# Overview of the Industry and the Manager's Role

CHAPTER 1

## Learning Objectives

After reading this chapter, you should be able to:

- **discuss and understand the general profile of the food and beverage industry;**
- **understand the variety of cost control measures in the hospitality industry;**
- **describe the manager's role;**
- **interpret an income statement;**
- **explain the differences between budgeting and forecasting, and understand the techniques used for each.**

## OVERVIEW

The food and beverage industry is incredibly diverse. Think of the differences between a four-star restaurant and a hot dog stand at a football stadium. Or compare a mom-and-pop deli to a chain of upscale urban eateries. These are differences of scale, ambience, menu, and clientele—but all these businesses sell food and beverages to a target market they hope will be satisfied, and they all hope to be profitable. Those who work in the industry are constantly seeking to meet these two goals. Often their most valuable role is controlling costs, and that's what you will learn about in this book. You might be an owner, a manager, a purchaser, or another employee in your company, but whatever your title, if you can decrease costs and increase profit, you will succeed. This book will succeed when you find in it the tools and methods to help you achieve these two goals: profitability and customer satisfaction.

This chapter provides an overview of the nature and scope of the food and beverage industry. In order to understand how to account for costs, and how to control them, several important functions of hospitality accounting are introduced here, including interdepartmental communication, expense control, revenue, and forecasting. We will briefly talk about each of these functions, including their challenges and procedures, in this chapter. While most of these concepts are detailed in later chapters, this introductory chapter builds your understanding of these key concepts and how they interrelate.

## The Hospitality Industry at a Glance

In the United States, tourism is the cornerstone of the hospitality industry. Tourism is also the third-largest retail industry, behind automotive sales and food stores. Travel and tourism comprise the nation's largest services export industry and one of its largest employers. In fact, according to the American Hotel and Lodging Association (AHLA), travel and tourism is one of the top three industries, in terms of employment, in 30 states. The tourism industry includes

more than 15 interrelated businesses, from lodging establishments, airlines, and restaurants to cruise lines, car-rental agencies, travel agents, and tour operators. According to AHLA's 2008 report, the effects of tourism on the American economy are considerable:

- Domestic and international travelers in the United States spend an average of $1.5 billion a day, $63 million an hour, $1.1 million a minute, and $17,500 a second.
- Tourism generates $552 billion in sales yearly (excluding spending by international travelers on U.S. airlines).
- The tourism industry pays more than $95 billion in federal, state, and local taxes.
- The industry pays more than $159 billion in travel-related wages and salaries and employs 1.7 million hotel property workers.
- Excluding casinos, limited service properties and timeshares, there are 68,875 hotel and motel properties with 15 or more rooms, totaling more than 3 million rooms in the United States and 11.4 million worldwide. Combined 2007 revenues were $106.8 billion, with an average daily rate of $103.64 per available room. Average occupancy rates were 63.2 percent.

The travel industry overlaps with food and beverage to create a major category for the U.S. gross domestic product. Many of us in the industry work in hotels and resorts that have extensive food service offerings. Travelers and visitors account for 20 to 40 percent of sales at full-service restaurants and 15 percent of quick-service sales, according to the 2007 Annual Report of the American Hotel and Lodging Association.

# The Food Service Industry

As part of the global hospitality network, the food service industry is considered the foundation of many successful interrelated industries and an integral part of the U.S. economy. According to estimates by the National Restaurant Association (NRA), on a typical day in 2008, the food service industry posted sales of $1.53 billion, for a yearlong total of $558.3 billion. Industry researchers predict that sales will increase 4.4 percent over the prior year, which would constitute more than 4 percent of the U.S. gross domestic product. In addition, for every dollar a consumer spends in a restaurant, another $2.34 is spent in allied restaurant industry sales, such as agriculture, transportation, wholesale trade, and manufacturing, for an overall impact of $1.5 trillion in 2008. The impact of the industry is enormous and growing. Figure 1-1 shows how food service sales have risen dramatically since 1970.

