


FOOD & BEVERAGE OPERATIONS
– Basic Understanding of Food & Beverage Financial Management

Food & Beverage Cost Control

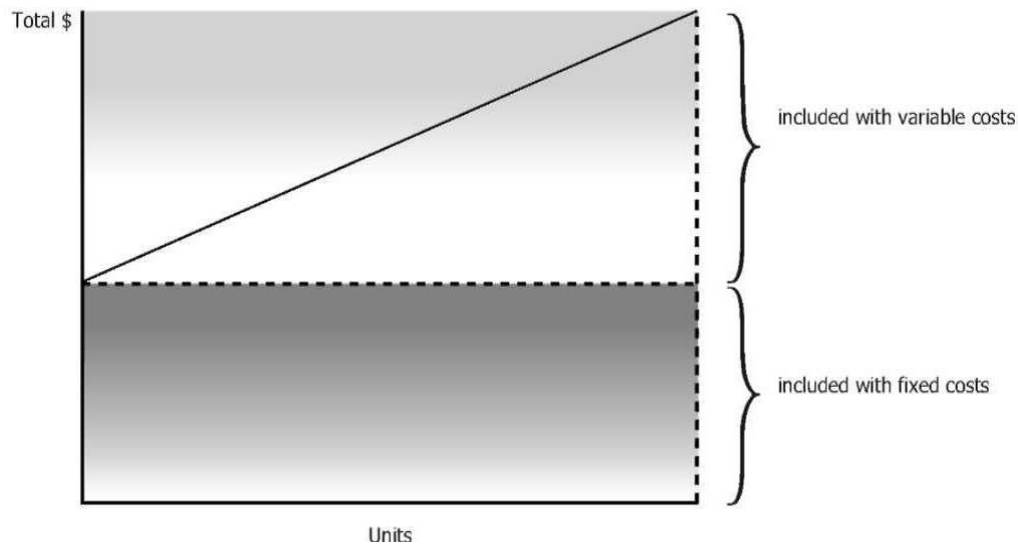
Fixed & Variable Cost

- Labor Cost
- Food & Beverage Cost



Food & Beverage Cost Control

Mix Cost



ACCRUAL

Recognizes income and expenses when the activity takes place to create revenue or obligation to pay

AE

CASH

Recognizes income and expenses when funds are received or disbursed

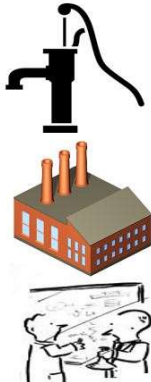
Sunk Costs

Costs that have already been incurred by past actions
They cannot be recovered
They are not relevant to future decisions

Examples

- \$400 spent last year to replace a water pump
- \$2 million spent five years ago on a new manufacturing plant
- \$1m million spent on Research and Development two years ago

