Hey there restaurant pros. It's David Scott Peters and welcome to episode 46 of the restaurant prosperity formula. I've been coaching restaurant owners since 2003. And the restaurant prosperity formula is 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. Today's topic is going to answer the age old question of what should you do if your actual food costs is running much higher? than your ideal food cost? Let's get started. But first, a word from our sponsor. 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 deploys a 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. Did you know that every Friday travel schedule permitting I do a Facebook Live and my private Facebook groups is called shoot the shit with the SP well if you've been following me for any length of time, you know that's an appropriate title. I have two groups. One of my groups is from members. These are my paid coaching members part of my group coaching program my one on one my mastermind groups. These are my members. The second group is called restaurant owner coaching and support. You can find it on YouTube search it out. And this is for those of you who are not members to give you access to me. The idea behind the live show called shoot the shit with the SP is to invest about 30 minutes out of your day to get pumped about the upcoming weekend. Get excited about crushing your goals and finding the motivation to be the best year possible. Plus, on those lives I answer your burning questions. It's like getting free coaching. At the time of my recording this podcast on my last Friday shoot the shit with DSP. One of my newest members asked me a question and the question was What should we do when our actual food cost is running much higher than our ideal food cost? And this was such a great question I answered on the live but I wanted to dive into it in greater detail and shared with you. In a perfect world. Here's what you need to have in place to answer this question accurately. Number one, you have to have current up to date, accurate recipe costs and cards both for your batch recipes that assume side dishes, sauces, components to dishes, desserts, anything you manufacture yourself, plus your item recipe cards which is anything you sell to your guests. So recipe cards are critical. The second thing you've got to have is a point of sale system that you can run up P mix report. product mix, velocity report item by item sales mix report doesn't matter what they call it. What did I sell? What did my customers actually purchased from me during a single unit of time? Whether that's a week, a month a year does not matter from this point to this point. What did they actually purchase? The third thing is weekly food inventories because we're going to talk about how important it is to make sure we know what's on our shelves that we can calculate our food costs. Now let's start off with defining and understanding what is your ideal food cost and how is it calculated? Your ideal food cost is based on if your kitchen operated perfectly. There was no perfect restaurant which does not exist. And a perfect restaurant does not exist. This is actually ordered. I'm gonna give you an example. It's it's a nasty mathematical term called a weighted average. So let's say you have a two item menu. This is what I used to workshops and seminars I used to give live before the pandemic right. We'll start doing those again here soon, I hope. With that said the theme restaurant only sells two items. The first item is a 1% food item has a 99% food cost during a any given period of time we'll call it a calendar month. You sell 100 items and you sell 99 of them at a 1% food cost and some 99 items that have a 1% food cost and only one at a 99% food cost.

What would your food cost be? About 1% because you sold one item at a high food cost that doesn't move the needle. Vice versa. Same menu different month we sell 100 items again and 99 of them at a 99% food cost and one at 1% What's your food costs 99%. You see, based on this weighted average what your customers actually purchase. This is what determines what your food cost should be. This allows you to sell a frozen appetizer out of the box at a 38% food cost because you don't sell so many of them. But because you you sell the living heck out of your hand cut fresh cut french fries, and a 5% cost of goods sold you can run a really low food cost. So the only way to know what your ideal food cost is, is you've got to have recipe costs and cards and your product mix a POS system because your ideal food cost is basically based on what your customers actually purchased. Not some industry average not 34% I can have a steakhouse running a 38% food cost and make money because a cash contribution and I can have a pizza pasta place running at 22% and make money. We're not going to dive into prime cost and and why one higher one lower weaning labor versus cost of goods sold is good or bad or indifferent. But we are going to continue to focus on your actual food costs because remember the question is my food cost is running much much higher than my ideal cost. So we know what our ideal cost is. Now that's based on theoretical no waste no step no spoilage perfect restaurant based on what my actual customers purchase and accurate up to date recipe costs and cards critical. So what is your actual food cost? And how is it