

Planning Your Profit

made available by

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Your #1 Goal is to Implement a Concrete Business Financial Plan

Implementing a "Planning Your Profit" and "Focus on Profit" Program into your organization can be fun, exciting, stimulating and challenging.

The control of costs is very important to a food service operator and it can give a better return on time spent than anything else in your food facility. To maximize Profit requires Experience, knowledge, and a good business sense. It requires planning and good supervision to insure that your employees follow through on your plan.

Planning Profit and control is an attitude and it needs your full support. Cost control involves every one of your employees because every minute of the day, in all parts of the restaurant, someone is doing something that affects costs. Cost control involves setting goals and training employees . It is teamwork and requires a total commitment on the part of each employee.

Do your employees really understand what needs to be done and do it correctly? These training materials will help to answer this question and help you to set up a line of communication so employees will understand proper procedures and your standards of cost control. The "Planning Your Profit" program will formulate the knowledge employees need, but this information needs to be communicated to each employee and developed into work skills and work habits.

In the final analysis . . . it is the performance of the employees that is directly reflected in the results. Cost information has to be interpreted and followed properly to achieve results and a certain amount of personal judgement will always enter the picture.

The "Planning Your Profit" / "Focus on Profit" System is complete and fully coordinated, and can be implemented on a daily basis for "Daily Flash Reports" and on a weekly and/or monthly basis for more detailed information. The budget and the comparison of budget to actual is your measuring tool.

The results can be either: **Satisfactory** (as projected); **Unsatisfactory**; or **Better Than Expected**. The objective of any operation is to obtain satisfactory results. Of course, unsatisfactory results reflects a lack of performance somewhere and is endangering the profit objective. Better-than-expected results can be equally dangerous. Just like unsatisfactory results, they must be thoroughly investigated. What is the cause? Was the extremely good cost obtained at the guest's detriment? Were food portions smaller? Was service outstanding? Did the guest feel welcome and appreciated? Were lesser quality food ingredients purchased? Did a low food cost item become a top seller?

The real question is: Is the better-than-expected results caused by a better-than-average performance or justifiable circumstance, or is there a serious problem that should be corrected without delay. If there is a problem sooner or later, the guests will realize it and your sales will decline.

In order to get satisfactory results there are certain basic principles that must be part of the daily activity of all your employees. This is the "Focus On Profit" program. This will require the supervision and training of your employees as well as the management team.

"Accuracy" and "Control" are the key words in determining where you are and where you want to go.

COST CONTROL TOOLS

"Planning Your Profit" and **"Focus on Profit"** are INTERNAL COST CONTROL tools. All expense money you save will go directly to your bottom line. Many times INTERNAL COST CONTROL is confused with ACCOUNTING. There is a definite distinction between internal control and accounting.

ACCOUNTING records the history of the business and is recorded each period in a financial statement. Most of the time the financial statement is received 20-60 days after the close of the period. When it is necessary to take corrective measures it is too late to take immediate action. The detailed information which is needed to evaluate sub-standard performance is no longer available in its original configuration; it is buried in the totals of the financial statement.

While the analysis of financial statements provides valuable information concerning the overall business i.e. it's condition according to the balance sheet and profit and loss statement. INTERNAL CONTROL concentrates on specific areas within the P & L statement i.e. management controllables, payroll, and food cost. **"Planning Your Profit"** includes preparing a budget. It measures the performance of the business on a daily/ weekly and monthly basis and is centered around your budget. It is designed to provide timely information that allows management to correct cost control problems areas AS THEY OCCUR. It causes things to happen immediately; it is a performance gauge on how well you are controlling cost and helps you to operate within your predetermined parameters.

Planning Your Profit is a business indicator that is set to provide the food service operator with a DAILY reading on high cost and/or high variance items. It is also designed to provide WEEKLY and/or PERIOD END information for the operator as well.

Planning measures performance by comparing ACTUAL performance with the budgeted performance of any and/or all cost item(s). It also allows for a comparison which indicates whether or not progress in control is really being made.

