**Subject Title : FOOD SERVICE MANAGEMENT-II**

**Subject Code : 16SCCND9**

**UNIT - III**

**Cost control**

Controlling costs is the most challenging task in a catering institution since it deals with food which is the biggest temptation for any person. Further, it is a labour intensive industry and no matter what technologies may be introduced, food services need to provide that personal touch for which the customers eats out.

Control is thus a process by which managers attempt to direct, regulate and restrain the actions of people in order to achieve goals. This is essential in the area of food and other costs because of the many ways in which loss is possible at each stage in a catering operation. Control may be exercises in many ways, through selection of techniques and devices suitable for each establishment. The techniques available to a manager are establishing procedures, setting examples, observing and directing employee actions, preparing performance records, reports and budgets and so on.

It is important to know the exact cost of each process and every item produced so a system of cost analysis and cost information is essential. The advantages of an efficient costing system are:

It discloses the net profit made by each section of the organization and shows the cost of each meal produced.

 It will reveal possible sources of economy and can result in a more effective use of stores, labour, materials and so on.

 Costing provides information necessary for the formation of a sound pricing policy.

 Cost records provide and facilitate speedy quotations for all special functions, such as parties, wedding receptions, etc.

 It provides a budgeting tool.

No one costing system will automatically suit every business, but the following guidelines may be helpful.

 The cooperation of all departments is essential.

 The costing system should be adapted to the particular business, not the vice versa. If the accepted procedure in an establishment is altered to fit a costing system then there is danger of causing resentment among staff and, as a result, losing their cooperation.

 Clear, recorded instructions must be given to staff who are required to keep records. The system must be made as simple as possible so that the amount of administration required is kept to a minimum.

This covers:

 Ordering, buying and issuing control.

 Production and quality control.

 Waste and loss control.

 The accurate calculation of cost and profit.

**Food cost control**

This consists of a serious of built in checks covering the entire catering cycle. The main objectives of food cost control are:

 the analysis of income and expenditure.

 the establishment and maintenance of standards.

 the pricing and quotations of menus.

 the prevention of menus.

 the prevention of fraud.

 to provide information for management reports.

The main difficulties of controlling food are as follows:

 Food prices fluctuate frequently because of inflation and falls in demand and supply, through poor harvests, bad weather conditions, etc.

 Transport costs rise due to wage demands and cost of petrol.

 Fuel costs rise, which affects food companies and producer’s costs.

 Any food subsidies imposed by governments could be removed.

 Changes occur in the amount demanded by customers; increased advertising increases demand; changes in taste and fashion influence demand from one product to another.

Each food service institution should devise its own control system to suit its own needs. The factors that affect a control system are:

 Regular changes in the menu

 Menus with a large number of dishes

 Dishes with a large number of ingredients

 Problems in assessing customer demands

 Difficulties in not adhering to or operating standardized recipes

 Raw materials purchased incorrectly.

**Purchasing control**

In order to effect adequate control, it is most important that a purchase specification is prepared for all items of food stuffs. Another important document to be issued for all items of food ordered is a purchase order. It is most important to realize that it is not sufficient to see thata qualified purchasing officer is employed, that standard specifications are established, and that effective purchasing methods and procedures are setup.

**(ii) Receiving controls**

Suitable records for all food stuffs received must be maintained. In order to ensure adequate control at the receiving stage, the following routines should be carried out:

 All items should be inspected for quality.

 All items purchased by weight should be individually weighed.

 All items purchases individually should be counted.

 All items purchased in cases should be opened to ensure that the case contains the food stuffs as specified on the delivery note.

 Where either the weight or count is short, then the receiving clerk must ensure that suitable credit is received by the food service institution.

 Any damaged items are returned.

 A credit note is provided for any goods not delivered.

 Should there be any discrepancies, the person making the delivery and the supplier are informed and the issue should be acknowledged and recorded.

 Items past or approaching their ‘use by’ or ‘best before’ dates are not accepted.

**(iii) Storage controls**

The basic principle here is to prevent losses through spoilage or pilferage. Spoilage can be caused by:

 improper storage temperatures.

 excessive storage periods.

 poor ventilation.

 not issuing on first in first out basis.

 forgetting slow moving stock.

 exposure of food to vermin, bacteria and other causes o0f deterioration.

