PREP LIST

How to Reduce Food Cost Percentage In Restaurants

Food cost is one of every restaurant business's most significant operating expenses. With perishable ingredients and fluctuating sales, controlling food costs in restaurants can be highly challenging Misjudging ordering or overspending on food can directly affect your bottom line. Luckily, there are many strategies and tools for controlling food costs that you can apply to your restaurant operation. First, it's critical to understand the basics. While this might be table stakes for owners and operators, every restaurant has people at all steps of their lives and careers, and ensuring everyone knows what goes into food costs and how it affects them is crucial.

How do you calculate food cost percentage?

Food cost percentage is the total cost you spend on ingredients divided by the total food sales. You can calculate your food cost using our food cost calculator, but let's walk through an example below Let's calculate the monthly food costs for a restaurant called *The Krunchy Krab*, a fast food operation that sells Krabby Patties under the sea. The restaurant starts the month with $2,000 leftover inventory (beginning inventory cost). It purchases $8,000 in ingredients for the month (purchasing cost). It has $3,000 left over at the end of the month (ending inventory cost). Its total sales for the month are $24,000.

- **Beginning inventory value** = $2,000
- **Purchases** = $8,000
- **Ending inventory value** = $3,000
- **Total food sales** = $24,000

We can put these numbers into the equation below to **calculate *The Krunchy Krab's* food cost percentage:**

$$\frac{\text{(Beginning inventory + Purchases) - Ending inventory}}{\text{Total food sales}}$$

The Krunchy Krab has a food cost percentage of **29.2%** for the month, which is about average in the fast-casual market.

What is a good food cost percentage?

The industry benchmark is roughly 30%, but there is no steadfast rule on what food cost percentage should be, as it depends on the type of restaurant you're running. Most fast-casual and full-service restaurants will target around 28% to 30%, while a pizza business target might be much lower, around 18% to 22%. For a fine-dining operation, which uses high-quality ingredients and more of them, food cost percentage can be much higher, upwards of 40%.

While it's useful to know industry averages, **it's more important to think of your food costs as a moving target that you can continuously improve.** This means checking your food cost percentage regularly across different periods (e.g., per week, month, quarter) and finding areas to make changes through better inventory management and forecasting.

How do I optimize my food cost percentage?

There are many ways to optimize food cost percentage. One way is through restaurant inventory management, which monitors what ingredients come into your restaurant, what is leaving, and what is left over. Inventory tracking is an essential restaurant task; with more efficient food, beverage, and supply orders, you reduce costs and increase margins.

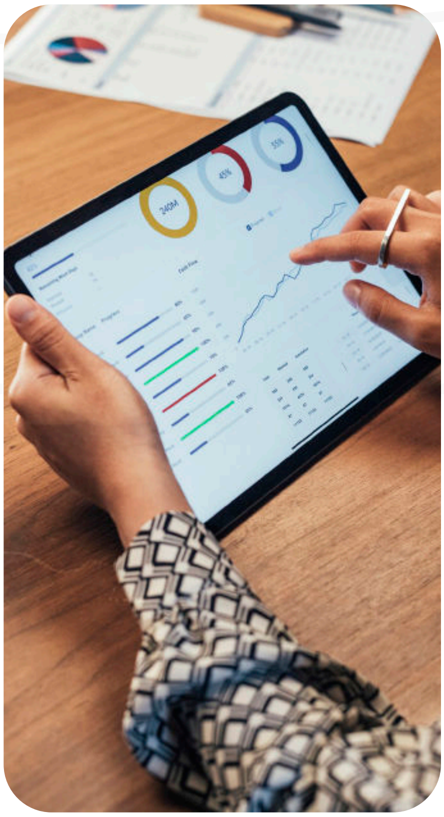
While some parts of restaurant inventory management can be automated, some inventory must be done by hand. Manually counting food item quantities to account for potential areas of inventory loss (waitstaff errors, kitchen waste, or incorrect preparation) can be time-consuming but necessary. A restaurant inventory management software accessible on any device can streamline this process. A robust restaurant management software platform with POS integration can automatically track theoretical inventory based on sales. If your software offers end-to-end inventory management, you can automate invoice uploading, recipe tracking, recorded stock counts, and auto-updated menu item prices, helping you calculate food cost in real-time.

