Hey there restaurant pros. It's David Scott Peters and welcome to episode 61 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. Today's topic I focus on the common issues restaurant owners face when it comes to their budget variance report, and how to avoid them all together to have the freedom from the restaurant and the financial freedom they deserve. 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. I want to start off by sharing a cliche I probably overused and that is that which we measure improves. Another cliche probably overused is garbage in garbage out. Now why am I talking about them here today? Let me break it down for you. Because I talk about the most important system any restaurant should have or budgets and recipe costing cards, but I really focus on the importance of budgets all the time. What I don't spend a lot of time on is the common challenges restaurant owners face when it comes to their Budget Variance reports. And that's what I'm going to dive into like into detail right here. Now, let's first start off with the budget process and kind of the review process. Now again, this may be review for many of you have been listening to my podcast for a long time. But it's always great to hear it again. And that is when I work with members. One of the things that I say is again, two most sporting systems that any restaurant should ever budgets and recipe costs and cards if I followed up with what are the two systems most restaurants ever have budgets and recipe costing cards, and I go why? Because you're too hard boo freakin hoo. You're in the toughest business. I know you've chosen this as your livelihood. You owe it to not only your family, but to your employees and your guests to run a profitable business and to do so you've got to have a plan for success and that's what your budget is. See the budget processes. We asked for your trailing 12 months of numbers, give us your p&l probably coming from QuickBooks or our 365 or some other accounting platform. So give us that 12 months all in one spreadsheet. And what do we do with that? We find out what your sales mix is we find out what your sales are by month, we find out where your cost of goods sold is we know where labor costs is by position. We know what your monthly expenses are, whether they're variable or fixed expense and we build a budget template that says if you operate the next 12 months the way you did the last 12 months. Here's how much money you're gonna make or lose and I want you to pick it up like it's a dead mouse do not good enough. never good enough. So now we create your plan for success. We decide what systems put in place, how quickly put them in place to achieve the numbers you desire. So for example, we might see a 38% food cost and we say okay, well in month one, we're going to implement the key item tracker. Well, what does that going to do prevent theft? The waist tracker stopped dumbass mistakes and then put you on a budget teach you what I call the restaurant checkbook guardian, where we tell your managers how much money they can spend on their next order be within budget, allowing you to give up ordering without giving up your checkbook. These systems aren't magic, their work, but the reality is you put those three systems in place. I can almost guarantee you a two to three point drop in your food cost. That's no recipe costs and cards, no shelf, the sheet inventory, no heavy lifting whatsoever. Just by preventing theft, stopping dumbass mistakes and putting your team on a budget, specifically in the kitchen. So we say hey, month one we're going to implement these systems but I can't hold your management team accountable for something they just learned or are learning. So month two, we drop your food cost call it three points from 38% to 35. And then we say we need recipe costing cards. And that's going to take you X number of months. And we say okay, by this month we're gonna do what I call menu profitability monitor where we analyze your ideal food cost. And then we can menu engineer what do we raise prices on what do we get rid of? What do we change ingredients on? How do we reduce portion sizes? Do we add new items? How do we shift people by merchandising an item and so on? And through science of venue engineering and all this information we already have. We can move the needle and reduce your food costs to a level that needs to be in order to achieve the prime cost target you're shooting for. So all of a sudden we say me month four, we're going to have that done month five, we're doing the NPM month six a brand new menu and we go from 38 to 35 to 26 whatever that number is to achieve the numbers you need. Now you'll notice in that whole process is it wasn't just the numbers we picked out of the air. We talked about how we're going to achieve them, what system we're going to put in place. How are we going to train the managers how quickly we're going to put in place what results we expected and that's the power of the budget. Now, I'll tell you then we come into on a monthly or periodic basis whether month 13 period accounting, which is periods and there there are 1328 day cycles for weeks at a time or monthly accounting January February March right you get it. So no matter which one you're on, we still have to make sure we measure and see what it is. So what we do is we have our budget and we get our profit and loss statement at the end of the period with its month or four week cycle. And we type in the numbers what were my sales were my cost of goods sold numbers what my labor numbers what were my monthly expenses, and we see where we should have been. But we thought we do and we actually did that this is powerful. Because now when I say hey, I