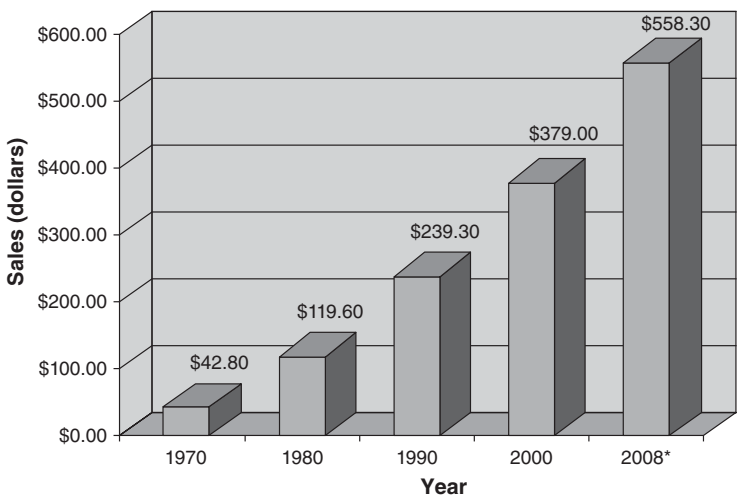


**Figure 1-1** Food and Drink Sales. *Courtesy of "Restaurant Industry Operations Report 2007/2008" National Restaurant Association/Deloitte*

These figures represent a progressive trend. In the last year, 48 percent of every dollar Americans spent on food was spent away from home, compared to only 25 percent in 1955. The average annual household expenditure for food away from home in 2008 was $2,676, or $1,070 per person.

More than 70 billion meals and snacks are eaten in restaurants, schools, and work cafeterias each year. Almost half of all adults (47 percent) were restaurant patrons on a typical day during 2008. More than 65 percent of restaurant customers agree that food served at their favorite restaurant provides flavor and taste sensations that they cannot easily duplicate at home.

There were approximately 945,000 locations offering food service in the United States by the end of 2008, an increase of over 85 percent since 1972. The bulk of the industry consists of commercial eating places. Figure 1-2 breaks down restaurant industry sales by category. Figure 1-3 shows the relative number of the various restaurant location types.

It is said that restaurants are the number-one private sector employer. The industry employs around 9 percent of workers in the United States, which translates to over 13.1 million people. More than 40 percent of all adults have worked in the restaurant industry at some time during their lives. Total annual wages and benefits equal $35 billion for full-service restaurants and $29 billion for limited-service (fast-food) establishments. The term *full-service restaurant* refers to more formal, complete table-service operations, while limited-service restaurants are those that are less formal, such as fast-food and take-out eateries. Eating and drinking establishments are extremely labor-intensive; sales per **full-time equivalent (FTE)** were $61,344 in 2006, which is notably lower than other industries. The term *FTE* refers to a measurement equal to one staff person working a full-time work schedule for one year. It is also a way to

