Hey there restaurant pros. It's Scott Peters and welcome to episode 70 of the restaurant prosperity formula. I've been cooking restaurant owners since 2003. And the restaurant prosperity formula is based on what the most successful restaurant owners I've worked with doing a daily basis to achieve their success. The basic premise of the formula centers around achieving prosperity, freedom of your restaurant that financial freedom you deserve. To achieve prosperity, you have to follow a very specific formula made up of leadership and systems training, accountability and taking action. Today I want to talk about the importance of calculating understanding and knowing the three food cost numbers in your restaurant and that if you don't know them, you're not making the money you deserve. You're going to want to grab a pad of paper and depend for this one. Let's get started. But first, a word from our sponsor. We all know managing costs is one of the most important parts of running a proper restaurant especially now, but between fluctuating better prices, wasted labor, and the never ending list of tasks that demand your attention on a daily basis. It can be challenging for even the most experienced of us to manage costs well, that's where margin edge comes in. Margin magic is a complete restaurant management software that automatically uses data from your POS and invoices to show you food and labor costs in real time. Don't wait until it's too late. Margin x gives you tools to make decisions in the moment, like a daily p&l price alerts on key ingredients and real time plate costs without ever having to touch a spreadsheet. Take control of your costs and work more efficiently and be more profitable. Go to www dot Marjan edge.com forward slash DSP to learn more and schedule your demo today. I'm sure you've been told you need to calculate your food cost. Thank you probably heard from a number of experts out there that your target food cost is 34% or that you need to mark every item up on your menu by three times. Where does this come from? None of these assumptions are true. I want you to flush them out of your mind your bullshit wrong and unfortunately we have TV shows we have articles we have other well so called experts in our industry perpetuating this problem because if there was the number one question I ever get asked is probably what should my food cost be? And if you have get asked that question and somebody says, well, the National Restaurant Association says it's 34% They'd be wrong. That's an average. That's not you. Before I go into why it's wrong, and what you should be doing to calculate your food costs. Let's first talk about why it's important to know your food cost. One since most restaurants sell 65 to 95% food of their overall sales. It can make or break your profitability to the only way you can improve your business is live by the phrase that which we measure improves. You can't measure something if you don't know where it needs to be and how to measure it in the first place. Three, understanding your food costs allows you to hold your kitchen management team accountable, decide what systems you need to put in place to control your food costs and ultimately put you on a path to making money in your restaurant. Remember, again, if most restaurants are you know up to that 85% 95% sales are all food that is your biggest opportunity to make or break your restaurant. In order to truly learn how to control your food costs. You have to understand that all the so called experts have been wrong. Again, they've been wrong. In fact, I'm going to show you that you need to know in fact, three food cost numbers to control your food cost and they are budgeted food cost, actual food cost and ideal food cost and by comparing all three of these numbers, you for the first time in your restaurant life will gain valuable insights into your menu that will allow you to virtually unlock your profit potential. Do I have your attention? food cost calculation number one is your budgeted food cost. This starts with understanding you must have a budget remember if you've been following for any length of time maybe been on my YouTube channel, David Scott Peters maybe you've been listening to my podcast, restaurant prosperity formula maybe you read my book restaurant prosperity formula what successful restaurant tours do maybe you've been what I workshops or seminars or seen the speaker show. Well then you would know that I always say the two most important systems any restaurants must have our budgets and recipe costing cards. Why? Because they're proactive management tools. By the way, what are the two systems? Most restaurants ever have budgets and recipe cost cards why? They're too hard blue frickin who you pick the toughest business I know you must have a budget in place. A budget allows you to look at your past. Put together a template says by operate the next 12 months the same way I did last month. Here's what I'm going to make or lose. And then you put your plan for profitability in place. You don't just snap your fingers and bang we're going to make more money. You decide what systems put in place, who you're going to train, how long you're gonna give them before you hold them accountable and what the results are going to be from what you put in place. And again, in this instance, we're talking specifically about food cost. Maybe I could put in systems like the restaurant, Chip, a guardian, a guardian. Which allows me to give up ordering without giving my checkbook. Maybe I can reduce that with a key item tracker. Maybe I can stop them as mistakes with the waste tracker. Three systems. I teach all the time to my members that I guarantee people a two to three point drop in their food costs. Well, you've got to know where your targets are so you know what you're trying to control to