



How to Calculate Recipe Costs for Your Restaurant Business



You can't determine your prices by gut feeling when writing a restaurant menu. You need hard numbers and data to fuel your decisions. Then you can weigh those variables appropriately to maintain a profitable menu.

It's vital to conduct market research before you even look at your ingredient lists and food costs or do any recipe calculations.

Conduct Market & Competitive Research

Odds are, you're not the only restaurant offering most of the things on your menu. The first step in successful recipe costing is **analyzing what that market looks like**. Find out what other restaurants are charging for your respective dishes. With online ordering systems, this is easier than ever.

Once you understand average prices well, think about how your recipe differs from that competition. Maybe you use better (or more) ingredients. Perhaps you're after a different clientele. While your prices don't need to be an exact match of your competitors, or undercut them, keep in mind how price might impact your demographic. The more price sensitive they are, the more competitive pricing matters.

What is Recipe Costing?

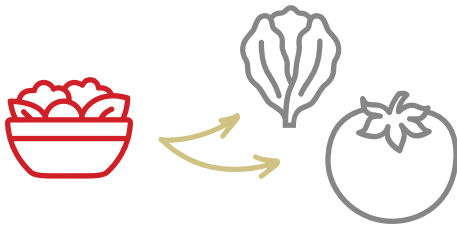
Recipe costing tracks the cost of every ingredient you use in a single dish. It covers the individual ingredients for the menu item's portion size down to the penny.

Consistent, accurate recipe costing relies on a few key elements: standardized recipes, accurate **restaurant inventory management**, and up-to-date vendor prices. With these many moving pieces, **it is essential to fully integrate your restaurant management solutions**, including **restaurant accounting software**, **inventory management software**, and point of sale (POS) system.

How to Calculate Recipe Cost

How do you cost out a recipe? Recipe costing starts with breaking down a food item into its individual ingredients. It's important to use standardized recipes across your entire restaurant group. From there, calculate the usage and yield of each food item in the recipe, and assign it an exact dollar amount.

Automating as much of this recipe costing process as possible saves your team time and ensures more accurate results. Since recipe cost depends on ingredient costs, your system must have the most current vendor pricing. Automating accurate pricing through vendor invoicing integration ensures your team doesn't waste time manually updating prices every time there is a price change.



Recipe costing once required manual calculations that were time-consuming and prone to error. By creating a database of standardized recipes in an integrated system with up-to-date vendor price lists and an ingredient cost repository, **your system can quickly and automatically make a large volume of calculations that point your operational teams in the most profitable direction.**

Using Recipe Costs to Optimize Margins

Recipe costing can inform everything from determining your restaurant's food costs to menu updates that drive profitability.

You need to hit your target food costs to hit your profit margin goal. Recipe costing allows you to examine the sales margins on individual menu items and see which items need to be adjusted. If you aren't hitting your target margins, recipe costing can precisely guide food cost adjustments or menu price changes.

Once you're accurately tracking your recipe costs in your restaurant management system, it's time to apply it to different areas of your restaurant operations.

Here are a few key places to start:

1

Track Usage & Yield on Every Item

Getting truly accurate recipe costs requires diving deep into the usage and yield your ingredients get in your recipes.

For example, some kitchens may stop at costing out the average cost of an ingredient like tomatoes in recipes. However, if you use tomatoes in multiple prep recipes, the cost percentage of that ingredient may vary. Let's say a menu item uses tomato sauce, chopped tomatoes, and pico de gallo—each item is prepared differently, and the usage and yield may range.

Getting to the granular level lets you **be more precise in your restaurant food cost calculations and overall management.** While it once required a significant amount of manual work, integrated technology provides more accurate data for every element of your menu, providing a clear path in decision-making.

2

Analyze Actual vs. Theoretical Food Costs

If your restaurant inventory management software is integrated with your accounting and POS, you can also map your inventory against sales and track your theoretical usage of these ingredients over time.

Actual versus theoretical (AvT) food cost tracking is a powerful tool for controlling food costs.