**full time equivalent (FTE)** A way to measure worker productivity in a work schedule.

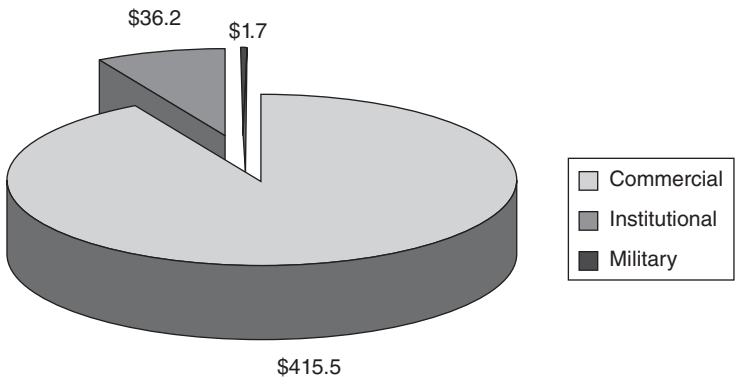


**Figure 1-2** Restaurant Industry Sales

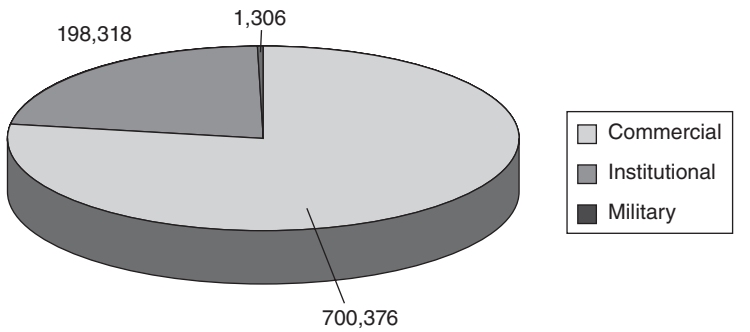


**Figure 1-3** The Restaurant Industry

measure an employee's productivity in a project. In this case, a standard full-time workweek of 40 hours is equivalent to 2,080 hours a year (40 hours per week multiplied by 52 weeks).

Restaurants also provide a path to management opportunity: Approximately nine out of ten salaried employees in table-service restaurants started out as hourly employees. Of the 1.4 million managers of food service and lodging establishments in 2008, a higher percentage were of minority origin than in any other industry, and 60 percent have annual incomes higher than $50,000. The magnitude of the food and beverage industry as a whole represents not only incredible opportunity, but also intense competitive challenges. So it is not surprising that many operators (27 percent) say maintaining customer loyalty is a major challenge in 2008, according to an NRA survey. The NRA's annual reports identify other challenges, such as high utility-gas costs, employee retention difficulties, and high insurance costs. The NRA report points out the following trends:

- **Alternative-source ingredients** such as local produce, organics, sustainable seafood, and grass-fed or free-range items are ranking high in full-service restaurants. More than 86 percent of operators said they serve locally sourced items (compared with about three of five family-dining and casual-dining operators). A majority of operators across all full service segments believe locally sourced items will become more popular in the future as opposed to nationally branded item such as Craft or Sysco foods.
- **Specialty alcohol** such as craft beer, signature cocktails, and organic wines are among the top 20 restaurant trends. The NRA operator surveys show that full service restaurants are shaking up their beverage and alcohol options with new offerings.
- **Healthful options.** According to the NRA research, three of four adults—and about the same percentage of teenagers—say they are trying to eat more healthfully in restaurants today. More than eight out of 10 customers say that they see more "healthy" options on restaurant menus than they did two years ago. Nearly one in four adults has used the Internet to research nutrition information for restaurant foods. Quick service operators such as Carl's Jr. and McDonald's said "healthy alternatives" are the number two trend for their segment in 2008.
- **Technology.** Full-service operators continue to attract patrons with improved in-restaurant technology such as wireless Internet access. Though not yet as prevalent, electronic ordering and payment systems at the table will become more popular in the future.
- **Green practices.** Energy conservation practices among restaurants are on the rise. A majority of restaurant operators indicate that they are actively working to cut energy costs.
- **Food safety and security** will continue to be a top public policy issue for the industry into the future.

## The Current Outlook for the Food Service Industry

The Consumer Price Index (CPI) for all food increased 4.0 percent between 2006 and 2007—the highest annual increase since 1990. Food-at-home prices, led by eggs, dairy, and poultry, increased 4.2 percent, while food-away-from-home prices rose 3.6 percent in 2007. In 2008, the all-food CPI is projected to increase another 4.5 to 5.5 percent, according to the United States Department of Agriculture (USDA), as retailers continue to pass on higher commodity and energy costs to consumers in the form of higher retail prices.

The main factors behind higher food commodity costs include stronger global demand for food, increased U.S. agricultural exports resulting from stronger demand and a weaker dollar,

weather-related production problems in some areas of the world, and the increased use of some food commodities, such as corn, for biofuel uses.

However, prices on foods to eat at home are forecasted to increase 5.0 to 6.0 percent, while prices for food to be eaten away from home are forecast to increase 3.5 to 4.5 percent in 2008. With economic concerns influencing customers' decisions, it is more important than ever to control food and beverage costs in dining establishments. Quality cost control is the main focus of this book.