When what is done cannot be undone

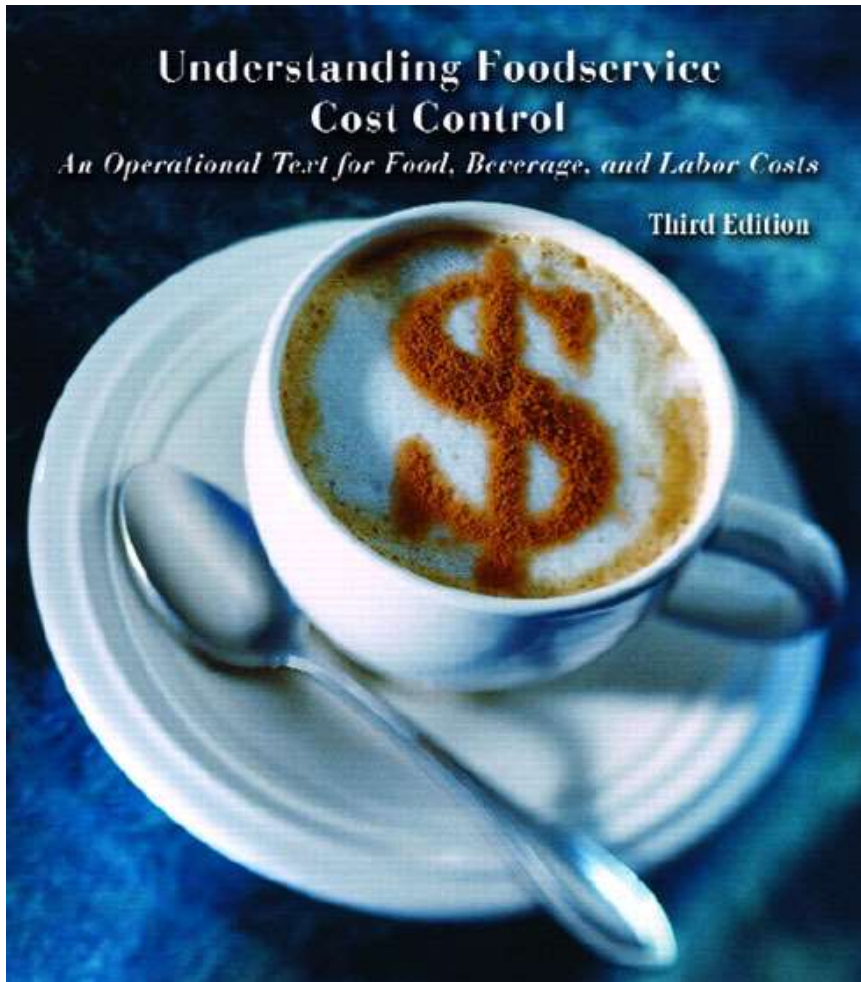


Profit & Loss Statement

	RM
Sales	1,000,000.00
Less: Cost of Sales	<u>300,000.00</u>
Gross Profit	700,000.00
Less: Labor Cost	200,000.00
Less: Operating Expenses	<u>300,000.00</u>
Net Profit	<u>200,000.00</u>

Profit & Loss Statement

	RM
Revenue	
Food	120,000.00
Beverage	80,000.00
Total Revenue	200,000.00
Cost of Sales	
Food	50,000.00
Beverage	40,000.00
Total Cost of Sales	90,000.00
Gross Profit	110,000.00
Controllable Expenses	
Payroll & Related Expenses	35,000.00
Direct Operating Expenses	12,500.00
Music & Entertainment	4,000.00
Marketing	6,000.00
Energy	3,500.00
Administration	4,200.00
Repair & Maintenance	3,800.00
Total Controllable Expenses	69,000.00
Profit before fixed charges	41,000.00
Rental, Insurance	13,000.00
Loan Interest	7,000.00
Depreciation of assets	1,000.00
	21,000.00
Net Profit for the Period	20,000.00



What is Cost of Sales?

FOOD COST & BEVERAGE COST / COST OF GOODS SOLD

Calculating Cost Of Goods Sold

Cost of Goods Sold (COGS) Formula

$(\text{Beginning Inventory} + \text{Purchased Inventory}) - \text{Ending Inventory}$