The most difficult part of any internal cost control system is to set standards that are realistic and achievable under normal conditions. Once installed with accurate budget information exactly the way that the owner/operator wants them, the measurement of performance is simple. When performance is measured employees respond with top performance. This is rewarded with maximum profits.

While the ultimate objective of Planning Your Profit is to maximize profits there are many other benefits as well. Planning your profit creates management awareness which helps the management team develop a better "feel" for operational standards; which compels management to find better ways of doing things to become more efficient and more effective.

"Focus On Profit" will pin-point areas where the employees need additional training. This makes the operation run smoother and allows for the exchange of ideas and information that helps the employees gain experience and a more in-depth understanding of the philosophy of the business.

"Focus On Profit" improves employee morale as they are given appreciation for achievement and they learn self-discipline as "accuracy" and "control" becomes a part of their work habits as they "Focus on Profit!" It makes employees work smarter, not necessarily harder. As they are molded into a championship team the employees gain more self-esteem which reinforces their outstanding performance to attain even greater heights.

The synergistic results of outstanding employee performance prompts better supervision which reinforces better guidance, training and direction for the employee; which develops "an atmosphere of greatness" within the restaurant; which increases profit to provide an edge on the competition while making more capital available to do those extra things that can improve the operation for the benefit of the customer.

EVERYONE WINS WITH "FOCUS ON PROFIT"

- * Ownership
- * Management
- * Employees
- * Customers

The win/win situations listed above do not always become immediately recognized. There is normally a transition period, while everyone is learning what "Planning Your Profit" and "Focus On Profit" is all about. The length of this transition period depends on managements' desire and eagerness to reach top performance and maximum profits.

At the very beginning, until installed and mastered, things may even appear to get worse and somewhat complicated. Control procedures may feel like an imposition taking some precious time away from management. (These problems can be minimized if the management team has done proper planning and is extremely well organized) But as the installation process takes form, with a little perseverance soon everything falls into place and growth and progress becomes apparent and as the employees begin to respond to the "Focus on Profit" program their performance improves and costs go down.

The installation phase is a conditioning period which demands time, effort and involvement on the part of the entire management team and the key employees. You have the responsibility to pre-prepare yourself prior to their involvement so everything will run smoothly. That means that you need to read and understand the entire "**Planning Your Profit**" manual. You will also want to attend the "**Planning Your Profit Application Seminars**". The seminars will help you to learn and to become familiar with all aspects of your food service operation.

You have the responsibility and the opportunity to bring your key employees and management team together to insure the accuracy and to make good use of the data that the budget information will generate. Involvement by your key employees and management team is a critical factor to insure that you maximize the benefits that can be obtained. This **"Focus on Profit"** group should meet on a weekly basis and discuss methods to eliminate variances and instigate cost savings. In most cases this meeting should only last 30-40 minutes and every segment of the restaurant should be represented. i.e. purchasing, receiving, food preparation and production and service. In a small operation this group may consist of 2 people whereas in larger operations this could be 6-7 people. We do not recommend more than 6-7 people attend this meeting. The entire responsibility of this group is to maximize cost effectiveness and to **"Focus On Profit"**. They will review the reports each week and determine and prioritize the appropriate action steps to take in order to maximize savings. This group may also discuss previous action taken and make necessary adjustments. Use printed agendas for the meeting and use a printed **Plan Of Action** listing individual responsibilities. We have sample forms which will be discussed later in this manual. Whereas Tuesday is the slowest day of the week for most operations we recommend that your "Focus on Profit" cost control meeting be held then. The meeting should be held immediately after /or prior to a change of shift when all of the appropriate people are normally scheduled to work anyway. The time and the day of this meeting should be constant and the manager and/or District Manager should conduct the meeting.

Control of costs is a team effort and it takes team involvement in order to be a huge success. The following information on the installation of **"The Focus on Profit" /"Planning Your Profit"** Program creates this group involvement during installation and is carried over into the actual operation phase.