# The Role of the Food and Beverage Manager

In the burgeoning food service industry, the role of the food and beverage manager is to carry out four major activities—communication, cost control, revenue enhancement, and forecasting—to achieve desired financial results for his or her company. **Communication** is the ongoing process of exchanging information between different departments and people both within and outside an organization. **Costs,** also referred to as expenses, describes the sum of all money paid out for goods and services during a given period of time; these are the goods and services used in obtaining revenue. These costs must be managed and accounted for, a process known as **cost (or expense) control**. To control costs, management institutes procedures and monitors feedback to ensure that all parts of the organization are functioning effectively and moving toward overall company goals. Control also means monitoring income, costs, and the flows of products and services, both those internal to and those external to the food service operation. When costs are greater than revenue, the company experiences loss. On the other hand, when revenue beats costs, the company gains a **profit**. This is one of the tools used to measure the effectiveness of managers.

**communication** The ongoing process of exchanging information between different departments and people in an organization.

**costs** The sum of all money paid out during a given period of time.

**expense control** refers to managing expenses according to budget.

**Revenue,** a term often used interchangeably with *income* or *sales*, is money received by a business minus returns and discounts in a given period of time. Enhancing revenue is one of the key topics of this book, and it is one of the most important roles of the food and beverage team. **Forecasting** is the process of estimating or predicting future expenses and revenues.

**profit** A positive sum after expenses are deducted from revenue or income of a business as shown in an income statement. The opposite of a loss.

**revenue** is the same as income or sales.

**forecasting** Estimating future revenue and expense trends.

The level of detail and formality involved in the food and beverage manager's four main roles—communication, cost control, revenue enhancement, and forecasting—will depend on the size of the company and the level of management positions, but these essential job functions exist in any food-service establishment. Figure 1-4 is an example of an organizational chart that might be used in a hotel and resort with a food service operation. The four main roles of a food and beverage manager might be split among several people.

In larger establishments or chain operations, many people may be required to carry out these functions. In a smaller restaurant, perhaps just one or two people—the owner and chef, for example—may take on all these roles. In order to fully realize these roles, you must establish and maintain communication throughout your operation, no matter what its size.

## Communication

To be effective, communication must be orderly, regular, and dependable. This is a key task of the food and beverage manager. The example that follows illustrates the role of the manager in communicating between departments and demonstrates one of the key challenges and opportunities facing the industry. We will use guest room minibar services as an example to illustrate the depths of these communication challenges.

*What Is Guest Room Minibar Service?* A guest room minibar is an in-room food and beverage service that many lodging places provide to their guests in an upscale environment. According

