

# 8

## Planning and monitoring usage

- Features of raw materials
- Recipe costing
- Standard costing
- Standard costing for payroll
- sales variances



## Introduction

This chapter aims to show how costs can be planned and their usage controlled through 'standard costing'. In Chapter 4 we looked at the monitoring of costs and in Chapter 5 at pricing. Here we will consider how to plan spending the correct amount on raw materials. This can be fairly complex in terms of recipes, and a loss of standards can easily cause significant cost variances.

We will then look at identifying deviations from these standards – what is due to variances in price, and what is due to variances in quantity used. We will also consider the specific problems of food and beverage materials, which can cause them to be so difficult to manage.

Standard costing techniques can also be used in other areas. We discussed the management of labour cost earlier, but you can also use the technique to monitor labour cost where a flexible workforce is employed and where productivity is important to the profitability of the business. A further use for the technique is in identifying variations in revenue and considering whether these differences are due to volume or price (or both).

By the end of this chapter you will, therefore, be able to:

- Identify the features of food and beverage raw materials that affect their controllability
- Discuss briefly the process for costing recipes
- Calculate variances according to volume and price
- Use the procedure for labour and other cost variances
- Identify differences in revenues, also due to volume and price.

## Features of raw materials

We will first discuss the features of food and beverage that affect the way they are used. Although concentrating on food, many of these are also relevant for beverage.

### Perishability

Food is very perishable, particularly if you use a lot of fresh produce (frozen and tinned obviously last longer). Once cooked, health and safety requirements mean that it can be fit for consumption for only one day, and it can be difficult to recycle afterwards. Menus are often designed so that food is prepared to order that can minimise this problem, but other types of facility rely on buffet-style service. Here are some examples:

- ❑ Carvery (popular in hotels but increasing in staff feeding facilities) which offers very quick service, low staffing costs but potential for high food cost due to lots of waste
- ❑ Breakfast bar in hotels – few now offer a fully-served breakfast. Guests help themselves to cereals, fruit, juices and bread items, so you need a good display to cater for all needs. These can deteriorate easily if not refrigerated so waste can be high here too (ever tasted ‘fizzy’ fruit salad that’s gone off?)
- ❑ Lots of facilities have a salad bar, and salad items can be a major cause of food poisoning if they are not replaced frequently – and mayonnaise looks horrid when it’s dried on top.

Beverage is less perishable, except for cask beer which can deteriorate rapidly if not cared for.

## Desirability

The main concern is that beverage in particular is very desirable for thieves. Spirits can be easily carried out in a handbag or a large internal pocket in a jacket so physical searches of staff may often be required. A policy of staff always showing their bags and pockets whenever they leave can be helpful here. Again it’s a question of attitude and management approach.

### Mini-case

A trusted employee with nine years’ service was caught walking out with a bottle of vodka in her handbag during a routine spot-check. She lost her job and pleaded guilty when prosecuted for theft.

## Processes

Food in particular has to go through a range of processes before it is ready for service – ordering, receiving, storage, issue, storage again, manufacture and then service – all of which have potential control problems. This is called the ‘control cycle’ and we looked at most of the stages in depth in Chapter 7. In this chapter we are just going to concentrate on the final product – the meal or the drink – and how you can ensure that these process controls are correctly used.

## Range of products

Another problem is the number of products actually on sale. Very extensive, diverse menus can be very attractive to customers (think of Chinese or Indian food takeaways) but can be difficult control-wise if not carefully planned. If you don’t want to cause a lot of waste then you need to ensure

that there are lots of base ingredients, such as rice, which can be used in a variety of dishes. The main concern (again) is food poisoning when you have a lot of half-cooked dishes and so, in order to avoid waste (and keep your customers), the menu needs careful planning.

The same is true of beverage – a large wine list looks very attractive but does it sell? It takes a lot of space in your cellar, costs money and eventually may deteriorate. Similarly lots of liqueurs may seem to be a good selling point, but if they are rarely ordered then why bother?

## Portion and usage control

### Beverage

You have by law to sell most items in standard measured quantities so optics, lined glasses or measuring cups should be used. The only exception are cocktails that, although they have a recipe, have fairly variable quantities. A good cocktail maker can achieve good GPs as well as having happy customers.

For standard items, one way of looking at costs is to see what the 'potential' is – say from a bottle of whisky. You calculate how much you've used then see if the sales that were recorded match to this. This is also applicable for beer where you need to be careful not to pour too much into an oversized glass, if you don't have a measured pump. And no, you can't recycle the beer where it's overflowed the glass (but you could keep it aside to see just how much is being wasted, and then pour it down the drain).

Bottles can be stamped when they leave the stores to show that they have been properly issued. This also helps prevent bar staff bringing their own bottles in for sale (and then pocketing the cash). If you are really suspicious then you can mark the bottles (or keep track of the bar code) each day and check what's happening.

#### Mini-case

A popular bar had recently seen its consumption of gin rise but without any real rise in revenue. Initial suspicions were aimed at the bar staff but as several worked together it would be difficult for one to 'fiddle' without the others knowing. There was a lot of distrust, which made everybody feel very unsettled.

Eventually the manager marked the bottles with invisible pen and monitored them daily. She soon realised that it wasn't the bar staff who were the problem – it was the cleaner who came in early each morning when nobody else was around and filled up her hip flask. She also admitted to nibbling at the peanuts but nobody had noticed that.