As far as pilfering is concerned, it is essential that basic security over all merchandise is maintained at all times by:

 keeping the storeroom locked.

 Effective control of the storeroom keys.

 Delegating responsibility for the security of the food stuffs.

 Only allowing authorized personnel in the food storage area.

Follow up checks on the storage facilities must be carried out to ensure that food storing activities are carried out in the best possible manner. Immediate corrective action should be taken if there is any deviation from the established operating procedures.

**(iv) Issuing controls**

The objective in issuing food stuffs are:

 To ensure proper authority for the release of food stuffs.

 To account properly for each day’s food issues.

The usual method of ensuring control over food stuffs issued is to require stores requisition prepared and signed by an authorized person. No food stuffs should be issued without proper requisitions. Any errors in the requisition will result in incorrect stock consumption figures.

**(v) Production controls**

It is necessary to have adequate controls at this stage of the catering cycle in order to reduce waste (especially leftovers) and eliminate incorrect portion sizes. Three basic controls are necessary at this stage:

(i) Preparation control including forecasting.

(ii) Standard recipes for each dish.

(iii) Standard portion sizes established for each dish.

**(vi) Holding and service**

In any food service establishment, foods have to be prepared and held for service. Food costs can increase in this area through:

 Inefficient temperature control in holding equipment leading to unnecessary losses in portions through the evaporation of moisture and shrinkage.

 Improper availability of portioning equipment.

 Lack of training in portioning correctly at the service point.

 Picking of finger foods and pilferage when service is slack.

 Method of service also affects the portions on the customer’s plate and also the loss in spillage while serving.

**(vii) Sales controls**

A system of control should be able to trace responsibility for every issue of food and ensure that each issue is fully accounted for in sales. In many restaurants, the method of control in use is the triplicate checking system. After the meal session, the checks can be used to ensure that all meals issued from the kitchen have been paid for.

Thus, food costs can be controlled in a number of ways but to implement these methods a lot of vigil, effort and commitment are called for on the part of managers in charge of production, service, inventory management and staff relations. The methods involve:

 Ordering perishable foods in required quantities for immediate use in preparation and service.

 Ordering semi or non perishables in quantities which can be turned over fast enough to prevent spoilage.

 Close supervision and regular checks at strategic points in the catering cycle.

 Using modular equipment for storage, preparation and service, so that portions are not lost in transferring food from one piece of equipment to other.

 Portioning in the kitchen and recording the number of portions before sending them for service, and then recording the numbers that are sent to the kitchen.

Offering incentives to staff, for achieving sales targets at established gross profit margins.

 Developing lists of customer favourites through kitchen, service and sales analysis and then utilizing these to plan imaginative and profitable menus.

 Forecasting the quantities of each menu item that will sell so that excess leftovers are avoided.

 Developing staff initiative and creativity by inviting their participation in forecasting and planning activities.

 Investing on equipment that will save time of staff on routine jobs so that they can use their initiative better in meal production and food presentation.

 Making use of quantity discounts for purchases.

 Using standardized simple recipes from which portions can be clearly identified.

 Substituting low cost ingredients for those which are very expensive, out of stock or rarely used.

 Maintaining control accounts to enable periodic assessments of profitability and efficiency. Such assessments help to pinpoint areas at variance within expected results, so that corrective action can be taken in time.

**4.3.2. Labour cost control**

Labour costs are less controllable than food costs. It is impossible to change the number of employees or their scheduled times of duty day by day in proportion to the number of customers. Labour cannot be considered a fixed expense, because it is influenced by many conditions, some of which can make for greater productivity and reduce costs.

Labour cost control is thus a matter of efficient utilization of the abilities of the staff to perform maximally. The methods of control suggested are based on maintenance of:

 Accurate records of time and work.

 Supervision in relation to job descriptions.

 Analysis and accounting for wages.

The factors affecting labour costs are: **Type of service and extent of service offered:** The extent of service offered in an institution will affect total labour costs. Labour costs are less in a self service institution compared to a table service.

**Menu pattern and the form in which the food is purchased:** The menu is the major controlling factor in determining the number of employees required and the skill they must possess in order to produce and serve the food.

**The physical plant-size and arrangement:** Efficient kitchen arrangement is another major factor in labour cost control. Plans that provide large areas of floor space, poorly arranged for the convenience of the worker are common sources of disproportionate expenditures for labour.