Food & Beverage Operations – Basic Food & Beverage Financial Management

Metric	What is it?	Equation	Example
Cost of Goods Sold (COGS)	<ul style="list-style-type: none"> The cost to your restaurant of the food, beverages, and any other products sold in a given time period Also known as cost of usage or cost of sales 	$\text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory} = \text{COGS}$	<p>\$4,000 (beginning inventory) + \$3,000 (purchased inventory over the week) - \$1,250 (ending inventory) = \$5,750 (COGS)</p> <ul style="list-style-type: none"> Repeat for every product individually or add up your inventory at once to get your total COGS.
Food Cost Percentage	<ul style="list-style-type: none"> The portion of sales spent on food Average food cost percentage ranges from 25-35% 	$\frac{\text{Total COGS}}{\text{Food Sales}} = \text{Food Cost Percentage}$	<p>\$5,750 (Total COGS) / \$17,000 (Food sales) = 33% (Food Cost Percentage)</p>
Gross Profit	<ul style="list-style-type: none"> The profit made from your sales after deducting the cost of goods sold Can be thought of as a preliminary profit because it only takes into account sales and goods 	$\text{Total Sales} - \text{COGS} = \text{Gross Profit}$	<p>\$17,000 (Food Sales) - \$5,750 (Total COGS) = \$11,250 (Gross Profit)</p>
Net Profit/Loss	<ul style="list-style-type: none"> The actual profit or loss after all expenses are deducted from sales Also known as the bottom line, net income, or net earnings 	$\text{Gross Profit} - (\text{Labor Cost} + \text{Operating Costs}) = \text{Net Profit/Loss}$	<p>\$11,250 (Gross Profit) - (\$3,750 + \$1,600) (Labor Cost + Operation Cost) = \$5,900 (Net Profit)</p>

Calculating COGS- Example

Restaurant has RM5,000.00 worth of inventory on hand in the beginning of the week

Additional purchase of RM3,000.00 of food & beverage product at mid week

The following Monday, there is a RM4,000.00 worth of inventory

Calculate the COGS?

Calculating Cost of Sales - Example

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	Inventory = \$5000		Purchase FB + \$3000 = \$8000			
	Inventory = \$4000 - \$8000 COGS = \$4000					

Calculating Food Cost Percentage

Starting inventory: \$4,000

Purchases: \$10,000

Ending inventory: \$6,000

Food sales: \$24,000

Calculating COGS – Example (Potato Chip Business)

Potato chip business has had its first month run, to start the quarter out they make sure to have on hand the following inventory:

- 1000 pounds potatoes (worth \$750)
- 200 gallons oil (worth \$1000)
- 100 pounds salt (worth \$25)

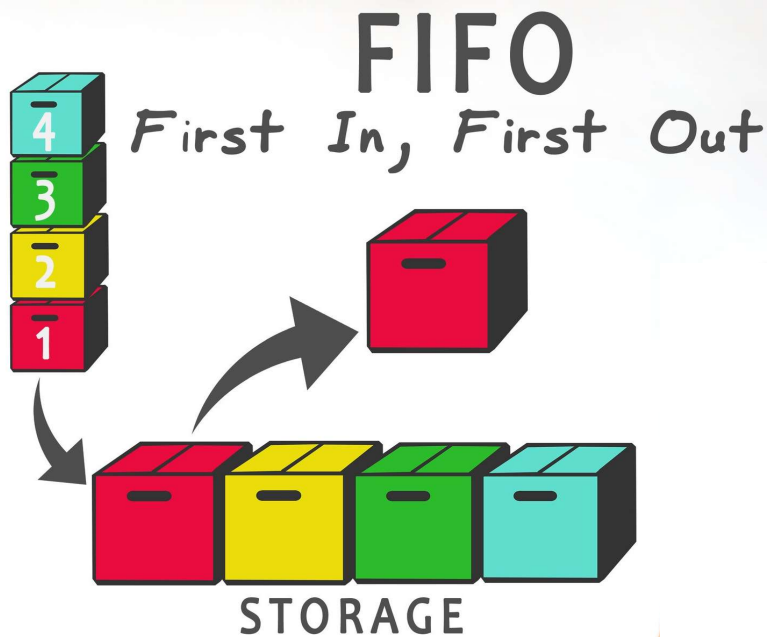
During this quarter they also purchase the following inventory items:

- Potatoes: 10000 pounds (costing \$7500)
- Oil: 500 gallons (costing \$2500)
- Salt: 100 pounds (costing \$25)

They also have 600 employee hours producing potatoes chips (costing \$7200).