a budget is critical. Next, enter know your prime cost when it comes to budget. You got to know your prime cost. Your prime cost is your total cost of goods sold. What's your total labor costs including taxes benefits insurance. If you want a deep dive into prime costs, make sure you check out my YouTube channel. David's got Peters. I'll go into that in greater detail. But do note that your cost of goods sold is the cost of the product you use. This means we've got to take inventories. We'll talk about actual food costs in a moment. But it is not your purchases divided by sales. Right cost includes your labor process. So raw labor costs them so if I pay a cook $15 An hour and they punch in and punch out or one hour one cook one hour. Ask yourself this $15 Come out of your bank account. No, I dare say 18 $20 may come out. There's taxes benefits, insurance. They're a part of it. You're salaried managers are part of prime cost. And an owner you may or may not be if you're the manager of your restaurant, then you are a part of prime cost or an adjusted salary. Maybe you pay yourself $80,000 But you'd pay somebody $50,000.50 1000 of your salary belongs and prime costs because we're going to eventually fire you and need to pay somebody that money and work two days a week on the floor, then two fifths or an adjusted to fit so your salary is a part of prime cost, why? I'm going to replace you with a supervisor, an hourly manager, whatever it may be. This is basically what we call controllable expenses in control of management, how we hire fire train, utilize our people purchase product and utilize our product. This is a control of management on a day to day basis. Well, it's the most important part of your budget, because it's what you can control every single day. Now, you've got to ensure you're measuring this against gross sales. So your prime cost needs to be measured total cost of goods sold plus total labor cost against what gross sales. gross sales is the ring at the register before discounts not including sales tax. So if I ring up a sandwich for $10 and I comp $5. Well $10 is gross sales. This allows me to be fair with my kitchen manager, my chef, my bar manager, my general manager, you get the picture. Why? Because hey, if I asked my kitchen manager put out a sandwich for $10 And you $3 in product from the recipe cost and card use divided by sales. That's a 30% cost of goods sold. If I kept $5 It's now 60%. If I use net sales, that's not measuring my kitchen manager properly. Don't get me wrong. comps are something we track and we pay attention. Because what if we're copying because we've got bad food a whole nother story? And maybe you're not still with me? Maybe you're an old school person you've always learned it was net sales. How about this? You're going to run a charity event tomorrow in your restaurant. Your favorite charity makes your heart sing. It's going to be a $14,000 day, but you're going to come 50% Do you buy food for $14,000 day? Were $7,000 day 14. Do you staff to handle a $14,000 day or $7,000 day 14 This is why we must use gross sales. Now some people make an argument well that gives you a wrong profitability wrong. comps are just instead of in your sales section down on your operating expenses, which means your profit and loss is exactly the same and it is still a number we pay attention to and manage. And finally, you've got to create your food cost target budget to achieve a 55% prime cost or lower if you do $850,000 or more in sales, Your target is 55%. if it's lower, it's 60. which by the way is 10 points lower than what most experts have been preaching for at least the last 20 years. We think increased cost of labor increased cost of product inflation. labor shortage, all the things that go on in our life, all the tech stack we've added to our restaurants or profitability is virtually disappearing. If you don't make the conscious decision to run my.

Is that you've got to decide where your prime cost is going to be. Remember I said the 34% food cost is wrong, you could run a 25% cost of goods sold and the 30% labor cost then you'd be at 55. You could run a 30% cost of goods sold and a 25% labor cost you'd be at 55. Heck, you could be a high end Steakhouse and run a food cost of 40%. I wouldn't recommend it but you could, because the ring of the rent is so high the profitability on each item called cash contribution is so high, we drive our labor costs down to say 15%. So any combination gets you there. So you need your budget because based on where you're located, where your price point is, stylist, service, quality of product, your core values, I'll go into where you're going to set up your prime cost targets, labor higher. Maybe I'm in the state in the state of New York. or California or Washington, I'm going to really high minimum wage, as well as higher wages that I pay. So I've got to run a lower lower food cost. Maybe I'm in Georgia or Texas, where there's still tip credit I can run a low labor cost and a higher food costs. You've got to know where you are and what your restaurant needs to do. In order for you to make money. The only way to do that is budget your brand cost. So your budget food cost is what you need to achieve to hit your prime cost target and make money again, can't know where that needs to be if you don't put together your plan for success and that's your budget. food cost calculation. Number two is your actual food costs what actually left the shelves. Let me be very clear, the only and I mean, the only way to know your actual food cost is you must take an accurate inventory of all your food products on your shelves, including all your batch recipes. Those items that are such as component to dishes, soup, side dishes, dressing, desserts, anything that's on your shelf is money. It's not food, it's money, by the way, it's