was supposed to make $14,000 Last month, we only made seven. what systems do we have in place of managers weren't using that I need to retrain those managers hold them accountable those systems and change my budget. Or maybe they hit the numbers. What new systems do I knew it in place to achieve the numbers I want? How quickly am I going to do that and adjust the budget. See, we just don't look backwards and go Oh, I lost $7,000 in profitability. We say how do I make that back making small changes without giving up guest satisfaction without cutting product quality without going against your core values. You actually put your plan into place to achieve the numbers you deserve. And the only way to do that is have a Budget Variance where they hit where he missed where he had where he missed. So this is where the first cliche comes in. That which we measure improves. Do you understand that you can put the plan together and all too often most restaurants put together that budget the first time when they go to banks ask for money then look at it a year later. Go oh look what we what we we did. And then often people read my book and they they opt in I think it's chapter three or four you opt in to get my budget builder MVP lesson, and spreadsheet that you can use it yourself on Google that you can put together your budget because I want everybody to have that tool. And then you you build it and you forget about it doesn't matter what your plan is you put in place if you're not going to measure to see where you hit or missed so you can change that plan. That's powerful. Now that sounds pretty straightforward. But it really isn't. And I often forget that. Like I've been doing this for 20 years, I budget budget budget when I tell you the hundreds if not 1000s of budgets I've done by now. And that's why it's why I chose this topic for this podcast, because I have to remind myself that you don't have the years of experience I have when it comes to budgeting and sometimes we get numbers they just don't look right. But I also can tell you, it's exciting to complete the budget process with a brand new member or an existing member for that matter. The hope they see the real life plan they put in place to achieve their restaurant goals, fills my heart with joy. I can tell you completing the budget process together is what I explained to any potential new member like we're on a discovery call as the most important thing we will ever do together.

And when do we do that? We do that in my restaurant transformation intensive group coaching program. And to a member This is one of the biggest things that actually has weeks in the program and the 24 weeks of lessons the 30 weeks of group coaching calls, I think takes up four weeks of time. It involves getting information to us and Mary on my team. Make sure that informations together right puts together your template hits on a zoom with you you verify it and then we get on one two, if not three to our zoom calls, where we go line by line by line. There's nothing we won't talk about. No squirrel that we will not chase no rock we will not look under to create your plan for success. And when you're done you go man, I can achieve this. Not some number that David Scott Peters said you need to achieve you decide and you tell me that it's possible. Doesn't mean I won't push it doesn't mean we won't learn and I will teach but the fact that matter is it is so rewarding. In fact it is the number one thing you get out of my restaurant transformation intensive group coaching program. Now, as a monthly or 28 day period goes by, right whether January goes by or the first four weeks of the year, doesn't matter. Then we enter in our actuals like we talked about in the budget builder MVP, Google Google budget cheat. Now, I created for them, right with Mary's help with a members help put all this information we created put it in the cloud man let's go back to that that's your plan for success. And then almost to a person after they enter in their first periods information whether month or four weeks cycle, they set up a coaching call set up a zoom with me because our numbers look wack. And that's because of cliche number two, garbage in, garbage out. That's the thing about software spreadsheets, it doesn't matter. If you don't use the right numbers, then you're not going to get the right results. Again, put garbage numbers then you get garbage results out. So it can throw you a curve when you look at your budget variance and go where the hell did we go wrong? We put together this plan and we're not hitting that plan. So if you use the wrong numbers, you can get a result that makes you look like you don't know how to run a restaurant and incorrectly make your bottom line look very bad, when in reality it's not. Let's first walk through a couple of things you need to know about how I set up a budget. The first thing is understand the difference between cash accounting and accrual accounting. cash accounting is earn up sorry collected paid for it. Let's get that right I say these things all the time collected paid for cash accounting is collected paid for. That means if you collect money, it shows up on your p&l as sales. If you pay a bill, that's when it shows up as a sale. Now in our industry we don't really don't collect the money every day whether it's a credit card and we get the money from the credit card company other day it's a sale we collected that day. Maybe a catering from time to time you have somebody on terms and you receive it later. But for the most part, we collect the money the same day so cash accounting lines up fine. Oh it doesn't line up fine. Because paid for. And so what happens is, let's say you're on terms with your