made a decision to drop three of their top sellers. That can be frightening. Today, that's why they're running at 26% about a 26% food cost starting at 33. And none of this was possible. Steve didn't hold his managers accountable. be using these systems on a daily basis. What is this? What does this all mean? If you think your food cost is too high, and you want to do something about it, understand that I just laid out your plan for success. And it's your job as a restaurant owner to learn these systems. Teach them to your managers and hold them accountable to each of these systems. The next thing you know, your restaurants bottom line will look amazingly different even as food prices rise. Now make sure you watch the next video where I teach you exactly what you need to do to lower your food costs. If you'd like to ask me questions directly about what I just taught you. Be sure to join me every Friday on YouTube Live at 8am pacific time travel schedule permitting, where I get you motivated about your upcoming weekend. More importantly, I answer your questions live. Hey, that was an awesome episode. I want to thank you for taking the time to take action on building a better more prosperous restaurant. Before you go. I want to give you these three thoughts. One by combining leadership and taking action with systems and trainings being checked by accountability. You are on your way to creating prosperity for you and your restaurant. To have something I need from you. Please leave a review on Apple podcasts Spotify or wherever you happen to listen to podcasts. By leaving us a review other restaurant pros seeking out this information are able to find it. I read the reviews and hearing how this information has benefited you. It does wonders for me and three if you find any of the discussions helpful share them, the more restaurant pros who have access to them, the better we become as an industry. For more restaurant resources or to get in contact with me. Connect with me at David Scott peters.com. Be passionate about what you're doing. Be persistent but more importantly become better and help everyone around you become better and your restaurant is going to kick some ass.