calculated? This is what your food cost is what most people say hey, what's your food cost? This is based This is that number. Your actual food cost is based on what actual leaves the shells for basically the money that comes in the door. So the idea is if I were to run a 30% food cost it means that for every dollar comes in in food sales I use 30 cents in product. So if I have a $15 burger and I've got you know lettuce, tomato onion, the burger patty itself cheese, I've got fun I've got french fries, you get the picture. Well every dollar comes in we use 30 cents in product so we kind of 3d print the burger and french fries, right 30 cents at a time until boom. I've got my product. Now here's the deal. The only way to know your actual food cost is to take inventory. So I get it. Many of you listening to me right now have not taken an inventory or you do it's once a year and it's kind of goes like this. It's tax season your CPA calls you up and says What's your year end inventory. You say what was it last year? And they tell you and you say add $500 That's not taking inventory we actually have to count our products for value. By the way, counting product to place an order is not inventory. Inventory is counting every item on the shelves, knowing how much the value of each ounce of cheese to, you know a gallon of sauce. Do you name it a case of French fries, whatever's on the shelf what the actual value is. And we told her up to know what we have on the shelf. Well, that's your beginning inventory. And for the most part, your beginning inventory is your last inventory taken which is often the ending inventory from last month. Or in my case I want you to do it weekly. They take your beginning inventory plus your purchases. Doesn't matter if they're paid for or not. Anytime a truck drops out drops off product your back door. That is a purchase today. I don't care if you pay for it 3060 90 days later, and I do that's a whole nother story about cash flow and what have you but the truth of the matter is we follow something called called accrual accounting or an overuse. So every time you sell something, whether you collected the money or not, that's the sale according to the government. Every time you have product delivered, whether you pay for it or not. It's an expense that day that it shows up. And then use is this process of taking inventory. That's what we're going to do right now is figure out how when we calculate our food costs determine what the use is, and that's an adjustment in inventory on our assets and increases or decreases our purchases. Our use if you will. So again, beginning inventory plus purchases doesn't matter if they're paid for or not. When you add those together that equals your total available how much product you could sell. We subtract from that the ending inventory taken at the end of the period. Again, whether monthly or in my case I want you do it weekly. This gives us our use what actually left the shelves beginning inventory plus purchases minus ending gives us $1 value gone.

Well, how can you use your products? Well, number one, we hope we sell it. Number two, there is waste and spoilage where you throw away half case of tomatoes when the lurch has a hand that is so large instead of using portion controls, grabs french fries and throws them on a plate and instead of bounces on the plate eight or nine gets put out on every plate that's waste, spoilage Western tomatoes that are turning every Thursday because you're over ordering. You get the picture. There's theft. Oh yeah, theft is useless to you don't get money for that product. And last but not least are comps that are not wrung up. So if you're an owner and you want to take tax advantage your business and you're having a barbecue this weekend and you grab a case of ribs and burgers and buns and you get the picture case of beer and keg whatever you may be, you've taken putting your back and back your truck and zoom go off. Well, we need to make sure we're tracking that whether it's rung up or not, in this case, cops that are not rung up. So that we can say hey, that really didn't use based on the restaurant. He was me taking the product out the door. So we know we use products we sell it, it's wasted, spoiled, stolen, or you took it out the back door and it's your prerogative. So we take our use What left the shelves divided by gross sales, and that equals your food cost percentage. So again, in the example if I have a 30% food cost, right, it's 30 cents on every dollar comes in. That's what we're calculating. Now, I do want to take a sidestep and say remember, if you've been following me for a length of time, gross sales is the ring at the register before discounts have been removed and not including sales tax. That's important. Now did you know that the average restaurant runs seven to nine points above their ideal food cost? Remember ideal food costs? Perfect restaurant don't waste milk them no spoilage perfect restaurant which does not exist based on your accurate up to date recipe costing cards and what your customers actually purchased what your food costs should be in your restaurant with your customers. A perfect restaurant which does not exist. A typical restaurant runs seven to nine points above ideal. So if your ideal food cost was 30% Typically we're gonna see 37 to 39% food costs. And if I could count how many