Here are a few strategies to optimize your food cost percentage:

Automate Manual Processes:

Customized forecasting based on historical data **helps improve restaurant operations by reducing food costs over time.** Automating critical tasks like tracking and collecting data are the foundation for better food cost controls.

Customizable restaurant management software lets you set a sales forecast by location and period. Automated forecasting drives the "smart stuff" in restaurant business operations by comparing daily sales trends between this year and last year. Using past sales data to predict upcoming sales informs smart inventory decisions, and smart prep driven by sales forecasts enables food prep with less food waste. Automated sales forecasts can even help you create employee schedules that optimize labor costs.



Use Inventory Tracking to Reduce Waste:
Purchase inventory at the right level

One of the most direct ways to reduce food costs is to avoid buying what you don't need. **With data-driven suggestive ordering, you and your managers can purchase inventory at the right level to reduce order waste.** Smart ordering and receiving lets you leverage ordering suggestions informed by historical and forecasted sales and inventory data.

Recipe Costing:

Lowering your food costs starts with understanding the cost of your food. Recipe costing breaks down the cost details of menu items to portion size and individual ingredients, calculated to the penny.

Tracking each menu item's recipe cost can help optimize food usage and reduce food waste over time. With trends broken down by menu item or location, you can use recipe costing to save money by reducing incorrect portions, improper staff training, or employee theft.

Manual menu item costing is error-prone and unreliable. Adding an automated recipe costing system can accurately do the calculations for you.

Menu Planning:

Menu engineering helps control food costs by maximizing the profitability of your menu and the individual items on it. By collecting sales mix polling from your integrated POS and combining it with recipe costing in your restaurant management platform, you can instantly compare menu item popularity versus profitability.

By seeing what items are underpriced or overpriced, **you can make food cost decisions about revising recipes or ingredients.** For instance, if you are selling a large quantity of a low-margin item, which increases your food cost percentage, you can either raise the menu price or adjust portion sizes. Menu engineering also lets you seize menu opportunities, like promoting a menu item with a high margin but low sales. Understanding the balance of menu item popularity and profits enables data-driven decisions that lower your overall food cost.

Food Cost Calculations:

Truly understanding your food cost goes beyond a "food cost percentage" calculation. Tracking the difference between your theoretical and actual food costs allows you to make impactful changes to your food cost and bottom line.

Theoretical food cost is what your food costs should be, given the current cost of all ingredients, over a period of time. Actual food cost is the real amount spent on ingredients over the same time. The difference between these two numbers can come from imperfect portion sizes, improper invoicing, kitchen waste, or employee theft.

Tracking the actual vs. theoretical food cost variance shows you critical information about leaks in your profit margin. Knowing where to focus to reduce food waste, for example, you can see where you can save money on food costs. Tracking this variance daily can help you spot anomalies and make adjustments before variances become issues that affect your bottom line.

Ensure Transparency and Accuracy in Vendor Contract Price :

Vendor-side changes or errors in ordering and invoicing can be difficult to catch and fix but can affect your food cost percentage. By running automated receiving reports, you can keep an eye on vendor pricing. A restaurant management solution should be able to flag items outside a contracted price for a specified data range, ensuring you're being billed at the quoted price. You can also set up automatic price verifications across locations, comparing vendor pricing by region or seeing item cost analysis side by side.

Conclusion

Controlling food costs in restaurants is essential to the health of your business. Although there are many methods for a restaurant owner to consider, the seven methods outlined above will **help you control food costs, improve your operations, and pave the way for future growth.**

Schedule a free demo of Restaurant365 today.