Once you have standardized recipe costs in your restaurant management system, you can track the theoretical food cost or what you should have spent making menu items over a given period (assuming no mistakes and no waste). Then, you can compare this theoretical cost to your actual food cost—what you actually spent given your real-time sales and inventory levels.

The variance between these actual versus theoretical food cost numbers represents a leak in your profit margin that must be addressed. As you dial in your recipe costs and track what's causing the variance, you can fine-tune your BOH.

Ultimately, although you can measure out your exact recipe cost, **your actual restaurant food cost depends on how your kitchen staff preps and portions ingredients.** By examining the variance between your actual and theoretical costs, you can ensure proper training and execution.

3

Optimize Menu Profitability

Recipe costing also informs **menu engineering**—a key tool for planning and designing your menu to maximize profitability. Menu engineering maps both profitability and popularity of menu items, so **you can decide which menu items to promote, adjust, or retire.**

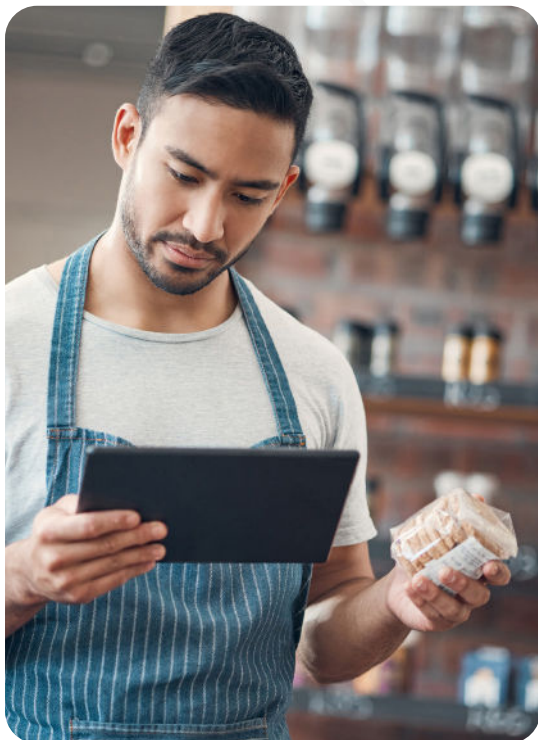
To determine the best menu price for your profit margin, you need to first start with an accurate recipe cost. As you consider changing prices on certain menu items, you can also use your recipe costing information to experiment with different portion sizes or ingredients to maintain item prices while increasing margins.

4

Simplify Costing with Automation

An automated inventory management system with recipe costing can help you maintain consistent, up-to-date information, especially if your ingredient prices fluctuate seasonally. Having new vendor prices automatically pulled from your vendor invoices can **replace the need for your team to spend time manually inputting invoices.**





5

Reduce Food Waste

Recipe and food cost tracking give restaurant owners and operators deep insight into how teams manage ingredient usage. A major key to running an efficient, profitable operation is to minimize food waste.

Restaurant inventory management involves tracking the ingredients moving in and out of your restaurant. Your AvT analysis is critical to showing you where to start. Advanced tools like food waste trend reports, prep production stats, and recipe costing by location or time period can help you identify any inconsistencies and get to the root of any problem in the kitchen.

6

Manage Changing Food Prices

Your restaurant may have faced vendor fluctuations over the last year, adding rising food costs to your list of operational challenges. If higher food costs are squeezing margins, **examine your top-selling or most expensive items first.**

There are many different options to respond to rising food costs. You can examine your recipes to see if you can adjust portion sizes or change to less expensive ingredients (without sacrificing quality). You can also use your food cost tools to take a closer look at prep efficiency. Finally, there is also the option to adjust menu prices to reflect the new food cost reality. Your decision will change depending on the menu item, but **having recipe costing information in hand will ensure you're making a data-driven decision.**

Conclusion

Understanding how to cost out a recipe used to be an optional operational tool, but it's now essential to maintaining and driving restaurant profitability in today's challenging environment. With automation, an integrated system, and a strategy for implementation, managing your restaurant group's recipe costs can help you **boost your profit margins across your menu under any condition.**

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