At the end of the period the business has left in the inventory:

- 234 pounds potatoes (worth \$175.50)
 - 25 gallons oil (worth \$125)
 - 50 pounds salt (worth \$12.50)
-



FIFO uses inventory that was purchased first before inventory that was purchased later

Calculate:

At the end of the month there are 1500 pounds of potatoes left over. Throughout the month potatoes were purchased on four separate occasions for the following prices:

- Week 1: 1000 pounds at \$0.78/pound
- Week 2: 1500 pounds at \$0.77/pound
- Week 3: 2000 pounds at \$0.77/pound
- Week 4: 1000 pounds at \$0.79/pound

Since there are 1500 pounds of potatoes left, the assumption is that 1000 pounds were purchased in week 4, and 500 pounds were purchased in week 3. Calculate the total cost using FIFO.



LIFO uses inventory that was purchased last before inventory that was purchased earlier

Calculate:

At the end of the month there are 1500 pounds of potatoes left over. Throughout the month potatoes were purchased on four separate occasions for the following prices:

- Week 1: 1000 pounds at \$0.78/pound
- Week 2: 1500 pounds at \$0.77/pound
- Week 3: 2000 pounds at \$0.77/pound
- Week 4: 1000 pounds at \$0.79/pound

In this inventory method the 1500 pounds of potatoes were purchased in week 1 (1000 pounds) and week 2 (500 pounds). Calculate the total cost using LIFO.

Average Cost

The accounting method takes the average of all the goods purchased during the period and uses this as the price applied for goods leftover in inventory.

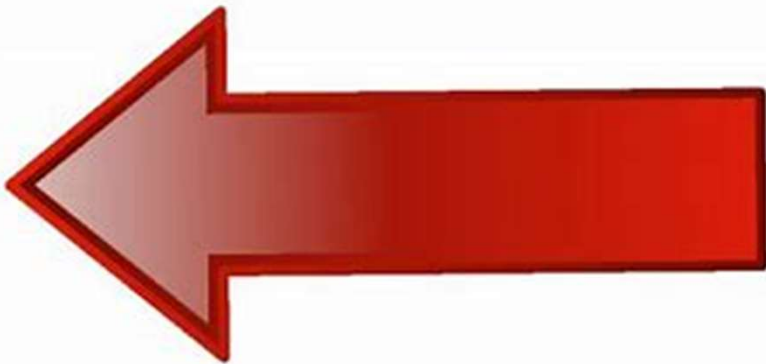
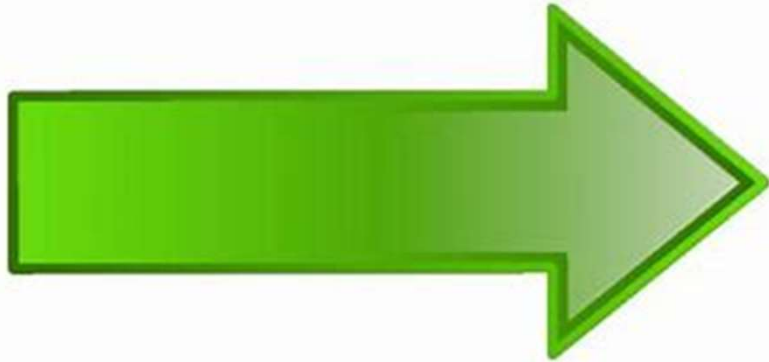
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Since there are 1500 pounds of potatoes left, the assumption is that 1000 pounds were purchased in week 4, and 500 pounds were purchased in week 3. Calculate the total average cost?

Calculating Cost of Sales - Transfer in and Transfer Out



Beginning Inventory
+ Purchases
(-Transfer Out)
+ Transfer In
- Ending Inventory
= Cost of Good Sold

FOOD & BEVERAGE OPERATIONS – Basic Marketing



What Is Environmental Scanning?