**"PLANNING YOUR PROFIT/ FOCUS ON PROFIT"
WILL REDUCE COSTS
BECAUSE
GOOD MANAGEMENT WORKS \$\$\$**

"PLANNING YOUR PROFIT/ FOCUS ON PROFIT" MOTTO:

**THIS IS A
PROFIT-MAKING ORGANIZATION.
THAT 'S THE WAY
WE PLANNED IT, . . .
AND THATS THE WAY IT IS \$\$\$**

Planning Your Profit

Profit is not something that just shows up on the bottom line. To maximize your profit takes careful planning, work, and effort. **Profit is essential.**

The amount of profit earned in a business is determined by the profit attitude of the owners and the proper management of the location.

How much profit do you want to make?

Once you have decided how much profit you want to make, how do you **plan your profit?**

The amount of profit earned in a food service operation is directly related to the profit attitude of the owners and the proper management of the location.

Profit hinges around the Targeted Ideal Food Cost. It is the Targeted Ideal Food Cost percentage that plans the profit. It is the management of the operation that determines the profit. In other words planning without follow through will not produce results.

There are several different expenses of doing business. Some of these expenses you have control over, some you do not.

The examples on the following page categorize the expenses of doing business. It should be noted, that of these expenses, "Cost of Goods" is the only really flexible expense of doing business.

This Cost of Goods is called the **Targeted Ideal Food Cost**. This is the Cost that is needed to achieve the desired profit, in order to maximize your return on investment.

The equation for determining the Target Ideal Cost of Goods is really quite simple.

The total sales dollars will equal 100%. If the expenses of doing business are subtracted from this total, it will leave a percentage that must be divided between two areas; **Profit, and Cost of Goods**. If the desired profit, (the percent profit needed to maximize the return on investment), is subtracted from this number, the remaining percentage will be the Cost of Goods that must be achieved in order to reach the desired profit. **This is the Targeted Ideal Food Cost**. Let's figure your restaurant's Profit and targeted/ideal food cost. Fill in the blanks.

$$\begin{array}{r} \$ \underline{\hspace{2cm}} \quad 100\% \text{ (total sales dollars)} \\ \underline{\hspace{2cm}} \% \quad \text{-Fixed Expenses \%} \\ \underline{\hspace{2cm}} \% \quad \text{-Management controllables \%} \\ \underline{\hspace{2cm}} \% \quad \text{-Payroll \%} \\ \underline{\hspace{2cm}} \% \quad \text{-Profit \%} \\ \hline \underline{\hspace{2cm}} \% \quad \text{=Targeted Ideal Food Cost \%} \end{array}$$

- * Sales Volume is driven by satisfied customers.
- * Use payroll as a tool to insure that satisfaction of the customer.

On the next page you have two examples of how to determine your Targeted Ideal Food Cost, which is determined after you have planned your profit percentage.

Plan Your Profit, Food Cost Is The Only Real Flexible Expense Of Doing Business

Percentage Costs Of Doing Business Example #1

Fixed expenses	23%
Management Controllables	17%
Payroll	22%
Profit	10%
<hr/>	
Targeted Ideal Food cost	28%
<hr/>	
Total Percentages	100%

Example #2

Fixed expenses	15%
Management Controllables	13%
Payroll	20%
Profit	17%
<hr/>	
Targeted Ideal Food cost	35%
<hr/>	
Total Percentages	100%

**Food Cost % Must Be Determined *After*
You Determine Your Desired Profit**

It is the Targeted Ideal Food Cost percentage that determines your menu prices. Menu pricing is one of the most controversial considerations in the food service industry. In order to determine where you should price your menu, it is recommended that you do a menu analysis taking into consideration the following;