your money. And if you want to know what your food cost is you've got to follow basically this. Understand, again that your purchases are not your actual food cost. Because I use purchases and not inventory which I'll walk through the calculation in a moment why we need inventory. If I say I purchased a lot of food this month because I thought it'd be really really busy. My sales are supposed to be high but they were much lower than expected. You use purchases against your sales your food cost looks astronomical call it 40% But because you have so much food on the shelves, you bought it towards the end of the month and it wasn't wasted stolen, spoiled. It's still good. The next month, you do higher sales than expected but you don't need to order so much is still on the shelves. And if my purchases were low and my sales were high now I've got a 20% cost of goods sold. That can never give you your number. The only time it can be close is when we look at it over a year because that change in inventory and 12 month period is so small it's not going to make a major difference to your food costs. So the actual food cost calculation is starts with your beginning inventory plus your purchases doesn't matter if you paid for it or not. If it was delivered that day, it's an expense that day. Add those together and you get your total product available. It's what you could sell. Then you take an ending inventory at the end of the period. Let's call it a month. For this example. I'd like you to do it weekly. Well by subtracting it from what you could have sold the beginning inventory plus your purchases, you come up with your use. This means it's how much product actually left the shells. How do we use our product? Right? How do we use it? What we hope that we sold it. That's the number one way we all hope we use it but it could be wasted spoiled stolen, or you could have taken it out the backdoor for wealth a party you had at home and as an owner, I want you to take tax advantage of your business. The problem is you better put it on a waste sheet so when you want to put your boot up your kitchen professionals but because their food cost is high they can go hey man you took product but again notice sold wasted stolen spoiled you took it doesn't matter how it is it's gone. It's off the shelves. So beginning inventory plus purchases minus ending gives us use and oh by the way you use divided by gross sales gift your food cost percentage. Now this is important because what does it do? It says this is what your food costs really is. By calculating your actual food costs, you can actually identify trends and areas for improvement in your business because you can see when your food cost goes up, right. food cost calculation number three is your ideal food cost or otherwise known as theoretical food cost. What is your ideal food cost? Ideal food cost is what your food cost should be based on your menu and what your customers actually ordered. If your kitchen operated perfectly no waste no staff. No spoilage perfect restaurant which does not exist. But it says basically if they if everything you made you follow the recipes perfectly based on exactly what your customers ordered. It's what your food cost theoretically should be. But we're not really gonna calculate your ideal food cost. You need to have accurate up to date recipe costing cards. You have to listen to me accurate up to date recipe cost cards. How did I start this off? I say the two most important systems any restaurant should have or budgets and recipe costs and cards. You You cannot know where your food costs should be. If you don't have them. You start running off a national average. As I said in the beginning, you're just using some bullshit wrong number. You could actually hit your 34% But you're a pizza pasta place. It should be running 24% And you're wasting 10 points every single week, every single month and every single year, which could cost you 10s if not hundreds of 1000s of dollars. You could be a steakhouse and you could be just shooting out your kitchen Pro to say hey man, your food cost is too high you're coming into 38% is supposed to be 34 And the only way that they can hit is hit that target is to cheat the guests by buying cheaper product like cheap not less expensive cheap by Reducing portion sizes by screwing your guests. If they want to keep their job to hit their their food costs they have to cut corners. That can backfire big. You want to know this your actual because you also want to know what you sell and each menu item. So if I've got my up to date, recipe costing cards, and then I've got my point of sale system, and I find out basically what I sell for each item for and how many I sold ovitch well then all of a sudden, I can find out what my ideal food cost is. See again, it's your recipe costing card, what you sell it for before discounts. Plus, what data from your POS what your customers actually purchased. By putting that together. With all this data, you can actually calculate your ideal food cost based on what we call a weighted average nasty mathematical term. It allows us to sell anchor appetizers out of a box at a 38% food cost right right from a box frozen into a fryer 38% Well, I don't sell so many, but I sell the living hell out of my hand cut fresh cut french fries on a daily basis and it is my number one seller and number one side dish. Heck, it's 5% Cost of goods sold. This allows me to sell certain things at different different percentages. Again, not everything at 34% or three times markup. Let me give you an example. Let's say you have a restaurant that has two menu items that sit on your menu just two. That's all you sell. One of your items has a 1% cost of goods sold the rest because garden 1% Your second item is a 99% food cost. In a calendar month you sell 100 items 100 items 99 of