The 6 Variables of PESTLE Analysis

POLITICS

- Government type and policy
- Funding, grants and initiatives

ECONOMY

- Inflation and interest rates
- Labour and energy costs

SOCIAL

- Population, education, media
- Lifestyle, fashion, culture

TECHNOLOGY

- Emerging technologies, Web
- Information & communication

LEGAL

- Regulations and standards
- Employment law

ENVIRONMENT

- Weather, green & ethical issues
- Pollution, waste, recycling

SWOT Analysis

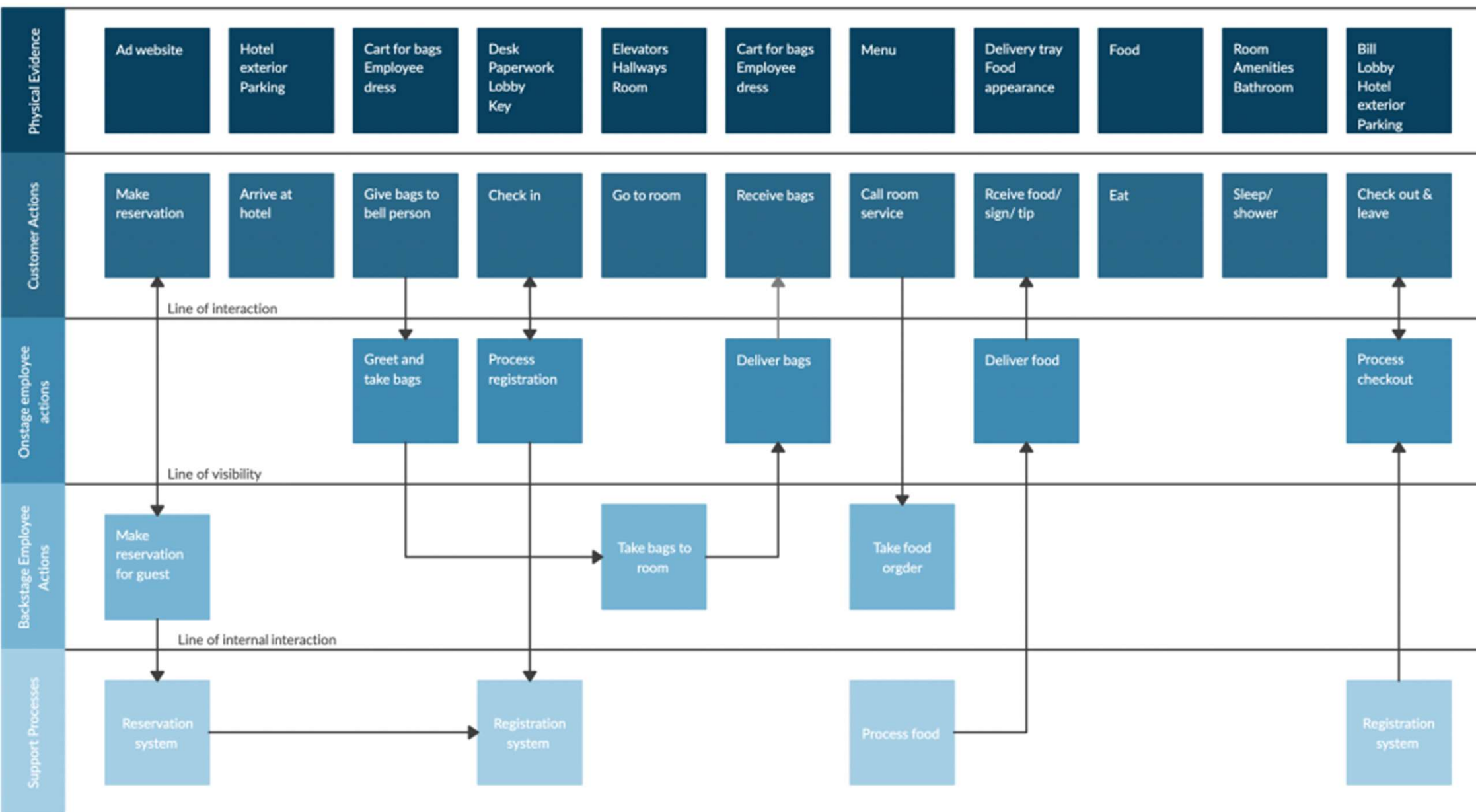


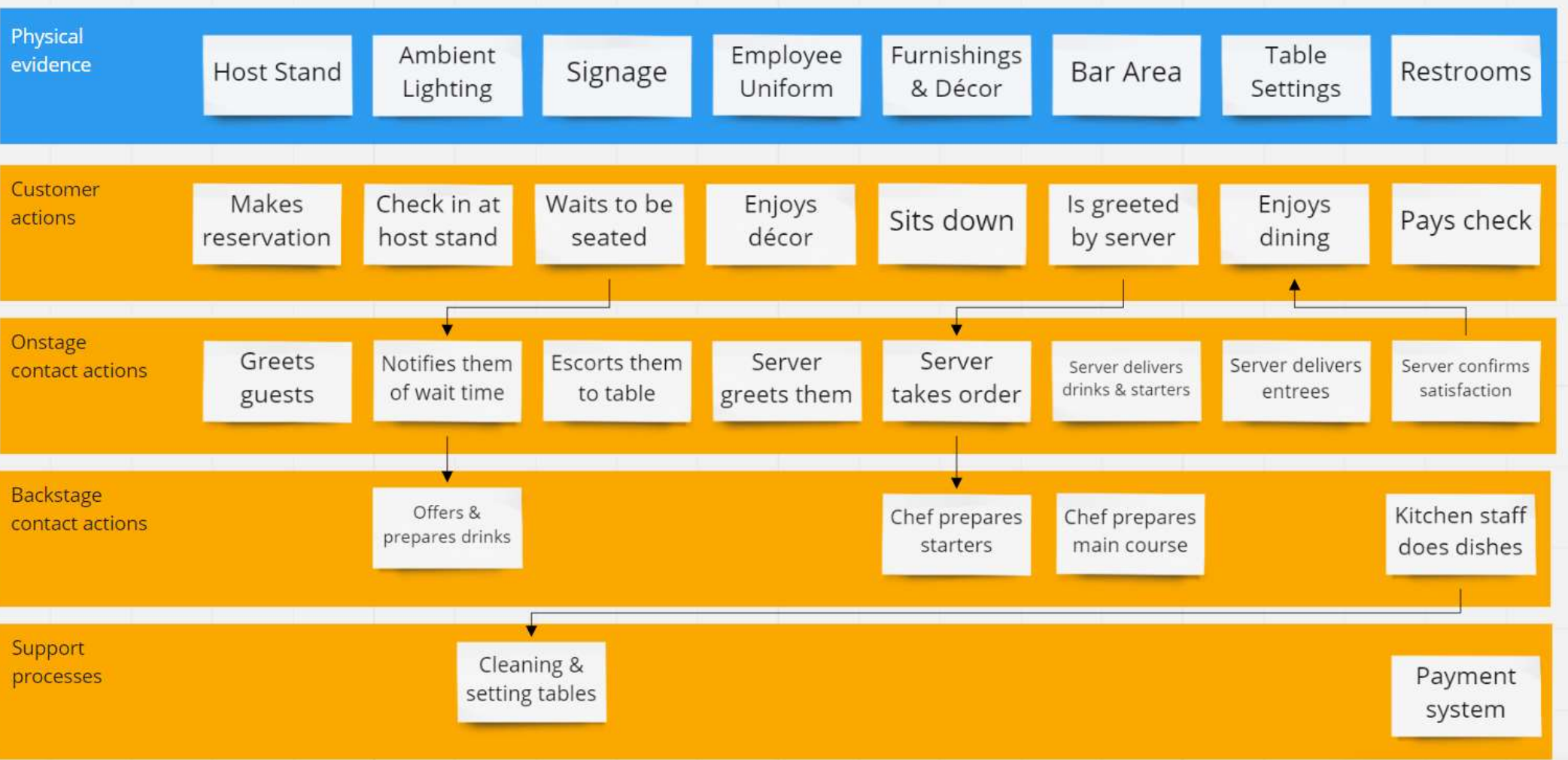
Service Marketing



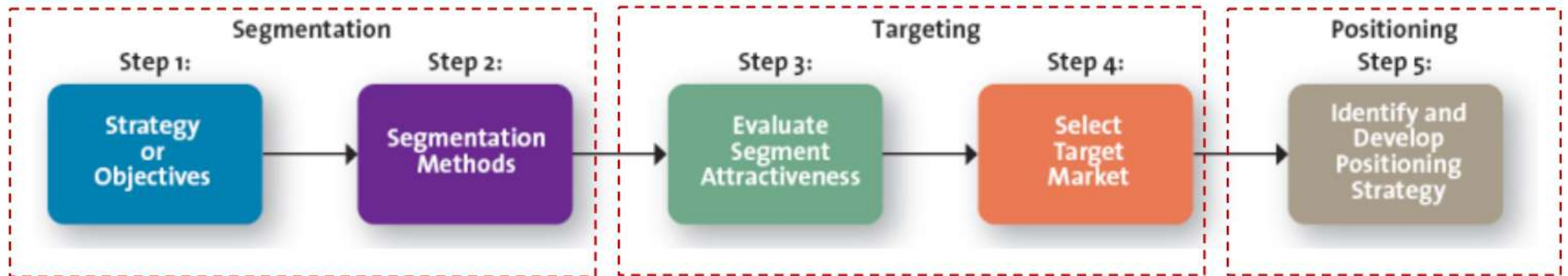
Stakeholder Analysis

Stakeholder	Stakeholder Interests	Assessment of Impact	Potential Strategies
Employees	Safe and fair work environment	Employee turnover reduces customer service	Fair pay and benefits package
Stockholders	To get a return on investment	Loss of funding	Pay back stockholders fairly to help maintain