1. The Targeted Ideal food cost percentage you seek to achieve on individual menu items should vary inversely with your risk of loss or spoilage. Thus, as the risk of loss or spoilage increases, the more essential it is that you strive to achieve a lower food cost percentage. Conversely, as the risk of loss decreases, you can more readily afford a higher food cost percentage.
2. The preparation time needed to prepare the menu item should also be taken into consideration. Menu items that require intensive prep labor should have a proportionately lower food cost. (Foodco will allow you to take prep labor into consideration.)
3. The Targeted Ideal food cost percentage should vary in direct proportion to sales volume. Thus, the higher the sales volume, the higher your ideal food cost percentage can afford to be.
4. Ideally, one wishes that every item on the menu be characterized by low cost and high volume. Realistically, however, your menu items may be categorized in any one of the following four categories:

High Volume/High Cost	=	Popular but not profitable
High Volume/Low Cost	=	Popular and profitable
Low Volume/High Cost	=	Neither popular Nor profitable
Low Volume/Low Cost	=	Not popular but profitable

It is important that you ascertain your Targeted Ideal Food Cost percentages according to cost/risk factors and the sales volume of each menu item. A Foodco Cost Control System is an excellent management tool to help make such determinations.

You also need to take into consideration the menu group i.e. Drinks and French Fries will have a lower food cost than Steaks, or Lobster. **The question of what your Targeted Ideal Food Cost should be can only be answered by each individual owner/Manager.** On one hand, your customers must be assured of sufficient value to warrant their continued business. On the other hand, you must insure that you earn sufficient profit to remain in business and to maintain your desired lifestyle. The following is only a suggested Target/ Ideal food cost guideline:

Appetizers	=	20 - 35%	Breakfast Entrees	=	25 - 35%
Mexican Food	=	20 - 30%	Breakfast Side Orders	=	20 - 30%
Italian Food	=	20 - 33%	Lunch Entrees	=	30 - 35%
Children Meals	=	35 - 50 %	Lunch Side Orders	=	20 - 35%
French Fries	=	10 - 20%	Dinner Entrees	=	30 - 45%
Beverage	=	5 - 20%	Dinner side Orders	=	20 - 40%
Soft Ice Cream	=	15 - 25%	Salad Bar	=	30 - 50%
Desserts	=	25 - 50%	Salads	=	30 - 40%

The Owner/Manager must determine the Targeted Ideal Food Cost Percentage for each menu item.

Installing "Planning Your Profits / Focus On Profit" Within Your Organization

PERSONAL PLANNING SESSION

- A. Determine Food Cost, Payroll, and Other Controllable expense information. Fill out work sheets and begin the collection of budget data.
- B. Establish who is to be in the "Focus on Profit" group and when the weekly meeting will take place and schedule the first meeting.
- C. Make assignments for collection and verification of data such as:
 - * Employee Questionnaire
 - * Additional Food Cost information needed
 - * Additional Payroll/scheduling information needed.
 - * Other controllable expense information needed
- D. Arrange scheduling so that the participants can spend **one to two hours** on their assignments. Make a schedule for a series of 15-30 minute meetings to answer their questions and begin implementation of assignments for each participant.
- E. Prepare appropriate packets of instructions and work sheets for each member of the group and make a printed copy of the schedule for individualized meetings with each team member. Give them time to study and analyze packet information prior to the individualized meeting

NOTE:

The success of your installation and the acceptance of "Planning Your Profit/Focusing On Profit" by your employees will be directly related to how well you plan and organize your initial meeting. It is essential that you take the necessary time to do an outstanding job and to involve each of your key employees.

You have an example of the P&L budget worksheet on the next page and a key employee questionnaire on the page following it. It would be a good exercise for you to fill out the key employee questionnaire yourself.

COMPANY - WIDE STRATEGY

Expenses must be looked at as a means of improving your competitiveness. Expenses can give you a competitive edge if they contribute to your goal of serving your customers.

"Do you need this expense in order to service your customer?"

If the answer is "no" then phase out the expense. If the answer is "yes" then evaluate if an increase in the expense will also increase your competitiveness and serve the customer better. Expenses should relate to your mission, if they are not directed toward your mission eliminate the expense.