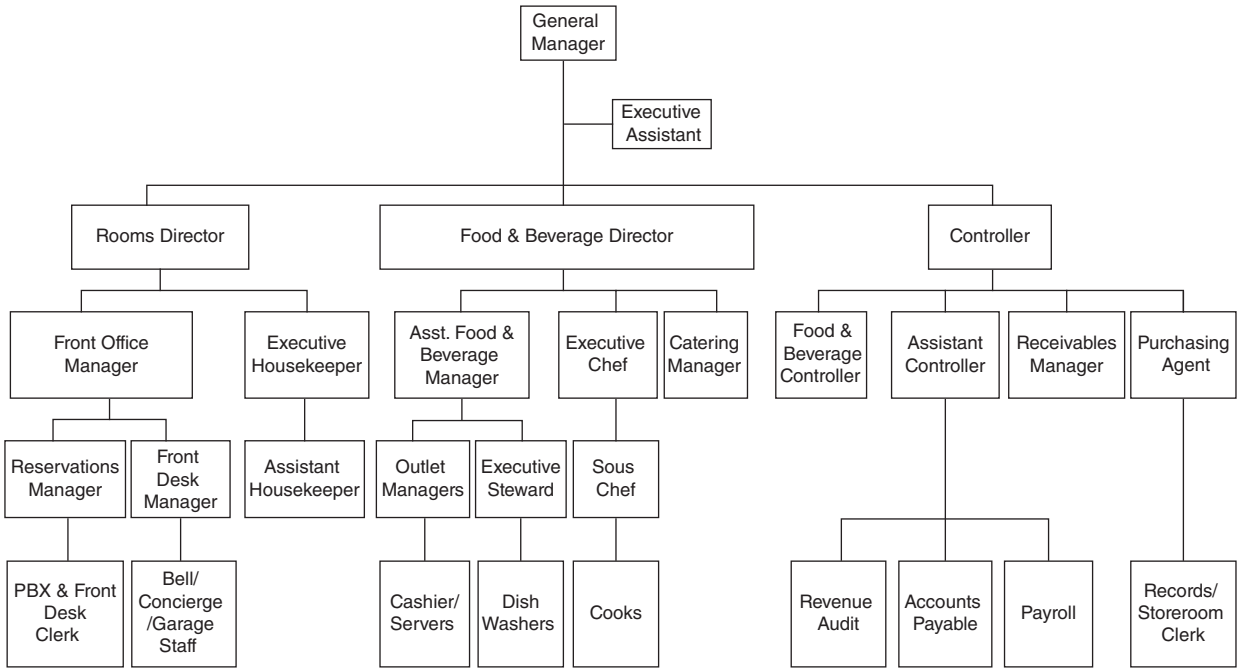


**Figure 1-4** Organizational Chart

to the American Hotel and Motel Association, about 35 percent of the 68,875 lodging places in the United States provided guest room minibar services in 2007. For the minibars to be profitable and popular, inventory controls must be in place, the menu item selection must be appropriate, security must be monitored to prevent theft, and the hotel guest must have a positive perception of value and benefit.

## The Guest's Perception of Value and Benefits

*Most managers make decisions about guest perception of value after compiling and reviewing client surveys over a period of time. Others analyze guest perception based on management experience and judgment. The latter is subjective and thus is prone to individual manager biases and mistakes. However, the objective of any method used is to evaluate the following:*

1. *Convenience and effective pricing* to insure guests are provided with an excellent selection of drinks and snacks at the right price and at all times.
2. *Tamper-proof presentation of drinks and snacks* to ensure the quality of the products and to prevent tampered contents. It has been reported in some lodging places that guests refill drink containers with water after use in order to avoid paying for them. As you might imagine, the next guest to find such a beverage is likely to be very dissatisfied.
3. *Accurate and timely posting of guest charges* to prevent the costs of late billing and accounting write-offs when guests dispute their charges. The latter can occur if the minibar inventory was not up to standard before the guest checked in. Late checkouts and DO NOT DISTURB signs can prevent accurate and timely inventory monitoring.

(*continues*)

(*continued*)

4. *Prompt billing* to ensure the guest is not waiting at the front desk to determine final charge amounts.
5. *Noise reduction and guest privacy* to ensure the system (refrigerator) is noise-free and that there is a minimum of intrusion on guest privacy for restocking.

Some lodging companies simply incorporate a dollar amount into the room rate to cover minibar usage. This amount depends on the level and value of stock items in the guest minibar. This can be a good solution to disputed charges but might raise the room rate significantly, and some guests may decide to stay elsewhere.

*Inventory Controls.* The manager must be able to account for minibar stock and sales. To do so, sales records must be reconciled with replacement requisitions both to the guest rooms and from the storeroom. Other issues that must be evaluated include adequate stock levels, prevention of spoilage, theft, and labor costs for restocking and stock rotation. Inventory control is covered in more detail in Chapter 11.

*Menu Analysis.* The objective here is to evaluate sales volume and profitability of stock items. Inventory stock items should be evaluated to determine profitability and popularity with the guests. Menu analysis should be conducted periodically to address issues of slow-moving stock and discontinued stock items. Chapter 13 goes into more detail on this topic.

