How to Measure Foodservice Success

By Maureen Azzato

CALL TO ACTION: Foodservice 101

- Cost out every recipe and know what you should expect in profit on each menu item.
- If scanning is not an option, use daily build-to sheets and manually track how many items are prepared and how many spoiled, with the difference being the total number of items sold.
- Do cost inventory weekly, even if you have to count manually using paper and pencil.
- Track foodservice on separate P&Ls before rolling it up into total store P&Ls.

You can't manage foodservice if you don't measure it. Foodservice is a numbers business with costs that can easily get away from convenience store operators if they are not carefully tracked and measured, according to the *Convenience Store News* How To Crew experts.

While automation and technology — such as foodservice inventory and operating software, cost accounting, electronic invoicing and scanning — can all make it easier to track and measure foodservice success, operators that can't afford high-tech bells and whistles can track the business manually using good old-fashioned pencil and paper, one *CSNews* How To Crew retailer said.

"If you don't have good technology, my advice would be to just write everything down," the retailer said. "In my early days, I did inventory in my restaurant every single day and did not use a computer."

If operators have the financial resources, though, foodservice is best tracked using the numerous automation tools available today. Without question, the foodservice business is most successfully measured and managed using a cost accounting system, which allows operators to more accurately manage food costs instead of the retail accounting system utilized by most convenience stores for the rest of the store.

"Cost accounting, or foodservice accounting, allows each individual ingredient you buy to be used and managed for multiple purposes and menu items. That is why retail accounting simply doesn't work for foodservice," the retailer continued. For example, if you buy a wedge of cheese, you can put it on a hamburger that carries one retail price, or on a breakfast sandwich or sub sandwich, both of which could carry different retail prices, he explained.

The retail accounting mindset runs contrary to the foodservice business, according to another retailer member of the How To Crew. "With retail accounting, the concern is only on the items that have 'retails' associated. So if you did food that way, for example, a hot dog would be retail and the bun would not," this retailer explained.

If someone mishandled, stole or threw away buns, there would be no concern or accounting of those actions in a retail system, but there would be cost for what was missing and more cost to replace it. The hot dog, however, would be monitored and tracked because it had retail attached to it, and that would be the only part audited in a retail system.

"In cost accounting, all parts of the sale item are accounted for, which delivers maximum control of the profit and flow of inventory to ensure proper handling, ordering, theft and spoilage controls," he said.

THE Q-FACTOR

While most members of the How To Crew agree cost accounting is the preferred and more effective method for managing the foodservice business, integrating it into a 24/7 retail operation presents challenges. Cost accounting to some, depending on their experience and business background, can be very confusing, according to David Bishop, managing partner of Balvor LLC and How To Crew expert.

"When I started consulting with supermarkets and convenience stores on meal solutions in the '90s, it felt as though we were speaking different languages," Bishop said. "The idea of portion control and food management practices seemed almost foreign, and the topic of knowing your prime cost — or your Q-factor — was met with blank stares. As a result, having an experienced and knowledgeable professional on the team is key, and training and education is paramount to getting off the ground."

Foodservice operators should be able to determine the cost of the cup, lid and the coffee poured into the cup when calculating the true cost of a cup of coffee served. Calculating the cost of the coffee requires determining product yield (how many ounces of coffee the ground coffee used will yield per pot).

"All of these items would then be explicitly called out in the menu costing process/system. The Q-factor is a common term that is short for questionable factor, which covers items that are difficult to measure that support the sale of a menu item," Bishop said, noting the Q-factor may represent items whose costs should be spread across the sale of several products.

Coffee filters, for example, should be considered in the cost of hot coffee, flavored coffee and brewed iced coffee. The costs of straws and stirrers would also need to be considered across the several items for which they are frequently used, including all cold and frozen beverages, and hot beverages.

"While debatable, some operators may even include the costs of all condiments such as PC creamers and sweeteners, but determining which items to include under the Q-factor is a subjective decision, driven by the operation and the approach to managing the menu," Bishop said. "Operators will generally calculate the value of the items used over a period of time and then divide it by the unit sales for the menu items that it could support. The allocated cost would then all be grouped under the Q-factor as opposed to breaking it out separately."

INVENTORY CONTROLS

Strong inventory management processes and systems are key to tracking and measuring foodservice.