times I see that or I have seen that in the years I've been coaching since 2003. It would blow your mind. Did you know that while a typical restaurant runs seven to nine points above ideal that if you had a rockstar chef or kitchen manager, I mean they are just drilling down the numbers they have well trained staff they've got they're kicking ass. The best I've seen them do is one and a half to two points above ideal. That means if we had an ideal food cost of 30% if they ran a 32% food cost you have a rock star in your hand. Which means most kitchen managers or chefs may run three or four points above and we're going to be really working on at all times trying to get those last couple points through implementation of systems and menu engineering. So again, now we know what ideal food cost is. We know what actual food cost is and we know the variance. So it is not unusual for somebody to ask me, why is my food cost so high? And why is it so so much larger than my ideal food cost? So now that we're on the same page, let's answer my members question. What should we do if our actual food costs is running much higher than our ideal food costs? What are the concrete steps you can take? Let me give you my short list of actionable items, things that you can do today. And again, I understand we're making an assumption. You got recipe cards and a point of sale system. We're making an assumption you're taking inventories right for value. So here's my actionable list. Number one, you're going to implement what I call the key item tracker. That's where we count five to 15 items. Every shift, the beginning and the end of the shift. We compare it to what was actually sold, and we find out what the variance is so if I started with 15 portions of of shrimp into baggies, and I portioned another 15 I have 30 to to go and at the end of the shift I count and I've got five left, right that means I should have sold 25 Well if I go into the POS system and I find that I sold 20

There's five missing. So what we're trying to do with the key item tracker is prevent theft. See if you've been standing there six, eight hours during that day, that's your shift. If those are missing, there's only one person responsible and that's us been standing there. So we keep honest people on so we're going to reduce that. Now those five s weren't. We're not we're I guess we're missing. They should hopefully be on the waist tracker. If they're not they've one of two problems happening right now. Either one, I have that for worse than death. I've managed to do that using the gosh darn systems I put in place to control theft or prevent theft. You get the picture. You see how I see things I put systems in place to allow me to impose my will without being there. If I don't use the damn system, then I don't get the cost benefit do I? So that second system as I just referred to as the waste tracker, this is just keeping track of we're throwing away half a case of tomatoes, salsa servers, double littering. We have shellfish going out of date. Somebody dropped a burger. We had a training issue and somebody burned a steak you get the picture we're just tracking any reason why we're throwing away products and other night dumping knife pans because the rice got got brittle we've got soup that dehydrated too much you name it the whole idea is not to play I gotcha right with your team was to did wrong. Instead we get to see what the problem is today and fix it today instead of 15 days in next period. When we get our food costs from the major accounting to go Why is your food cost high? Not looking backwards, but instead seeing today that we had a problem and I can fix it today. Training repositioning somebody firing somebody changing how do I order how I utilize the product. You get the picture proactively changing. Now oh by the way, the key item tracker in the waste tracker booth clipboard systems to clipboard systems. They are the two easiest systems put in place. I cannot tell you how easy it was to put them on a clipboard and show people how to use them. They are the two hardest systems in the world we can use on a daily basis. Why? Because it requires a manager to inspect them every single shift and make sure they're being used. Because the moment you take your eye off the ball, they're no longer in place. So it's critical that managers with the system. The third system to add to the key item tracker and waist tracker that is incredibly powerful is what I call the restaurant check for guardian. It's also known as a purchase allotment system. A budgeted food costs, forecasted sales, my menu mix, tracking my actual sales my DSR tracker on a daily basis, and an invoice log and a paid out log to track what food purchases were only I can tell your managers how much money they can spend or their next order to me within budget. Which means I can then set a limit on things $500 over budget. You can just order what you need. Because here's how much money you can spend. Now if you go $1 Over one penny over $500 You cannot place the order without asking me for permission. See what it allows me to do is give up ordering without giving up my checkbook. I'm no more gonna walk into my restaurant with $3,000 of extra food on the shelves because I gave up ordering and somebody this shitty job. I didn't train them. But it also gives them reflow action to fix any problem they have in the restaurant and that's me write a check. Nobody looks to see that there's a problem. See if I go over budget before I can ask for permission to place that order because you the owner the only one allowed to go over budget. I have to come to you with problems I found in the solutions I put in place that we stopped making the same dumbass mistake day after day after day. It's a simple spreadsheet. These two clipboard systems in the spreadsheet combined I promised my members I in fact I guarantee them that they'll drop their food cost two to three points. No recipe cards no inventory, no major systems so those things on there alone now. alone make a huge change. And here's a few more things you could put in place. One line checklist