Suppliers	Provided goods and services	Lack of supplies and finding new suppliers	Pay on-time and order regularly
Customers	Quality coffee/tea beverages	Loss of customers means loss of revenue	Continue to create and provide quality products at a reasonable price



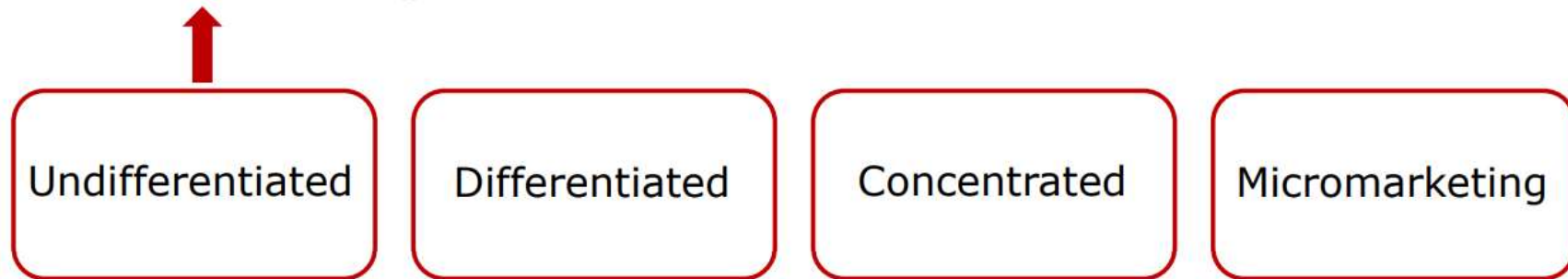


Segmentation, Targeting & Positioning



Targeting Strategies

Mass marketing



Targeting broadly

Targeting narrowly



Perceptual Map