**Equipment and its arrangement:** Adequate equipment conveniently arranged for the use of the worker is important if an unnecessary load to labour costs is to be avoided.

**Supervision:** Supervision is one major factor in the final labour cost picture that cannot be overlooked if labour costs are to be kept at a minimum.

In spite of all these different components, labour costs can be controlled by paying attention to the key areas such as:

 **Type of operation:** If the waiter service is changed from waiter service to self service, the labour cost decreases as the customers get self served over a counter.

 **Volume of business:** This refers to the proportion of personnel employed to volume of customers and staff customer ratio. It is good policy to determine the minimum staff necessary even if business is low, and ensure that they are fully utilized.

 **Peak period:** The food service manager has to look at time of the day or the days of the week when the maximum customers arrive. Schedule employees according to weekly forecasts.

 **Function and seasonal catering:** If there are too many functions, the manager should determine how best to schedule staff to prevent additional part time staff from being used.

**Equipment and technology:** It is helpful to consider using labour and time saving devices such as:

 Conveyors for moving goods, vertical and horizontal cutters, slicers, dicers, shredders, etc to replace knife work.

 Liquid dispensers to speed up beverage service and save time on portioning and handling.

 Electric ovens.

 Convenience foods.

If the layout is poor, more staff will be required and labour costs increases. Certain concrete steps can be taken to control labour cost, after a total appraisal of the establishment has been made. Some suggestions are:

 Schedule staff on shift basis, so that they arrive only when needed.

 Staff should report to work in uniform and not change after reporting.

 Some part time staff should be maintained on a regular basis with fewer full time permanent employees. Such employees can be available on call and paid on hourly or daily basis.

 Use of staff overtime should be planned and prearranged, so that staff do not misuse the facility by slowing down regular working hours.

**4.3.3. Overhead cost control**

Overhead costs which are generally fixed over a period of time are termed as fixed overheads, and therefore do not change with the volume of sales. Some overheads like repairs and maintenance costs change with time but not in the same proportion as the change in the sales volume. They are called as semi variable overhead costs. Another category in overhead costs is called as variable because they change with the sales volume. They include fuel, stationary, etc.

The controllable overhead costs include:

 Heat, light, power and gas

Stationary, disposable plates, cups, etc

 Linen, laundry, uniform

 Cleaning

 Security

 Advertising

 Donation

Non controllable overhead costs include:

 Interest

 Depreciation

 Insurance

 Taxes

 Rent

The following are some of the more important control policies and procedures which should be followed in respect of the accounting and control of cash and credit sales:

(a) Segregate the control activities so that there is more than one person involved in each control procedure rotate personnel from time to time.

(b) Train personnel to follow the established procedures.

(c) Have an outside auditor to periodically review internal controls and evaluate adherence to them.

The important thing to remember is that management must not only see that proper controls are established but that they are followed at all times. This means that it is necessary to have routine and periodic follow up methods in force.

**COST CONCEPTS**

**COMPONENTS OF COST or ELEMENTS OF COST or NATURE OF COST DISTRIBUTION:**

1. **Cost of materials (or) material cost**
2. **Cost of employees (or) labour cost**
3. **Overhead cost / expenses (OHE)**

**1.MATERIAL COST**

* **Amount of money spent for the purchase of food items**
* **Represent in terms of % of money spent**
* **Ex: chapathi prep.**

**2.LABOUR COST**

* Amount of **money spent for employees** either in tangible or intangible form.
* ex: salaries, other valuable benefits – meals, housing, medical facilities, uniforms etc..

**3.OVERHEAD COST**

* Amount of **money spent other than material & labour cost.**
* Ex: rent, fuel etc..

**BEHAVIOUR OF COST**

The manner in which the components of cost respond to changes in the volume of sales is called “Behaviour cost”.

1. **FIXED COST**

* Virtually unaffected by any changes in the turnover of est.
* Ex: rents, rates, insurance
* Rates fixed for a period of time
* Paid on an annual basis.

**2.SEMI-FIXED COST/ SEMI-VARIABLE COST**

* Variability differs with each cost in particular circumstances **(not in direct proportion).**
* EX: Feeding more customers will decrease the fuel cost.
* Salad, raitas

**3. VARIABLE COST**

* Food costs change In **direct proportion**
* **If demand for meals goes up, food materials increase.**
* **Seasonable depends**
* **Labour costs.**