

"ASK STEVE" – Reducing Food Cost Percentages

I often get asked in my travels about food cost percentages versus net profit margins and like subjects. Really the common thread in these conversations is how does a store reduce their food cost percentage? Well there are really only 2 ways.

1. Increase Prices
2. Decrease Costs

Increasing prices is generally a quick fix to a high food cost problem and generally won't solve the issue long term. It also may potentially upset customers in the short term. Let's face it; the vendors that we deal with generally have flexible pricing structures. The fluctuating price of oil effects prices on cups and other plastics used in our store and the butter prices generally guarantee that our mix price will never be the same month by month. Therefore it doesn't make much sense to change your prices every time you get stuck with a higher vendor account than last month.

Hopefully there is enough play in your percentages to absorb minor fluctuations in these vendor prices. I would generally say that every 12 months, you should be looking hard at your menu boards, products, sizes and prices. If its not broke, don't fix it, however you may need to make minor tweaks here and there. Does your menu board allow for modifications to be made without looking like you just upped the damage again and again? Do you have items taking up valuable real estate on your menu board that don't sell well? If you count on a food cost percentage of about 30% there should be enough play in order to help you stay below that number. Now that doesn't mean that all your menu items will be under that percentage individually, but overall you should strive for that threshold.

Decreasing costs is generally a more effective way of stabilizing a spiraling financial nightmare. So now in order to decrease costs, you must first know what your food cost is per item. Most store owners start their business maintaining good records to this end but I would say probably half of all ice cream store owners don't know or can't lay their hands on what their individual food item costs are, which is concerning. It takes a bit of effort to update your food cost calculations each month but for you to truly stay on track with your product costs, this must be done regularly.

Once you have all of the data, Shop around. Generic items like sundae cups, straws, spoons, napkins and the like can be purchased from any supplier. Major purchases like your mix I would not recommend to change on a whim. Attend trade shows and events like these to visit vendor's booths and capitalize on specials that will help your costs. The extra time and legwork may be worth 5 or 8 percentage points, which reflects in your wallet.

If I can help with any of your day to day store issues, please feel free to email me at info@frozendessertinstitute.com