them at 1% and one at 99% What's your food costs gonna be? 1% Let's say the same menu the next month you sell 100 items you sell 99 of them at 99% food cost and water 1% What's your food cost? 99% why? And each of those examples they're the one item sold against a gross weighted average right all those those huge numbers isn't going to move the needle. So the only way you know where your food cost should be is accurate. Up to date recipe cost cards the gross sale price before discounts and how many of your customers what your customers actually purchased. That's it. Why is calculate your ideal food cost so important? For starters, it tells you where your food cost should be not based on some national average. Next, it helps you identify where you should be raising prices, Reducing portion sizes, purchasing different products and even help you re engineer your menu to hit your budgeted food cost target. Because with that data you can actually decide following menu engineering science, from eye placement to descriptions to boxing to pictures to you name it, to actually manipulate your customer to purchase items so that you can make money. Now this last piece, this last piece of information is extremely important. I want to be very clear as we talk about ideal food cost. You will never listen to me. You will never hit your ideal food cost you will never hit your ideal food cost. If you hit your ideal food cost one of two things is happening one, your kitchen Pro is cheating the guest or two they patted the recipe cards. They pretended they needed more product in those recipe cards instead of six ounces of a product they put eight ounces in so they were building in padding. See a typical restaurant will run seven to nine points above their ideal food cost seven to nine points. So let's say your ideal food cost comes in at 30%. That means a typical restaurant or we're on 37 to 39% food cost.

A rock star kitchen manager chef will operate one and a half to two points above ideal. Think about that. So we will never be perfect. But a rockstar will be two points above their ideal and everyday typical restaurant nine points so there's so much room in there that when we get so upset about our food costs being high that the majority of it isn't our distributors fault. It's our own fault. We need to run more efficient kitchens. And by knowing this you can see that and I will show you why in just a moment. Now that you understand how to calculate your budget, your actual and your ideal food costs and why they're so important. Let's really dive into why you must know all three numbers to truly well to truly take control of your food costs and make the money you deserve in your restaurant. To help follow along. I really want you to follow along with me and to do so I'm going to suggest you pause right now. You read a piece of paper a yellow pad of paper a pen because you're going to want to take down some numbers and notes that you can actually visually see what I'm talking about. Here are the numbers you need to write down. Basically you want to follow my answer might easy for me to say illustration follow this. Your budgeted food costs in this example is 25%. So if in order for you to make money you did your budget, you did your prime costs, you know your your prime cost mix, right how much labor how much bottled beer, draught beer, wine, liquor, whatever it may be, you've determined you need to hit a 25% food cost. That's what you determine in order for you to make money. Your actual food cost in this example is a 26.42% based on beginning inventory plus purchases minus ending gives us use use divided by sales gross sales that gave us a 26.42% food cost that's what you actually did. Your ideal food cost number is 24.5%. Based on accurate up to date, recipe costing cards, what you sell it for in your menu and from your POS system what what people bought, bought how many of each, your ideal or theoretical food cost is 24.5% based on no waste, no theft, no spoilage perfect restaurant, but by God that is your food cost, what it should have produced. Again, we're not going to do that perfectly. Remember, one and a half two points is a rock star. So let's start off with what a typical restaurant who only calculates their actual food cost, like that's all they do, which is a big thing. They're actually taking inventories they know their food cost numbers, but what do they do? They compare it to a national average. Tell me I'm wrong. So when you compare your 26.42% result to a national average of 34% you're thinking you're kicking ass. Well, you are technically right but what if your target food cost of 34%? Wasn't what guesses what you were hitting? Let's say you really need to think through this. Let's say instead of 26 your your actual food costs came at 34% but your target food costs from a national average is 34%. What would happen? Well, you'd be a number of points. You'd be eight points above where you're supposed to be. That means you're giving your kitchen manager your chef a gold star, but they're actually losing 1000s of dollars each month, even each week, because you're using the wrong target. So you can quickly see that a national average is not your target. But back to our numbers. If you budgeted food costs at 25% That's what you needed to do to make money and your actual food cost is 26.42%. Then you'd be losing 1.42% over your budgeted number. Right actual to budgeted on 1.42% above budget. If your gross food sales were $31,000 for let's say a week, and that's what the calculation was for. Then you would have well been $440 over budget. That doesn't sound like a lot does it? But if you continue to do those results, the same results $440 over budget over what 52 weeks, then you would lose $22,880 In a year in wasted profit. controllable in your control every single day. But I