*Security and Preventing Theft.* There are two issues here: compliance with laws governing alcohol sales and consumption, and unauthorized minibar access. With the former, you must find an acceptable, legal way to keep minors out of the minibars. Your local or state government should be able to tell you what steps you must take to comply. The latter issue is for you to manage with your own staff. Specialized locks are available to reveal and deter unauthorized entries. Be sure to tell your staff that any theft is grounds for dismissal; stealing even a candy bar is inappropriate in the workplace.

*Communication.* It is apparent from the above points that a sound dialogue among all departments is required to keep the minibar service running smoothly. Note the following interdepartmental network that must be in place to make minibars work:

1. Housekeeping: to inform the front desk and the minibar attendant of the status of the minibar before releasing the room to the front desk for guest check-in.
2. Bell staff: to inform the front desk if they notice that a guest minibar is unsecured during luggage delivery or guest escort.
3. Front desk: to inform guests about the minibar system and its use.
4. Maintenance: to install reliable and secure locks and to maintain the system for temperature control.
5. Accounting: to answer guest inquiries and track disputed charges and financial reporting.
6. Minibar attendant: to improve guest service, convenience, and satisfaction by choosing products with a minimum of guest disturbance; to follow guest arrival and departure reports for restocking and charging; to contribute to overall profitability; and to present products in a tamper-proof format.

Communication among these different actors is key to making minibar service profitable. Some companies employ automated minibar systems, which can be effective and theft-resistant; one brand name to look for is RoboBar. Companies should review the possible return on investment before making such expenditure, however. Some of the features of an automated system

include online, real-time posting of guest charges; minimum level refill options, which add up to labor savings; tamper-proof presentation; automatic stock rotation; electronic locking capabilities; self-diagnostic features that result in prompt resolution of system problems; and a programmable defrost cycle.

As you have seen, communicating about even something as simple as a minibar has numerous challenges. The food and beverage manager—whether this is one person or a team—must face these challenges across a variety of operational components. These challenges increase exponentially as the operation increases in size.

## Cost Control

*Cost* is a term often used interchangeably with *expenses*. Understanding costs and how they behave is critical in the foodservice business. The following example demonstrates the importance of this theme.

*Labor Ready, a company based in Tacoma, Washington, was started in 1989 with an investment of about $50,000. The company fills temporary manual labor jobs throughout the United States, Canada, and the United Kingdom. Labor Ready issues over 6 million paychecks each year to more than half a million laborers.*

*For example, the food vendors at the new Seattle Mariners Safeco Field hire Labor Ready workers to serve soft drinks and food at baseball games. Employers are charged about $11 per hour for these services. Since Labor Ready pays its workers only about $6.50 per hour and offers no fringe benefits and has no national competitors, this business would appear to be a gold mine generating about $4.50 per hour in profit. However, the company must maintain 687 hiring offices, each employing a permanent staff of four to five persons. Those costs, together with payroll taxes, workers' compensation insurance, and other administrative costs, diminish the profit to only about 5%, or a little over 50 cents per hour.*

*Source: Catie Golding, "Short-Term Work, Long-Term Profits," Washington CEO, January 2000, pp. 10–12*

How management controls all costs associated with running a food and beverage business is the focus of this book. In carrying out the control function, managers seek to ensure that the cost control plans and procedures are being followed. Management takes in feedback—from formal periodic reports to anecdotal evidence—to assess whether operations are on track. In a typical food-service operation, this feedback is generally provided by detailed reports of various types. One of these reports, which compares forecasts to actual results, is called a *performance report*. Performance reports suggest where operations are not proceeding as planned and which parts of the organization may require additional attention.

For example, before entering into a contract with the State of California to manage one of the states' premier parks, the concessionaire devises a plan that includes targets for sales volume, profit, and expenses. As the business progresses, periodic reports will be made in which the actual sales volume, profit, and expenses are compared to the targets. If the actual results fall below the targets, top management will be alerted to take appropriate corrective actions. Such action could include changes in procedures, personnel, and equipment.

Many operational factors can affect expenses, including changing labor rates, raw food costs, marketing and advertising costs, or even the type of equipment used. For example, a point of sale (POS) system such as Micros could facilitate all aspects of operation, from guest service to

accounting, and result in increased productivity. Similarly, specialized kitchen equipment, such as Alto-Shaam products, can help to reduce cooking losses.