broadline distributor and 3060 90 days later is when you pay the bill well that means you have sales that look high. And you may purchase food for a month that is you know, really busy. And then two three months goes by and you're out of season and sales are really low. But because you pay the bills in that month, that period your bills are really high, your purchases are really high. So all of a sudden, your food cost looks absolutely astronomical because you paid the bills for when you were busy in the slowest month that you have all year long. Oh by the way, since you have inventories the IRS wants you to file your accounting your taxes in an accrual basis anyway. So what is accrual accounting? That's where I started where I goofed up earn, oh use if I earn it, whether I collect the money or not. It's a sale today. If I owe it it's an expense today. So whether I am on terms where a distributor or vendor does not matter, as soon as that product crosses our back threshold, it's an expense today the data that arrives in my restaurant, doesn't matter if you paid the bill. Oh and us earn owe us. This is where inventories come in. You may have purchased a lot of product but because some of it's still on the shelves you've got to take inventory beginning inventory plus purchases minus ending gives us use that use gives us a journal entry to make sure that use number is all that shows up in the expense What left the shelves for the money that came in. That's your true cost of goods sold. So here's the challenge. When I write a budget, it's accrual accounting for sales. It's accrual accounting for cost of goods sold and labor, but it's cash accounting for expenses. Let me be very clear so we put in your sales for each one of the months and we say what are your sales? Well, that's based on the month that happened doesn't matter when when you collected that money. That's a cruel cost of goods sold are based on accrual accounting, what you use each month. Doesn't matter when you paid for it. With that said labor costs or accrual accounting as well. We want the labor that happened during that month or 28 day cycle to show up on your p&l for that month. Not doesn't matter that I paid the payroll the next month, if you will, right. That one payroll could be accrued in one month, but the pay date falls in the next month that be cash accounting. So we've got to make sure all these things line up. But then we get the operating expenses, and all of which are fixed or variable for each each month each period. That's a cash accounting because I don't care about amortization, depreciation, interest expense. Those are ways that the government makes sure that that I can either reduce my profitability or increase my profitability because they don't want to give you full credit for it. Let's not get into the definition of those things right now. But those are things that for loan payments and so on, we pull it completely out. So we're operating on a cash basis down below. So I want to see the SBA payment, you owe the SBA $10,000 But you know, 2000s Or let's go $2,000 of it is principal 8000. Is is interest at the be painful as heck right? Well, that would show what interest expense of $8,000 which 10,000 left your bank right, vice versa get to the end of the loan and you had $8,000 in principal and 2000 interest 2000 would show up in interest expense I want to show the $10,000 payment, I want to see some cash flow on it. So when we when I write your budget, we write your budget with you. It's kind of based on accrual basis up top cash basis down below. This kind of gives us the ability to measure our prime cost measure things properly, but also see kind of a cashflow. Hopefully that makes sense. It's really powerful. Now with all that said, here are the two most common challenges restaurant owners face on their budget variance report that are both attributed to accrual accounting challenge number one your cost of goods sold thing oh man my cost of goods sold looks wacky that's because they don't take inventories yet. So you remember I said beginning inventory plus purchases minus ending gives us us What left the shelves. Most restaurants are just putting their invoices in right into the expense and that's gonna skew your numbers. If you took a big inventory or I'm sorry, a big order at the end of the month, you falsely look high. Right the last day of the month or last day of your period is going into a weekend and you took your biggest order in the month or the week that normally happens right then in there. Well want that show if I purchase purchase, purchase purchase and the sales are happening next week. I'm gonna look like have this really high food cost. So throws people completely off the that's why labor costs looks extremely high or never never matches up. That's your challenge number two, so it looks really high. Why? Well, how about this? If it looks real high, often it's when you have three payrolls somebody is doing either probably wouldn't call bi weekly payroll every two weeks. That means two times a year, two times a year you have a month that has three payrolls. And one of those is usually in your worst month of the year where your sales are the lowest. It's when you grab a paper bag and you hyperventilate go oh my gosh. We have three payrolls and sales are low. Oh my god, what should I do? And it happens every year. You had a budget you plan for it. But I get ahead of myself. So understand that. If you got three payrolls in a single month, that all didn't accrue in one month did it? So it's going to give you a false number. Hi. Another example might be why your numbers don't match is a crude pay versus check dates. So even if you say, David, I don't I have.

