Hey there restaurant pros. It's David Scott Peters and welcome to episode 47 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 you on a daily basis to achieve their success. The basic premise of that formula centers around achieving prosperity, freedom for your restaurant and central freedom you deserve to achieve press radio have to follow a very specific formula made up of leadership systems, training, accountability, and taking action. Today's topic is reducing your food cost by using manual engineering basics. You're not gonna want to miss this one. But 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, and you need to visit repeat returns. Repeat returns is a modern marketing platform created by a restaurant owner for restaurant owners. It studies each customers habits and patterns and predict 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 and if you've been following me for any length of time, by now you've heard me talk about the rising cost of products fuelled by inflation. We as an industry have been raising our prices on our menus just to keep up with this. This record increase in costs. Exit the beginning of 2020 to your cost your food costs have risen at a pace where if you didn't make changes to your menu by now, cost one two even three points to food costs. And let me be perfectly clear, while I have no problem raising prices on your top one, two or three items and even close to a point where your guests looks at what they pay for a meal and it doesn't equal the value what's on the plate. This is a dangerous time for us. At some point in time. We can't just keep raising our prices. So what's a restaurant owner to do? I'm gonna tell you right now it's reengineer your menu. Now what do you need in order to take this step right to re engineer what starts with a budget? As you know, I tell you the two most important systems any restaurant jabber budgets and recipe cost cards by the way, what are the two systems most restaurants never have? budgets and recipe costing cards why they're so hard to frickin business I know to be in and then the leader of your business you have a responsibility to think proactively and that requires a budget to create your and for success. What numbers you're going to put in place to achieve those numbers. Well, you're gonna see in this lesson, they're critical to your success. And both of these are proactive systems. Let's focus on the budget right now. I really care about in this budget scenarios. What did my prime cost total cost of goods sold plus total labor costs including taxes benefits insurance is critical to follow the industry standard of 65% If you knew $1,000 a year more in sales, right 50 Or more in sales gross sales a year. Your prime cost target is not that the industry average is 65. It's 55%. That's what we have to do to make money because we have all these additional services from third party delivery services to losing one two points to gloves in the last two years. So we've got to make sure we're making money 55% or lower. As we approach $2 million. We started to get the 50% and lower. Now if you do under $850,000 or more in sales, we're looking at a 60% target so you're gonna have to know where you are. And I will tell you that there is no magic pill to saying we're gonna use an industry average on food cost or labor costs. I get asked that all the time. See your prime cost. You could be in a tip credit state where your labor cost is really low and your food costs can be high. Vice versa, you could be in a a $15 minimum wage safe and you're gonna have to drive your food cost down in order to keep your private costs to the five or under. And so this is why budgets are so important. What systems are you going to put in place to achieve those numbers? Now why is it important for this, this argument or or this discussion about reengineering I should say, Well, how do you know where your food costs should be if you don't create a budget. Now when we engineer the menu reengineer the menu we have a target to shoot for and we can take the steps necessary to achieve that number. That's critical. Next, you need accurate up to date recipe costing cards. This is critical. In fact you cannot re engineer your menu properly.