Managers must use make-or-buy decisions (discussed in Chapter 5) to determine whether to buy prepared products to save on labor costs or to purchase less-expensive raw products and prepare them on site. Such decisions will depend on the available in-house resources—labor costs and food costs. In many situations like this you will have to weigh cost factors on a daily basis and determine the optimal action to take.

Take, for example, the experience of Eric Breeze, the owner and general manager of Sea Breeze Hotel (SBH). SBH was a real-estate conglomerate until three years ago, when it was turned into a four-star hotel. Business for SBH is highly seasonal, like that of most hotels and restaurants in the Monterey Bay area. Three years into the business, the hotel still finds it difficult to turn a profit, mainly because its expenses are out of control. In spite of the difficulty, the rooms division reported a profit before taxes of 75 percent; on the other hand, the food and beverage division reported a profit of only 2 percent. The low food and beverage profit was due to high cost. The cost of sales was 38 percent; labor rose to 34 percent; and other expenses (electricity, water, gas, trash, telephone, uniforms, paper supplies, rent, and so on) came to 26 percent.

At a resort like the Sea Breeze, these profit amounts are only part of the larger revenue picture. This is because some departments, such as human resources, security, and accounting, don't generate their own revenue. (In fact, they are sometimes called **non-revenue departments** or **overhead**.) Thus, profits in the revenue-producing departments have to cover the costs of these departments as well. In the organizational chart in Figure 1-4 you can see how these departments relate to one another.

**non-revenue departments** Support and service departments that generally do not generate revenue. Examples include Security, Facility, Personnel, Accounting, and Sales.

If the rooms division in our example were not so profitable, SBH would be in trouble. "If the food and beverage division were an independent stand-alone restaurant, it would be losing money," said an intern from Monterey Peninsular College. This is because an independent restaurant's **profit and loss statement** has to reflect all expenses involved in supporting the food and beverage revenues, including the expenses of non-revenue departments. Before we continue, it is important to understand the different classifications of costs.

**profit and loss statement** A written document of net revenue and expenses showing the financial gain (profit) or failure (loss) for particular time period.

## General Cost Scheme

Costs can be classified in a number of ways, depending on the purpose of the classification. For example, costs are classified one way to determine inventory valuation and cost of goods sold for financial reports, while they are classified in a different way to aid decision-making. A particular cost may be classified in many different ways. This book will teach you the purposes of the various classifications and how to apply them. Common classifications include:

- ***Production costs.*** Costs that are incurred to make a product, like a chicken entrée, are called *production* or *manufacturing costs*. These costs are usually grouped into three main categories: direct materials, direct labor, and production overhead.
- ***Direct materials.*** Direct materials consist of those raw material inputs that become an integral part of a finished product and can be easily traced to it. For example, raw chicken breasts are direct material for making a chicken entrée.
- ***Direct labor.*** Direct labor consists of that portion of labor costs that can be easily traced to a product, such as the cook's hourly payroll cost. Direct labor is sometimes referred to as "touch labor" since it consists of the costs of workers who "touch" the product as it is being made.
- ***Production overhead.*** Production overhead consists of all production costs other than direct materials and direct labor. These costs cannot be easily and conveniently traced to individual products. Examples include equipment maintenance and facility heating costs.
- ***Prime versus conversion costs.*** Prime cost consists of direct materials plus direct labor. Conversion costs consist of direct labor plus production overhead.

- ***Non-production costs.*** Food-service operations incur many other costs in addition to production costs. For financial reporting purposes, most of these other costs are typically classified as selling (marketing) costs and administrative costs. Marketing and administrative costs are incurred in almost all food-service operations.
- ***Marketing Costs.*** These costs include the costs of making sales, taking customer orders, and delivering the product to customers. These costs are also referred to as order-getting and order-filling costs in hotel and resort settings that offer food and beverage services.
- ***Administrative Costs.*** These costs include all executive, organizational, and clerical costs that are not classified as production or marketing costs.