I'm doing weekly payroll. So I don't have that. Three payroll issue. So every week you know it's all going to work out. But one month looks a little off versus the other. Because you accrued the payroll. The pay date is is behind so it doesn't really show when that labor happened in the period it happened. So how do you fix these issues? Well, for cost of goods sold, you got to work towards taking inventory. And while I want you to take inventory on a weekly basis, and that in itself creates a whole nother challenge getting software setup may take you 3060 90 100 man hours do it right in order to get the shelf, the sheet inventory. I can tell you this. While I have a spreadsheet that will automatically give you the end of month inventory, even if you take inventories to make your adjustment because remember, even if you'd have that software all set up, and you're taking weekly inventories where want you don't want to take an inventory again three days later, let's say the end of the week, every Sunday, Sunday, Sunday, Sunday, Sunday night, but the end of the month is three days later but you're on weekly Budget Variance reports for your prime cost with your management team. But now I need my end of month or end of period adjustment so that I can put in my budget variance report. Well, I've got a spreadsheet that gives you the ability using that that restaurant, checkbook Guardian system, and your sales, your target food cost and your purchases to estimate the adjustment you're going to make in your p&l and you're gonna have accurate reporting. So we can fix it by taking those weekly inventories and just using a spreadsheet How about labor cost? Well, you got a choice. And this is where this is where we get the biggest challenges when I'm talking with members. This is when I get that phone call. I get that Zoom set up that email. Holy crap. My budget numbers look so wrong. My labor is out of control. I don't understand, again, whether it's the three payrolls or wrong accrual. So the first option to fix his labor is through crudely to accrue your labor accrue your payroll properly. So you might have a payroll that gets paid let's say it gets paid in this this period, but six days belonged in the last period. The rest, the rest belongs in this period of 14 days six belongs but the payroll happened this month. But what do you have to do? You actually have to make a journal entry that levels out 14 days what payroll would be for 14 days and you take six days of that and move it journal entry, move it into the past month, and you're good to go. And then you have to do it the next payroll and then next payroll on the next payroll, and this is what you have to do all the time. Now it will never be perfect that way. Because it doesn't take into consideration when overtime happened. Whether it was last the week before or this week. Doesn't matter if it's one day straddling. It still won't be perfect by using this accrual method. Option two is if you're on monthly accounting, we can fix this very easily by going semi monthly payroll, where payroll is the first to the 15th paid out on the 20th. The 16th of the last day of the month paid on the fifth of the next month. That means each payroll no matter when the pay date is again the fifth those payrolls fit perfectly in a single calendar month. They're the first day to the last day. That makes life very easy, but that requires you making a change. Now that you won't have three payroll months but every payroll will be slightly higher. And you got to change things on your employees which creates its own challenges. Now option three is the simplest of them all. We've got payroll, we've got all these other systems. But we also understand that our POS system usually keeps our timekeeping data and that we don't submit our payroll until we've adjusted all the in and out times perfectly. And we say this is the gold standard for our payroll. Well what you could do is if you've got your point of sale system set up properly, the way I teach you to make sure that everybody has accurate punch in punch out times as well as job codes and the current up to date pay rates you're paying them. Then you can use your POS report to S and then estimate your payroll taxes and your benefits and you can put that into your p&l. See there are options to make it easier for you the key is understanding where your numbers come from. When you understand these challenges, what they really are as I just described them, you can avoid them altogether and take advantage of having accurate numbers to help you create your new plan. Because every month when you measure that wish measure improves we create a new plan so you change your budget and it allows you to achieve your financial goals. Oh, and since your plan involves implementing systems to achieve these goals, you also develop your management team as they learn those systems as they implement those systems as you hold them accountable to those systems. You start achieving numbers you want giving you the freedom to take time away from your restaurant. See, while I tell people the two most important systems are budgets and recipe costing cards, and while I still create budgets for my members, it still is a learning process. That which you measure improves garbage in garbage out. And I'm going to tell you to a person you're going to have this challenge and we'll coach you through it. And then you understand you start making changes and you learn every single month and you change your budget and you learn and you learn and you learn. This is how we achieve restaurant prosperity. You have to have a plan. You have to measure your plan. You have to change your plan. I hope this helps you again how do you get your hands on this? Well, you buy my book, restaurant prosperity formula, what successful restaurant tours do on all the popular book sites pitching go straight to Amazon. I think it's like $15 Sometimes a little more, sometimes a little less. I don't know how Amazon works, but that works. And you read it through and it's either chapter three or four. It's gonna give you a thing that says hey, go to Dave Scott Peters dot come up. And there's a little bit more to that URL. You're gonna opt in and I'm gonna give you other bonuses as well but you're gonna get the step by step lesson on budgets, how to use the Google Spreadsheet, how to make this Google Spreadsheet your own and put it in your Google Drive and start to change your world. But more importantly, that only when you know how to set it up, not only will you know how to measure but you already are in a position to understand the challenges of putting the right numbers in place. And that can take a lot of stress away and give you the power of budgeting at your fingertips. I hope you all found this extremely helpful. I also hope that you go out and buy my book and go get that spreadsheet because I'm gonna tell you right now to remember in my group coaching program, my premium group coat group coaching program, they're going to tell you that the budgetary process is life changing. 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 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 podcast 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 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.