Period. What I hate is when the broad line distributors are these menu companies saying just tell us what what your most expensive items are or the things you think you make the most money on. How the hell do you know you don't accurate up to date recipe costing cards. You're literally engineering and menu blind and in fact, you could reengineer your menu to lose money faster if you're merchandising the wrong items. Next, you gotta have a point of sale system by now. Everyone should have a point of sale system I remember when I started coaching back in 2003. I'd still run out of one relative one out of 10 operators still in that POS system like it was brand new technology. I have a point of sale because we're going to use one of the best reports they can possibly produce. That's your product mix report. What your customers actually purchased. It's critical this to this process. You're going to need food and beverage software. We'll talk about that in a little little more detail in just a moment. But I'm going to tell you right now you can't do it without software properly. And last but not least if you start looking at reengineering your menu you must have a willingness to make changes to your menu. If you say I will not get rid of any items I will not raise the prices I will not change product I will not make any changes to my menu that don't even start the process. Lose the money hand over fist like you've been doing. But you as the leader of your business. I know that's not you. That's a fixed mindset person talking you're a growth mindset person, which means there's a challenge in front of you. You cannot learn it you cannot work and you can outspend it you can find a way to be successful and make the changes in your business necessary. Now you might be asking yourself again I kind of mentioned real quick software. David, do I really need to have software? You do? So let me kind of first talked about the process of recipe cost cards using a spreadsheet. This is how I did it back 20 plus years ago. Build your spreadsheets. Build your recipe costing cards. And then as I get to one item, let's say I have a pizza and I know I've got cheese well I'm going to look at the invoice how many ounces I have on there. And I'm going to type the information in static, what the quantity of the product is the price of the product based on my yield and so on. And I can type in all the data and then when I do the next pizza I look up what my cheese cost is again and this case pepperoni. And then the next case I do it again I look it up one at a time at a time at a time. When I build the next version of the car to the next recipe card has got to start all over. That's maybe not so hard because I know I just use that product a minute ago and I can go find it. Well if you complete your recipe costing cards with a spreadsheet, you know the day that you're finished that next day they're wrong. Why? Because another truck is dropped off food at your back door and your prices have changed. And I can tell you that doing recipe costing cards, whether in spreadsheet or on paper and pencil or in software. It's gonna take you 4060 100 man hours of work, and to do it right is a whole process that I teach. But the truth of the matter is, for all intents and purposes, if you don't have software, your products out of date so what I mean by this well let's talk about the process of recipe cost cards using software. Imagine you build your recipes. After you build your product. Your products are number one, the products you buy from all your vendors and you set it up for how you're going to buy it how you store it how you use it. Then we start with our batch recipes. Batch recipes are any sauces, soups, side dishes, desserts, oh, dressings, and any components to dishes. So if I diced onions you took a case of onions you cut off the top you got rid of the skins right the outside you chop them up well wait a second, how much? How many ounces does does that case of onions or baggies I should say yield and what is the cost of that? So I've got to do my batch recipes because that's now the products I manufacture the ones I buy in the ones I manufacture. Now, what's beautiful is it's a database so when I go to use that cheese again I type in the cheese and it pops up and I choose the unit of measure done easy but more importantly, it's magic. You grab your phone when the invoice comes in, take a picture of shoot shoot it up into the cloud, the interwebs and the next thing you know your recipe cards are up to date your next orders up to date your next inventory is up to date, just like that. And that's the power of keeping up with your recipe cards because things change on a day to day basis. So hopefully you understand you need software now being somebody who created software, right 2003 I started my restaurant training coaching company seminars, workshops, training products, coaching mastermind groups, but eventually turned into a software company. Well, I'm going to tell you today my members and this is not my old software because that's an all in one. We're going to talk just about food and beverage. The one my members choose is margin edge. Now let me be very clear. I've got a contact there that I want you to talk to that he knows you came for me and I'm gonna be dead straight with you. I do not make a commission. I do not earn any money. I don't get any presents. I don't get anything but there's one person I want you to talk to you birth zero. And in order to do that to make life easy, you go to margin edge.com forward slash DSP for David Scott Peters margin edge.com forward slash DSP opt in there. So Bruce knows you came through this podcast and he can take care of you.

