

Donnacha Huley

**IMPORTANCE OF  
FOOD COSTING**

**BY**

**BOBBY KERR, MIHCI  
NEW PARK HOTEL, KILKENNY**

# IMPORTANCE OF FOOD COSTING IN TODAY'S HOTEL KEEPING

**I LIKE MONEY!!!** You could even say I am sentimental about money and get all choked up about it!!! I enjoy teaching Assistant Managers how to make money. "Profit" is not a dirty word, nor is it what some people would have you believe - undistributed wages! The big question that any future people who might employ you will have to decide about YOU - YES, YOU, is: **CAN YOU MAKE PROFIT?? CAN YOU MAKE MONEY??**

I pose you five questions. Any one of these I could ask you at your next interview, and the possibilities are very real indeed that you will be asked one of them at least each time you go for an interview. I think you know the answers. I hope you do. I will later give you the answers. The five questions are:-

1. WHAT FOOD PERCENTAGE CAN YOU MAKE?
2. HOW WOULD YOU GO ABOUT IT?
3. WHAT ARE THE TEN POINTS THAT DIRECTLY OR INDIRECTLY AFFECT KITCHEN PERCENTAGE.
4. NAME 5 OTHER POINTS THAT DIRECTLY OR INDIRECTLY AFFECT KITCHEN PERCENTAGE.
5. WHAT IS THE POINT WORTH?

When the first question is asked - "WHAT PERCENTAGE CAN YOU MAKE?", the direct answer is - "ANY ONE YOU LIKE". This question generally sorts out the men from the boys. The "Bluffers" are there, the "Know-Alls", the "Unsure" and the "Sure". The guesses will vary from 50% to 70%. Me? Well, I am percentage crazy!!! I like making money, as I said to you. In the old days 35% gross profit was very acceptable. Next year a lot of the hotels will be looking for 80%, and they will need this percentage to survive. I give the formula. That is a quick way of making 80%. Simply multiply by 5.

**Formula: Figure 1**

**N.B.**

**ALL GROSS PROFIT IS BASED ON SELLING**

**NEVER USE COST AS A BASE WHEN CALCULATING GROSS PROFIT MARGINS.**

For example, an orange costs 5p, sells at 25p.  
Gross profit is 20p.

(G.P.)  $20 \times 100 \div 25 = 80\%$

$$\frac{20}{1} \times \frac{100}{1}$$

If you INCORRECTLY take COST as  
a base

Orange cost	-	5p
Orange sells	-	25p
Correct Gross Profit	-	20p
On INCORRECT base cost	-	5p
= 400% Gross Profit!!!		(Wrong Way)

**QUESTION 2: HOW WOULD YOU GO ABOUT MAKING A FOOD PROFIT?**

**ANSWER**

- (a) Ask what percentage is required (less VAT, less staff food).
- (b) Cost accordingly.
- (c) Implement this costing (provided that your market in your area will stand it).
- (d) Resist the "Copy-Cat". The "fellow down the road" is charging cheaper. If your competitor wants to commit suicide, don't follow him.

**QUESTION 3: WHAT AFFECTS FOOD PERCENTAGES?**

**ANSWER**

- 1. (a) Incorrect calculation (wrong fractions - see fig.2 below).
- (b) Using an old invoice for costing.

**Figure 2**

**GROSS PROFIT**

$$60\% \times 2.5$$

$$66.33\% \times 3$$

$$70\% \times 3.33 = 10/3$$

$$75\% \times 4$$

$$80\% \times 5$$

- 2. Buying: for instance if a sirloin is too big, too small, if pin bone is included, if there are four ribs in it.
- 3. "Check In".

4. Storing Time.
5. Preparing - bad butchering, too much lap, bones not cleaned, finding the kidney in the suet with the sirloin.
6. Carving - it is advisable to let a rib set for half an hour to an hour.
7. Cooking - there is a 15% greater weight loss in cooking if you cook at 400 degrees rather than 300 degrees. Tin foil can be used to cover the roast.
8. Docket Control incorrect.
9. Portion Size. This is the most important of all. For instance if you cost on an 8 oz. sirloin and a 9 oz. one **ON THE COSTING THAT YOU HAVE DONE** you are giving one-eighth too much, which is 12.5%. This is your net profit down the drain.

I actually know a hotel in Dublin where the accountants discovered an incorrect food costing. It worked out that had the Proprietors paid each guest who came through the door 50p a head **TO STAY AWAY** they would have made more money!!!

10. **CONSISTENCY.** Last, but by no means least, consistency is vital. If you decide a portion of smoked salmon is 2 and a half ounces be sure it remains at 2 and a half ounces. I know of an actual hotel in Ireland that made the price of a weighing scales (£180) in one week by correct costing.

**QUESTION 4: WHAT ELSE AFFECTS KITCHEN PERCENTAGE?**

**ANSWER**

- (a) **STAFF FOOD**, relative to Turnover. For example:

<b>Staff Food Cost</b> (per week)		<b>Turnover</b> (per week)
£200	20%	£1,000
£200	10%	£2,000

- (b) **CARELESSNESS** - incorrect stock taking. Function not charged, etc.
- (c) **DON'T KNOW** - Either/both - You or the Chef don't know your job.
- (d) **DISHONESTY**, also bad security, spare keys.

(e) **INEFFICIENT DIRECTORS**

- (1) Directors who don't know the key questions to ask.
- (2) No weekly control or monthly accounts.
- (3) No spot check.

**QUESTION 5: WHAT IS THE POINT WORTH**

This is probably the most important question of all, and the one that seems to be least understood by everyone. The answer is simplicity itself. The point is worth **ONE HUNDRED PART OF THE FOOD SALES FOR THE PERIOD THAT YOU ARE SPEAKING ABOUT**. For example, if a hotel turns over £10,000 in a week, and the Chef can only achieve 60% rather than 70% (provided of course that you have designated 70% to be the gross profit that you are requiring), then your food has lost you that week 10 points, or £1,000. It can happen, it does happen, and it happens quite often.

If you wish, at a later stage - we haven't time today - I can show you how to trace, literally, a pound of butter. Also it might be of interest to you to learn at a later stage how the same staff food can actually affect kitchen percentage by up to 4% on varying turnover.

**OTHER THINGS YOU SHOULD KNOW ABOUT KITCHEN PERCENTAGES:**

1. 50% Gross Profit is equal to 50% cost.  
76% Gross Profit is equal to 24% cost.
2. In England they talk about food cost, and they are always trying to get it down. Conversely, we talk about food profit and are always trying to get it up, but it is the same thing.
3. If your other costs - i.e. light, heat, fuel, laundry, etc. are greater than the gross profit you make, **YOU HAVE LOST MONEY**.
4. You probably know and realise that 80% on £1,000 cash is equal to £800, 40% gross profit on £2,000 cash is equal to £800.

Decide the policy before you start management. If you decide to go for a big turnover and low profit that is fine, once your expenses do not exceed your gross profit. If they do, you lose money.

5. It is really elementary. If you don't get people through that door, with very good food and service, it does not matter how good you are as a Hotel Manager, or indeed if you were Einstein himself, you won't make a profit.
6. Don't wait for things to happen. **MAKE THEM HAPPEN**. Decide your market price limit, cost within it. Be certain you are consistent, and give good food. You will make a fortune!!!