would dare say you would not be happy with your kitchen Pro. You'd be like you'd be really upset. But remember your ideal food costs before you go fly off the handle and say oh my gosh, my kitchen manager my chef and soy sauce lost me a point and a half for easy math. Do you remember your ideal food cost in this example I had you write down was 24.5. Also, you remember that? I said a rockstar kitchen pro would run above their ideal food cost. Do you remember what that number was? One and a half to two points. That means I would have a rockstar kitchen manager or chef if he or she ran an actual food cost of 26.5. Well, for our example, they did better than that. They did better than that by hitting a 26.42 that's under 26.42 actual food costs. This means they are doing an incredible job running in their kitchen. It means they're ordering on budget. They're controlling waste preventing depth teaching great knife skills, training to recipes. They have portion controls on the line they execute prep systems and so much more. They are by God a great kitchen pro but wait to make money. Our budget target was 25%. This means the current menu cannot hit the number we're in need in order to make money. In order to make money. We would have to do something really bad. Right? We'd have to go against our core values cheat our guests cut corners. Buying shitty product is never the answer. I will never have you reduce portion sizes based on what you're supposed to put. Now we may decide to do it in a recipe card, but we're never going to cheat the guest see when you compare your ideal cost of goods sold of 24.5 to your budget cost of goods sold of 25%. This quickly demonstrates my kitchen Pro that they need to reengineer my menu to get our ideal food cost down to 23% Because at 23% it puts us in a position to achieve the 25% budgeted number because they're already doing a great job and only being two points above their ideal. So 23 plus two points gets us to the 25% and we can make money. So when I teach this to in my many seminars, workshops, speeches, I teach us often I'm going to tell you I'm extremely direct. If you've ever seen me in an audience I set up and if you've ever seen me teach these three things. I am really direct to a false audience in and I go Hey audience when you walked in my room, you were probably ignorant to the fact that you need to know three food cost calculations budgeted actual and ideal. I say I continue, continue with it then share with them that well. What I'm about to teach them is going to change their world. And if after listening to me and learning what I teach them, they decide to go home and not to work towards putting all three calculations in place on a weekly basis. Which I know is going to be work and I go into I don't care how long it takes you. I don't care if you work on it right away or it takes you years as long as you continue every single day working towards knowing those three numbers because you understand why they're so important. But you go home and you do nothing. Then you walk in my room ignorant but you're walking out my door stupid. You understand what I'm saying? Like once you know if you're anchored to something that's that's a little past we get to because we don't know we don't know we got to learn, but I'm going to show you step by step how those three numbers are important that you can't just use to your actual and some random number that you read in a magazine article. Instead you need to know your budget and your actual and your ideal because they tell different stories and help you make change in your business to achieve your profitability with your menu. I'm gonna tell you right now, I would express the same thing to you because you've taken the time to listen to me. You've taken your notes. The time is now to learn how to implement those three systems so that you can measure again I don't care how long it takes you as long as you work towards understanding.

Listen, I know there's more to learn. I know there's more behind learning the calculations and taking action to understand all three food cost numbers to put it in place. I know that and that's why I do what I do from posting weekly YouTube videos on my YouTube channel David Scott Peters, posting a blog at David Scott peters.com where I share and I teach sharing my podcast with you each and every well every other week I should say, right restaurant prosperity formula. Well, I've got a two day seminar in Las Vegas two times here may in November. I sell my book restaurant prosperity formula what successful restaurant tours do and they offer my restaurant transformation intensive group coaching program. I do everything in my power to give you the information to make a change in your life in your business. From free to paid, depending on how you want to learn and how much DSP you want right? But I'm gonna tell you this, if you're ready, and you really want to learn that if any of the things that I offer can help you on your journey to restaurant prosperity to gain freedom for your restaurant, the financial freedom you deserve. Then I want to invite you to jump on a call with one of my member mentors, Ryan James that 15 minutes you spend with Ryan is your gateway to getting on a discovery call with me which could end up changing your life. And that's no exaggeration. To learn more and talk with Ryan, please email him directly at Ryan ry A N. Ryan at David Scott peters.com. He 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 training being checked by accountability. You are on your way to creating prosperity for you in your restaurant, too. I have something I need from you. Please leave a review on Apple podcasts, Spotify or wherever you happen to listen to podcast 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. 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.