That's the software I'm going to recommend right now for you. Now before we go through menu engineering, the techniques involved let me be sure we understand the concept of ideal food cost. Now this may be review for you because in the last podcast episode I talked about how you find the distance between your ideal and actual food cost. So this may be a little bit review but in that podcast I also said that we'll be doing this one to help you with manual engineering. So here I am true to my word. So here's the deal. If you have accurate up to date recipe costing cards, your product makes from your POS system. So what it costs, what you pay what you charge your guests for and how many sold of each. You're going to find out what your ideal food cost should be not some national average of 34% You could be a piece of place with pasta and maybe run a 22% ideal food cost. You can be a steakhouse and being that high 30s Does not matter in this instance, it's based on what we call a weighted average. That allows me to sell anchor appetizers frozen out of a box like when I was a franchisor into the fryer and a 38% cost of goods sold but didn't sell so many of them. But we did sell the hell out of our hand cut fresh cut daily cut french fries at 5% cost goods sold. So the more I sold french fries the more the 3% did not affect me. So the best way to describe that is let's say we have a two item menu that's all we have. One item is a 99% food cost and the other one has a 1% food cost and then the calendar month you sell 100 items 99 of them at 99% food cost them one at 1% What's your food cost? 99% What if the same menu next month 100 items 99 items are sold at 1% food cost and one at 99 What's your food cost? 1% See, you can't know what your food cost should be in your restaurant without accurate up to date recipe costing cards, your product mix period because this is based on the food you should have used for the money came in and now this is called ideal cost. Meaning there's no waste no step no spoilage perfect restaurant which does not exist. So I want to be perfectly clear that you will never hit your ideal food cost. It is impossible. If you do then somebody screwed up the recipe cards on purpose or by accident. So the key is I will tell you that most restaurants run seven to nine points above ideal so we've all this room to fix things. But that's not what we're going to talk about. We're going to talk about just as a reminder, a rockstar kitchen manager chef will run one and a half to two points above ideal. So our threshold when we reinjure Remy Greer engineer our menu and we're trying to reach a certain food cost we know our ideal food cost needs to be at least two points lower and that we have our ship together in the kitchen, reducing theft stopping dumbass mistakes training, you get the picture. Now let's dive into menu engineering basics. To start off when talking about the three different kinds of menus, we have a single panel menu that you know that if from the middle up if you eyes, hit the middle of the menu and go up you'll sell more at the top of that single panel menu. Do you know if you have a two panel menu that opens side by side right so you have two panels in front of you that in the upper left hand corner all the way up in the upper left hand corner to a quarter way down on the right side. Anything this upper right hand side will sell more. You know if you had a three panel menu, one that opens to the left then opens to the right that there are three panels that in front of you that your eyes start in the center, and then move to the upper right of Ross to the upper left and down to the bottom left, back up to the upper right and down to the bottom right and finally, to the middle of the center panel. That means in that upper right hand side of the third panel to your far right anything in there as it has three eye movement passes to it. It also means that in that center panel all the way the bottom our eyes barely ever got there. This is where we put our sodas our side dishes our our food warnings, our health warnings, right? So by putting things in a certain spot, you can influence what your guests are going to buy, thereby changing your food costs. Menu copy is so important. So for instance we don't want in the sandwich section breast of chicken sandwich, lettuce, tomato mayo and provolone cheese 1095 That's a grocery list who wants to spend money on that? Or you could say we have a teriyaki chicken burger, a savory grilled chicken breast brushed with a sweet teriyaki sauce top with Hawaiian pineapple and melted cheddar for 1250. Which one would you rather buy? I'd spend the $2 More on that item because it makes me want it. So descriptive copy matters.