Budget Worksheet

Location _____

Restaurant: _____
 Month _____ Year _____

Budget And P&L Worksheet

Budgets due by last day of prior month
 In-Store P&L due 1st day of each month for prior month
 Computer (first run) due 3rd of each month
 Computer verified P&L due by 15th of month

ACCT. NO.	Account Description	Last Year Budget	%	Last Year This Month	%	Variance	This Year This Month	%	Variance	Comments
4100	Food Sales									
4200	Beverage Sales									
4300	Other Sales									
2250	Sales Tax									
	Total Net Sales									
5100	Cost Of Sales-Meat									
5300	Other Food/Grocery									
5800	Beverage									
	Total Food Cost									
	Theoretical Food Cost									
	Total Gross Profit									
7101	Manager Salaries									
7102	Employees Wages									
7103	Training & Meeting Wages									
	Total Labor									
7201	Employee Payroll Taxes									
7225	Group Insurance									
7220	Workmen's Comp. Insurance									
7295	Other Employee Benefits									
	Total Payroll Taxes & Emp. Benefits									
	Total Labor and Labor Expense									
7850	Cash Short & Over									
7805	Office Supplies									
7700	Utilities									
7414	Small Wares									
7402	Uniforms									
7820	Telephone									
7904	Maintenance - Equipment									
7922	Maintenance - Other									
7992	Entertainment									
7918	Auto Expenses									
7998	Sanitation Supplies									
7498	Other Operating Expenses									
	Total Manager Controllables									
	Gross Operating Profit									
7600	Advertising									
8160	Insurance - General									
8125	Taxes & Licenses									
8120	Rent - Equipment									
8100	Rent - Land & Building									
7823	Administrative & Supervision									
	Total Non - Controllable Expense									
	Total Net Operating Income									
6900	Other Income									
	Total Other Income									
	Total Net Income									

Budget Worksheet Restaurant Name: _____ # _____ Location _____

Restaurant: _____ Year _____
 Month _____

Budgets due by last day of prior month
 In-Store P&L due 1st day of each month for prior month
 Computer (first run) due 3rd of each month
 Computer verified P&L due by 15th of month

Budget And P&L Worksheet

ACCT. NO.	Account Description	Budget	%	In - Store	%	Variance	Computer P&L	%	Variance	Comments
4100	Food Sales									
4200	Beverage Sales									
4300	Other Sales									
2250	Sales Tax									
	Total Net Sales									
5100	Cost Of Sales-Meat									
5300	Other Food/Grocery									
5800	Beverage									
	Total Food Cost									
	Theoretical Food Cost									
	Total Gross Profit									
7101	Manager Salaries									
7102	Employees Wages									
7103	Training & Meeting Wages									
	Total Labor									
7201	Employee Payroll Taxes									
7225	Group Insurance									
7220	Workmen's Comp. Insurance									
7295	Other Employee Benefits									
	Total Payroll Taxes & Emp. Benefits									
	Total Labor and Labor Expense									
7850	Cash Short & Over									
7805	Office Supplies									
7700	Utilities									
7414	Small Wares									
7402	Uniforms									
7820	Telephone									
7904	Maintenance - Equipment									
7922	Maintenance - Outside									
7992	Entertainment									
7918	Auto Expenses									
7998	Sanitation Supplies									
7498	Other Operating Expenses									
	Total Manager Controllables									
	Gross Operating Profit									
7600	Advertising									
8160	Insurance - General									
8125	Taxes & Licences									
8120	Rent - Equipment									
8100	Rent - Land & Building									
7823	Administrative & Supervision									
	Total Non - Controllable Expense									
	Total Net Operating Income									
6900	Other Income									
	Total Other Income									
	Total Net Income									

**FOOD SERVICE SOLUTIONS
KEY EMPLOYEE QUESTIONNAIRE**

We appreciate you taking the time to complete this questionnaire. Your company is undertaking a program to increase your profit and to reduce your expenses so that all of you may enjoy a higher standard of living through increased compensation. History has shown that key employees know more about the company's problems and their solutions than anyone, that is why we are asking for your ideas and input.

