

# Menu Cost

## More Than Meets the Eye

by | Wayne Toczek

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The belt in healthcare is tightening. As operators, we are being told to do more with less, yet still be innovative and implement current trends. Taking a closer look at your menu will help you explore costs. What is your actual cost per meal? How does that compare to the cost quoted by your food vendor? Is the menu you implemented really at your budgeted cost? How was it calculated?

MANY FACTORS AFFECT FOOD COSTS— use of a purchasing group, geographic conditions, brands and types of food, quantity served, and much more. Using the formula of actual purchases divided by census gives an operator a good idea of the cost of food. However, to get a more accurate figure, you can categorize costs and adjust for inventory change, staff meals, department requisitions, supplements, and other factors. This gives you a snapshot of your overall operational expenses.

The best method to calculate costs is:

$$\frac{(\text{Inventory} + \text{Purchases}) - (\text{Inventory} + \text{Issues/Transfers})}{\text{Census}} = \text{Cost per patient or resident day OR}$$
$$\frac{(\text{Inventory} + \text{Purchases}) - (\text{Inventory} + \text{Issues/Transfers})}{\text{Meals Served}} = \text{Cost per meal}$$

### PRESSURE TO CUT COSTS

Perhaps in the past your vendor presented you with a menu, in front of your boss, and the vendor said with great enthusiasm, "This menu has a cost of '\$\$' and it will save you money!" Your boss probably turned to you and said, "Make it happen." Suddenly, your budget is adjusted and the belt has tightened before you can utter a word.

So let's look at what made it appear you would save money using the vendor's or consultant's presented menu, and address the factors that were most likely not considered by your vendor, your boss, and even you.

**Make taking inventory meaningful and worth your time.** Since dairy, produce, and bread are used within a week of purchase, consider not inventorying them. Similarly, you will generally have the same amount of open spices, oils, film, etc. in your kitchen so don't inventory those either. A bit more complicated is whether or not to inventory items that are in process for tomorrow's menu, i.e., roast beef for lunch tomorrow. Most important, be consistent, and taking inventory will be a meaningful tool to use in managing your food costs.

change impact the cost to produce the item? Determine whether the way you currently prepare the item is the best method for your community.

## REAL-WORLD VARIABLES

Perfect math is presenting food cost without considering variables like those presented in the example below. It assumes that the exact recipe will be followed and you'll use the entire product purchased for that recipe. In other words, the usage is end to end. Your odds for having that actually happen are slim. As an example, let's take the beef purchased for the meal. Will all the beef be used from end to end for the recipe? Similarly, not every biscuit made will be used. Was a garnish factored in? Other factors include human error, equipment error, and product substitution.

*Example:* Your beef stew recipe calls for 18# of beef cubes. You purchase beef cubes 10#/case with 2 5# units in each case. What will your cook do? a) use 20# of beef cubes, or b) remove the additional 2# for another use and actually use them. Option A will likely be the choice in most cases, resulting in an 11 percent increase in the cost of the beef stew.

### Variables to consider:

- **Menu cost for exact menu as printed**—including the number of courses, serving sizes, and beverage selections. How are changes and additions adjusted or calculated? What happens to the food cost when half of your population expects juice at lunch and dinner and it's not on the printed menu? At 50 percent usage this will increase a \$2.50/meal cost by approximately 5 percent overall. Your cost per meal is now \$2.63! If you serve 10,000 meals per year, this simple change increases your annual food expense \$13,000! Consider that, not to mention the type of juice being purchased. Is it concentrate, frozen, bag in box, individual bottles or portion cups on this top-spend item?
  - **Acceptance of a menu is based on what the customer expects**—Does the menu format flow with the residents? What do they normally expect for breakfast meat daily? Will there be too many casseroles or sandwiches, or not enough of a certain item offered on the menu? How are special meals factored in or accounted for?
  - **Snacks included on preprinted menus**—Again, be alert to whether the snacks included on the menu fit your culture. Are your snacks more than just graham crackers and fruit juice?
  - **Exact recipes and products**—What are the assumptions used? Are they products you had? Will you make your beef stew or use a convenience item? Is this the same preparation used in the "known cost" menu? If not, how does that
- **Inventory to build up for the menu**—Exactly what will it take to get this new menu rolling? What is needed on the shelf that's currently not there? What is on the shelf that won't be needed?
  - **Exact recipe yields leftovers**—Chances are, not every portion will be used.
  - **Portion control**—Second portions and over-portioning impact costs. Is your staff using the correct measuring utensil? Do they understand how to calculate based on pan size or scoop?
  - **Shrinkage of yield**—The yield could be affected by production and cooking methods.
  - **Waste**—When your "as purchased" amount gives you much less "edible purchase."
  - **Specific products**—Is it the product your production staff is accustomed to? Is it bone-in or bone-out or ratio? Are you using the right product for the menu item? Are you getting increased value perception for higher cost items? The proposed menu likely assumes that all residents will be served the printed menu item. How many of your residents request a replacement item, double portion, or choose from the Always Available menu? It's inevitable that you will periodically have to offer a replacement or a second portion to your customer, so how are those variables factored in?
  - **Market fluctuations**—Is the data used to calculate the food cost still current? Have you looked at the price of tomatoes recently?
  - **Additional items**—Little things added mean a lot.
  - **Therapeutic diets**—What about variations for adding thickener or fortifying foods?
  - **Labor in production**—Do you have the equipment to cook the product in the manner in which it was factored? Do you have the skill or talent to prepare it that way?
  - **Centralized or decentralized service**—Each decentralized service point increases the cost. Can you calculate a percentage? Trays equal waste!