I want you to think about make it easy for me to read. I'm 55 years old. I do not like to travel with my reading glasses so I don't and so when you see me turn on the light on my phone to read your menu you got a menu problem. If you see my hands reaching away from my body as far as I can because I don't want my readers you got a problem. But along with that one of the things that makes it hard for me to read menus is when you have cutesy fonts. I'm going to tell you now the principles behind this are don't use more than three fonts on your menu. So in your section headers a appetizers, I want to use a sans serif font. That's like a Helvetica and Arial their strength letters. Were when I talked about the item. I like a sans serif as well. But when I do the descriptive I like Serif fonts serif was a little curlicues on the end like Times Roman, it makes life so much easier for me to read the items which ultimately means I'm going to buy it. I want you to avoid having a price list. That's when you have the menu item going straight across and sometimes you have dot dot dot, dot dot both dollar sign and price. You train your guests to find how much they want to spend or what they don't want to spend and they hone in on certain items ignoring the rest of your menu. You do not want to have a price list, it will crush your food costs. Did you know that if you have 10 items listed five side by side that the first second on the right if I look at it in the left hand side the first item the second item and the last item on the right hand side. Do you know those will outsell anything else the first second and last? So if I know what I want to merchandise and I can put it in the right spot, I can outsell anything. I want you also to think about labeling your prices. So when we have the descriptive copy, I want you to have a space no dollar sign. I don't want you make it so large, so small that it's either screaming that would be a capital letter. Right? If I text message you in all caps 795 yelling at you or I don't want it's so small that I'm whispering and I can barely see it. I wonder if prices are one space after the descriptive copy. No dollar sign not bolded but I have font size the for font size smaller than a capital letter. It should be in between a capital and lowercase. Just making a little more subtle. And I also don't want to orphan it and that means it's on its line by itself. Now, I want you to create price flexibility by using what I call odds and pricing is something I learned a long long time ago. But pricing you make it harder for your customers to detect the increase. Now this doesn't work for those you use 00 Right. If you're going to raise the price, you're going to raise it $1 That's just the way it is. But if you're using pennies on your prices, I like having 25 cents 50 cents, 75 cents and 95 cents. Because let's say I've got my burger now at $15 which blows my mind right do you think we'd ever come to where we are selling a burger? For $15 If I sell for 1525 and there's a change in pricing is my cost and I want to jump it up to from 1525 to 1550 because my guests really noticed now if I go to 75 Do they notice know if I go to 95 or they notice know when I go to $16 then they notice so that gives me the opportunity to kind of hide my increases without shocking the guest fee. This was an important one I like 50% whitespace whitespace is literally whitespace I don't care for that red menu on the background black or whatever but whitespace meaning there is space around each menu item that I can see that half your menu should not have text on it. Now I will tell you warning. This does not mean bigger paper. It means fewer items which is a whole nother topic we can talk about another time. I also remember we talked about 10 items first second last outsell anything else does you know if you put a box around something will outsell the first second and last item. You know if I put a picture on it if you're a concept of restaurant concept, that pictures are applicable. They're appropriate for your restaurant. That picture will outsell the first second last and any box item influence what our guests actually purchase. It will tell you the power of pictures is unbelievable. Put a picture on the menu, one in each section, maybe two in each section if it's appropriate. Watch those items get sold like crazy. So how do you decide how to use these engineering basics? To use something, you'd have to create a spreadsheet one that I've created and had programmed to operate. It's kind of like software like many of my systems, called my menu profitability

monitor. Allows blouse you put your category name from appetizers, salads, soups, sandwiches and so on. Your item names and then you have the recipe cost, what the recipe costs and cards says the cost to make that item. Then you have what you sell it for the gross sale price before discounts. And you have how many have you sold of each that comes from your POS system. And by doing so we can find out a ton of information. What our food cost is by section from appetizers, soups, salads, sandwiches, entrees and so on. And what percentage we sell that we find were a burger restaurant and that 35% of every item we sell is a burger. We know that that section is where we can make the biggest impact in our business. We can also find out how many we sell a day so that if I have items I don't sell at least two three a day. They might be on the chopping block and I can change my food cost. So menu profitability monitor, otherwise the sheet to help you find your ideal food cost is critical to this process. So once you have the spreadsheet what we're going to do is we're going to sort it, we're gonna set we're sorted in my world world is a quantity in descending order, while we sell the most to the least. This allows me to identify my top sellers right away and my bottom at the same time. Look at both your cost of goods sold and your cash contribution contribution. That's awesome. subtract it from the menu price. So that's to make life easier for me. I said sold an item for $15 but a to $5 recipe costing cards. Five minus subtracted from the 15 says I'm going to make $10 gross profit before my labor is paid before it paid any