"I would do weekly or, at the very least, twice-monthly inventories so you can manage the actual cost compared to the theoretical cost of menu items, and most importantly notice any issues that can

CALL TO ACTION: Foodservice 201

- Do cost inventory and count weekly, or daily for some ingredients that are highly used.
- Build a strong cost accounting system and procedures.
- If you or your company lack personnel with a background in foodservice cost accounting, don't go it alone. Identify resources that can assist with the transition such as software providers, vendors and suppliers, or outside experts.

be corrected before the monthly P&L [profit and loss statement] is closed," said one How To Crew retailer. He also recommended preparing separate foodservice P&Ls "to see what profitability is being derived from the investment in time, money and people needed to create the food program." While the foodservice P&L will roll up into the full store P&L, "it is important to see the food through a different lens."

The main challenge of integrating foodservice cost accounting with retail accounting, according to several How To Crew members, is company culture and training. The key in foodservice is understanding cost inventory, portion control, managing production quantities, tracking spoilage and the impact they have on the profitability of the food side of the business.

"There are tools to both teach and manage all of these factors and that is where the organizational culture becomes important," the retailer said. "If you want to be in the food business, you need to understand it, make it part of your company's DNA and use the available tools to manage it."

It's important to have a strong platform/program that allows stores to easily count and calculate the inventory they have on-hand, according to another retailer on the How To Crew. "The easier it is for stores, the more accurate your inventory counts will be," he said.

Scanning is another important in-store technology to support foodservice management. "If you scan, then you can actually generate the specific ingredients you should have in inventory in real time," one retailer said. Another retailer agreed scanning is "critical," adding that it not only tells you what items you sold "but depending on your program, can also tell you what subsets of items also went out with the finished food item. It gives you market basket information that assists in bundling offers and determining the real profitability of the food program."

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— David Bishop, Balvor LLC

The only foodservice category where scanning is not so integral is dispensed beverages, according to some How To Crew members who say most retailers in the convenience store industry still use price lookup (PLU) keys based on cup sizes. The downside of this system is it does not differentiate between beverage flavors; only beverage type and cup size.

"When it comes to food, [scanning] is a lot more important," one retailer said. "Knowing that you have five types of sandwiches and all have the same retail, but-three of the five represent 90 percent of the sales, is very valuable." While operators can get this information with good build-to programs, "when a store scans and can import that data, it makes it so much easier to identify."

Stores with build-to programs can manually track and write down how many sandwiches they made and how many spoiled, with the difference between the two being sandwiches that were sold, the retailer explained. "This can get you pretty close to identifying sales by SKU without scanning."

IMPORTANT KPIS

How To Crew members are fairly aligned about the most important metrics, or key performance indicators (KPIs), to track foodservice program success.

In addition to the obvious metrics such as dollar sales, gross and net profit percentages and dollars by item, other top KPIs are:

> ## CALL TO ACTION: Foodservice 301
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> - Establish oversight at headquarters to do ratio analysis and measure purchases-to-revenue generation. "This method is only accurate over longer periods of time, but helps signal problems before things gets out of hand," one retailer said.

- Prime costs or the Q-factor (which incorporates food, beverage and labor costs) compared to theoretical/expected costs.
- Units sold by item class and type. For example, biscuit breakfast sandwiches vs. croissant breakfast sandwiches; then also by meat type — sausage vs. ham, bacon, etc.
- Daily spoilage/waste, ideally at item level. Spoilage typically comes from three sources: theft, over-portioning and over-production.
- Days of supply on-hand.
- Market basket of items sold with each menu item.
- Items sold by daypart or hour, and day of the week.

"Spoilage is a big one that can either be tracked as a total on a subcategory or category level, or ideally at item level so you can see, for example, if 5 percent of your items are causing 70 percent of your spoilage," one retailer noted.

All of the KPIs above will lead an operator to control production and preparation, as well as know when to do those tasks, another retailer added. "They will lead you to combo meals and promotional offers, as well as what items were good sellers but have declined," he said. The metrics will also reveal "items that never reached the necessary units-sold threshold and those should be removed from the menu, which

makes room for new item menu development."

From a corporate perspective, foodservice managers and directors must keep their eyes on many metrics that are different from the retail side of the business. "Sales are important, but sales mix is even more important," Bishop said. "Profits are the outcome we all want, but you need to manage product and supply specifications that drive menu costs, Q-factors and production methods that impact labor costs and speed of service, and product waste that may signal a need to change par levels or menu items."

Other basic elements of a foodservice P&L statement include supply costs, labor costs, and repair and maintenance of foodservice equipment, according to one retailer.

And according to members of the How To Crew, if there is one formula foodservice operators should commit to memory, it is this: Beginning Inventory + Purchases + Transfers In – Transfers Out – Ending Inventory/Revenue = Food Cost. This KPI will ensure you take money to the bank. CSN

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- **Joseph Chiovera** — XS Foodservice & Marketing
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