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- **Other variables**—This list is by no means comprehensive. Additional factors may come into play.

### CONSIDER THIS SYSTEM

There's good news. You can navigate the world of food cost variables yourself and take hold of what affects it...and it can be done without spending days in front of a computer and shuffling invoices or searching online.

Consider these basic principles that may help you understand your food cost. The food cost on any menu has certain fixed or core costs. These costs do not change dramatically from place to place, because certain expectations are the same, such as:

#### Core Costs

- Condiments x 3: Sugar, salt, pepper, cream, butter
- Daily items: Juice, milk, coffee, other
- Bread, toast, etc.
- In theory, vegetables average the same cost after considering the variables (canned, fresh, frozen, high end).
- Starches can be averaged out to some degree as well.

#### Bottom Line Menu Costs

- The entrée and dessert become the variable and anomalies to the menu such as soups and appetizers.

#### Shop Costs

A colleague of mine explains it like this..."Shop costs" is when you take your car in for service. The shop does not charge you for every shot of WD40 and grease used in servicing your car. Instead, they develop an educated formula which covers these costs.

- There is a factor that should address the extra items—oil, salt, spices, onions, carrots, vegetable spray, soup base, and others. This can be a factor or it can be a percentage called the "Shop Cost."

Remember to factor in major differences in the proposed menu and what you have to offer, i.e., the proposed menu may offer soup twice a week, but you may offer it every day or even twice daily.

Once these things are factored, a base cost is established and from that a decision can be made for replacing core menu items that can directly affect cost.

**Core items:** Cost your top 15 or more core items in the following food groups and develop a cost range for each of them.

- Vegetables
- Starches
- Breads

**Key areas:** Entrées and desserts. Remember to balance the changes!

**Other menu mixes:** Appetizers and soups can be accounted for in the base cost or added to the key areas. If you can develop a cost range for them, a decision can then be made on "staying in the range." For example, maybe three home soups can offset the price of Lobster Bisque once a cycle.

If you have three higher-than-usual cost items, balance it out with three lower-than-usual cost items. Cost the core of the production: i.e., for spaghetti with meat sauce, cost the ground beef, spaghetti, and tomato sauce. The "shop cost" factors will cover the basil, oregano, other seasonings, and parmesan cheese.

#### Menu cost sample:

Shop cost is 8 percent. Consider how this shop cost will increase with lack of systems: order guides, recipes that are scaled and production sheets, training, and weekly production meetings and planning. Figure 1 provides a sample costing formula.

Understand the core cost of the entrée and dessert, and let the shop cost pick up the rest. If you have an entrée at 98, 78, 1.05

Figure 1

Sample Costing Formula			
Core cost:	\$1.34	For condiments, coffee, juice, milk	<b>NOTE:</b> Numbers in this sample are for example only and <b>not</b> based on actual costs. Each operator should determine <b>specific</b> costs based on their own operational particulars.  Menu base cost: [Core plus Breakfast plus Bread (x2) plus Veg (x2) plus starch, condiments (x2)] Equals \$\$\$ PLUS (+) Entrée 1 and Entrée 2 and Dessert 1 and Dessert 2 TIMES (x) Shop Cost EQUALS (=) Menu Cost
Breakfast:	\$0.98	For eggs, breakfast, meat, toast, juice	
Lunch:	\$1.87	Veg \$0.24, Starch \$0.33, Bread \$0.12, Entrée \$0.76, Dessert \$0.42	
Dinner:	\$2.29	Soup \$0.32, Veg \$0.24, Starch \$0.33, Bread \$0.12, Entrée \$0.76, Dessert \$0.52	
SUBTOTAL	\$5.38	Plus 7% (shop cost) \$0.37 = Grand total = \$5.75	

make changes, the more days you cost out, the more precise your food cost. Remember to cost out both entrées and both desserts.

By using formulas such as the sample above, operators can make cost-effective decisions on products and replacements. Making educated menu changes and helping establish parameters on your terms of assumptions rather than the cost of a "menu as provided" or developed without daily considerations will help you more effectively budget your costs.



### KEY POINTS

- Use a complete production system.
- Balance the sub.
- Cancel out high and low items against each other.
- Know product costs.
- Be consistent.
- Follow recipes and scale them to proper amounts.
- Work in seasonal specials when you can to increase customer satisfaction.
- Know yields.
- Ensure your equipment works.

- Educate your staff.
- Make it happen with solid production systems and training.

Understand all the other factors that impact cost per meal or go into your food cost, such as:

- Snacks
- Special meals
- Seconds
- Large portions
- Supplements or a fortifying factor
- Thickening agents
- Distributions
- Menu style or selection options
- Type of service.
- How items are presented or served
- Diet complexity
- Staff competency
- Equipment and new technology

Understanding these variables will allow you to operate with the control you want and the confidence you need to effectively understand the big picture of food cost.  

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