other bills just cost of goods sold. This is important because sometimes we want to be purchasing items or selling items I should say that raise our cash contribution because I don't know about you. Profits don't pay my bills. Cash does. That's a whole another topic for us to discuss in the future. I need you to understand the effect of your menu mix and if you change your mix of I sell more of one item will it drive my food costs down or it will increase my cash contribution or both. Because knowing that can help us decide what we're going to merchandise to change our bottom line. Then I want you to start to create scenarios to determine the best changes for the best results ranging from raising prices, reducing costs, reducing portions, adding subtracting items and manipulating your menu mix. So once you've created your MPM once it's done it's ready to go. I want you to again, I'm going to do this slower this time, Use the following steps as your guide. One, know your goal is at lower food cost or higher cash contribution and sort accordingly. In my case, most of the time we're going to be looking at food costs. We're going to pay attention to cash contribution as we price items, but it's usually food costs. Remember to raise the prices on your top one, two or three menu items. Now there's a little flexibility in that. But with that said if it's that damn good, it's that damn good at any price. So if my top seller is buying off the shelf, and It's to die for then it's a value at any price by raising the price on the top 123 items because the volume is so high. Maybe the price of tomatoes has gone through the roof or no tomatoes on those three items. They're on other items. They sell so many items. And I've raised the price of these top sellers to raise the price on every menu item. In fact, raise the price on those nets have tomatoes on them. I've already made up for the cost difference. Three dropped losers, when I sell one a day or less you don't sell one a day you sell one on a Tuesday, three and a Thursday and the rest on a Saturday which means you have a cook that can go three weeks and the printer comes up and they put it up there on the rail and go oh I've made that item in three weeks and then reinvest the dish which throws your food cost off, changes your guest satisfaction because it's now an inconsistent product. So we're going to get rid of those losers that we don't sell a lot of, but we don't get rid of the customer. Instead, we take let's say 50 items were sold in this time period that we've got less than one a day. Where do those items people go? So if I had a tuna fish salad and the salad and salmon salad, and I got rid of the tuna, odds are those 50 people are going to salmon. If I have an appetizer sampler I may have to split those up amongst the other items that were in the sampler to begin with. And use your best judgment, your gut feel.

Number four, you may decide to add new menu items. This is where being willing to change your menu is critical. All too often we get stuck in our way and many of our menus today are producing too high of food costs 3637 38%. And what we've got to do is say hey, I may get rid of some of these sections or some of these items, and I need to bring in pizza, flatbreads, pasta sauteed something that makes sense for my menu, because by adding those to the menu I can drive my costs down. Now guess what? If you add a menu item, you have to steal those customers from other items saying it's going to change or influence my mix. Five means reduce the cost by buying smarter, changing products or reimagining a dish. So if I look at my menu costs and it's got a 38% food cost, maybe I can talk to the vendor might provide a better price for this product or light quality or better quality product at a cheaper price. Right so by changing the product never dumbing down to buying a shitty product but maybe less expensive, same or better quality. I can reduce the cost that item changing my profitability. Or maybe I have to reimagine a dish instead of the chicken sandwich. I now take the mail and I put your puppy in it now a chicken the chicken, chipotle mayo sandwich, whatever it may be. Name it something different and now I'm in charge something much better. So you've got control but you've got to remember what your priorities are. Now, I used to promise my members menu engineering basic for the first time most restaurants could drop their food costs by three to seven points. It was magical. that things have changed in today's high inflationary environment to get that kind of change. That kind of movement may require real change to your menu. Again, being willing to not only use the manual engineering techniques, but you actually make some fundamental changes to your menu without changing your concept by staying true to your core values and still providing your guests the best value possible. So this takes me back to the beginning that you as a restaurant owner it's your job and work on budgets. To train your managers lead your team, hold them accountable. Lead the business forward marketing to think strategically. Menu engineering or reengineering your menu is one of the biggest strategic planning things you'll ever do. And with the right information, you can make this happen. But for many of you listening to me right now, you may have to start working on your recipe costing cards. You may have to go get some software go to margin edge.com forward slash DSP talk to Bruce Earl did it in place because when you have accurate up to the recipe cost cards not only do we have the ability to order on budget, do we have the ability to look at ideal versus actual product usage. We have the ability to walk take inventory easily accurately in less than an hour on every Sunday. We have the ability to engineer our menus to make the money we deserve. start down the path of proactively managing your business today and start on your recipe costing cards and then manual engineer your business to success. 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 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. 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 as David Scott peters.com A 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.