is your line setup is everything right along with it like checklist. Number five is a time step checklist. And number six amazing plus checklist. Is everything in its place. Do we have the right portion tools ladles and tongs and what have you, is everything safe the temperature, so we're not losing product or hurting somebody. So we're ensuring that our product is right. Then we add to that free portioning products as many as possible, so that we're not on the fly just kind of grabbing cheese and putting it on a pizza. Instead, we're popping open a little little Tupperware kind of container and dumping the shred. So it's still loose. It's not being compact, and it's the same every single time that we've got a scale in a metal bowl and throwing french fries and weighing it to make sure it's still six ounces and then dump it on the plate. Ensuring that we're following the actual recipes. Right not overusing products. And last but not least number eight is a PREP System. Because my prep too much I'm throwing away product I prep too little and pissing off my guests and we're in the middle of the rush running off the line to chop onions and that's when we get railed in the kitchen falls down. By paying attention to our product with pre portioning and a PREP System. We have a huge opportunity to control and close that gap on our ideal and actual food costs. exceed the ultimate goal is that the exercises to tighten your kitchen controls to run two points above your ideal food cost. That's it. We're always looking to strive towards bringing that goal not seven to nine points above ideal but to and I will tell you that first two three points and I guarantee you with to clipboard systems and the restaurant checkbook guardian to give a boarding without giving up your checkbook. That's easy because most restaurants run seven to nine points above ideal by paying attention your product. Then we add those other little systems in place that require management to pay attention. Create a culture where the details matters to show your kitchen that you are paying attention and all of a sudden, that gets reduced, waste gets reduced. We start controlling how we use our product and you can't help but find your food costs have dropped. Now what do you do if you don't have recipe cards? What do you do if you're not taking weekly inventories? How do you lower your food costs? And I get it. Many of you listening to me right now don't have any of those things in place. Well, here's the beautiful part. Use the exact same eight systems I just listed out. What you won't know is what your ideal food cost is or your actual food costs and food costs are. But what you will see is your bank account getting larger. In a future podcast, I'll basically dive into what you can do to actually change your ideal food costs through the science of manual engineering. We're not going to do that today. In the meantime, if you want to learn more about controlling your food cost, your labor cost your numbers and much much more. I want to make sure you do two things. Be sure and follow these two things. One, I want you to go to YouTube, and I want you to search my channel, David Scott Peters. Now do know that as many of you know I had an old company, no move company, my original company that my business partner walked me out of years of YouTube videos there. What I want you to do is to keep watching it's still great stuff, but I want you to find my new channel. That's only two years old David Scott Peters, and that's where the freshest newest stuff is there to help you change your world. So make sure you go to YouTube. Find David Scott Peters and subscribe to my channel. And number two, I want you to go to Facebook. I want you to search for my private Facebook group that you can join. Again it's called the restaurant owner coaching and support we're going to do is you're going to find it. You're going to click the bass to join. There's gonna be a couple of questions or your restaurant owner or your general manager. Are you willing to follow the rules? Okay, that's important. If you don't answer the questions I'm not letting in. My administrators aren't letting you in. So go there understanding you're gonna answer those very simple questions.

And then I want you to join me every Friday at 8am Pacific Time 11am Eastern Time for shoot the ship with the SP I'm going to be there now. 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 and your restaurant. To buy 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. does wonders for me and three. If you find any 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.