Do you see any problem areas in your area or department? _____
How would you go about solving these problems? _____

(Use back of page if needed)
If you could make any changes in your area that you wanted, what would they be? _____

(Use back of page/extra sheets if needed)
If you could make any changes in the entire company that you wanted, what would they be? _____

(Use back of page/extra sheets if needed)
Do you have any specific suggestions on reducing the following expenses:
Office supplies: _____
Utilities: _____
Small wares: _____
Linens & uniforms: _____
Telephone: _____
Maintenance--equipment: _____
Maintenance--outside: _____
Maintenance--building: _____
Sanitation supplies and paper: _____
Other operating expenses: _____

(Use back of page/extra sheets if needed)
How would you control food cost better? _____

(Use back of page/extra sheets if needed)
How would you control labor costs/productivity better? _____

(Use back of page/extra sheets if needed)

KEY EMPLOYEE QUESTIONNAIRE PAGE 3

Idea/Project/ Change Chart	What Are The First Three Steps To Implement This	Start Date	Comple- tion Date
1.	1.		
	2.		
	3.		
2.	1.		
	2.		
	3.		
3.	1.		
	2.		
	3.		
4.	1.		
	2.		
	3.		
5.	1.		
	2.		
	3.		
6.	1.		
	2.		
	3.		
7.	1.		
	2.		
	3.		
8.	1.		
	2.		
	3.		
9.	1.		
	2.		
	3.		

WHERE SHOULD YOUR FOCUS BE?

There is always a lot of discussion on "where should I focus my efforts?" Should I build sales or should I work on Controlling costs? Let me share with you an illustration that should leave no doubt in your mind.

I own a restaurant that is doing a \$ 500,000 annual volume. I decide I want to increase my sales by 20%. How much work and effort will this take? How much money would I have to spend? These are totally unknown facts but for the sake of illustration let's say 5% of sales are allocated for marketing purposes. If I increase sales by 20% my annual sales would be \$ 600,000. If I spent 5% of my sales the cost would be \$ 30,000.

The National Restaurant Association indicates that the average net profit of a restaurant is between 2.5 and 4.2%. Lets say that I am netting 4% of sales. If my volume is \$600,000 and I net 4% my net profit would be \$24,000, but to increase the volume from 500 to 600,000 could have cost some extra money, since I spent 5% of sales, but for illustration purposes we will **not** take marketing expenses or time, energy and effort into consideration.

Prior to marketing, to increase sales, my volume was \$ 500,000 dollars per year. If I netted 4% my net profit would be \$ 20,000. Let's say that instead of focusing my efforts on building sales I focused on reducing and controlling food cost, payroll, or other controllable expenses. If I reduced my **food cost** by 1% and my volume was \$ 500,000 I would net an additional \$ 5,000. If I reduced my payroll by 1% ,as well, it would net me another \$ 5,000. If I could reduce my other controllables by 1% this would be a total of \$ 15,000 additional net profit by controlling expenses. Any food service operator would increase their profits more by focusing on controlling costs rather than increasing sales volume. The chart on the next page further illustrates this point.

ANNUAL VOLUME \$ 500,000
NET PROFIT 4%

Restaurant A
\$ 500,000
X 4%
\$ 20,000

Restaurant B
\$ 500,000
X4%
\$ 20,000

Increased Sales 20%

\$ 600,000
X4%
\$ 24,000

No Increase In Sales

\$ 500,000
X4%
\$ 20,000

Decreased Costs 1%

\$ 500,000
X1%
\$ 5,000
+ 20,000

\$ 25,000

**1% decrease in costs
increased profits 25%**

Even though you increased the volume by 20% the net comparison of reducing costs by 1% shows a net increase in net profit of \$1,000 which is 25% more profit (\$ 4,000 compared to \$ 5,000) by focusing on reducing costs, instead of trying to increase sales.

Focus on Controlling Expenses