## Revenue Enhancement

**net income** The excess of revenue earned over expenses for the accounting period.

If a business is to succeed or even just survive, revenue must be great enough to pay for the cost of goods sold and other expenses and to provide sufficient **net income**. There are two factors at play here: revenue and expenses. Generally, increasing revenue means consistently delivering the products and services your customer wants at the right price, at the right time. The amounts and trends of revenue are important indicators of a restaurant's progress. Increasing revenue suggests growth, whereas decreasing revenue indicates the possibility of decreased profits and other financial problems in the future. Thus, to detect trends, comparisons are frequently made between net revenues or sales and net incomes for different periods. The *income statement* is a financial statement that summarizes the amount of revenues earned and expenses incurred by a restaurant over a period of time. Managers consider this the most important financial report because its purpose is to measure whether or not the business achieved its primary objective of making an acceptable profit. Take for example Figure 1-5, from the NRA's 2007 annual publication. This report shows the net incomes of restaurant businesses in the United States. For all sales (100 percent), various expenses were deducted from income. The result? Full-service restaurants spend about 96 percent of their gross income on expenses; limited-service restaurants, such as fast-food establishments, spend 93 percent of their gross income on expenses.

**Figure 1-5** The Restaurant Industry Dollar. *Courtesy of "Restaurant Industry Operations Report 2007/2008" National Restaurant Association/Deloitte*

| **The Restaurant Industry Dollar** *These Figures are in Percentages* | **Full-service Restaurants** | **Limited Service Restaurants** |
|---|---|---|
| **Where it came from:** Food and Beverage Sales | 100% | 100% |
| **Where it went:** | | |
| Cost of Food and Beverage Sales | 31.9 | 30.4 |
| Salaries and Wages, incl. benefits | 32.5 | 28.6 |
| Restaurant Occupancy Costs | 6 | 7 |
| Corporate Overhead | 3 | 4 |
| General and Administrative Expenses | 3 | 2 |
| Other | 18 | 19 |
| Income Before Income Taxes | 5.6 | 9 |

Two expenses stand out from this independent survey of food service operations across the United States: **food cost** and **labor cost**. Although the percentages vary somewhat from one restaurant to another, the chart offers a benchmark with which to compare profits before tax: 4 percent for full-service restaurants and 7 percent for limited-service restaurants. So, how does the SBH food and beverage division compare? Generally, food and beverage and labor costs are higher in full-service restaurants because both the menus and the skill-set requirements are more complex and costly.

**food cost** refers to the cost of food items and ingredients.

**labor cost** The dollar amount paid to employees.

Looking at the Sea Breeze restaurant division's performance, Eric Breeze decided to hire someone with experience in food and beverage management. This could be a chef or any restaurant manager, but it should be someone who has skills to meet the following requirements:

**Discussion Topics**

According to the data presented by the NRA, what segment of the restaurant industry achieves the highest percentage profit margin? Why?

He or she is responsible for developing and implementing policies, procedures, and actions that improve operational efficiency. His or her role will also include maximizing cash flow, increasing profitability, and helping to achieve profit objectives. In carrying out these ongoing tasks, the manager is responsible for analyzing expenses, revenues, and staffing levels, and for implementing cost-effective control procedures. The manager's key job functions lie in cost control, specifically in the following areas:

1. Planning for Labor Productivity Controls (detailed in Chapter 12)
   - developing and communicating plans for improving labor efficiency within budgeted resources and operational goals
   - providing performance feedback to supervisors in order to improve staff scheduling and labor control efforts
   - monitoring productivity statistics to ensure methods are applied and regulated effectively
2. Evaluating and Consulting
   - defining and maintaining historical support documentation that illustrates trends throughout the company
   - analyzing and evaluating deviations from normal and expected business activity, while also exploring causes of deviations
   - identifying and evaluating how internal and external forces affect profitability and operational goals, researching their causes, and recommending appropriate corrective action
   - proposing changes in policy or procedure in the best interests of the operation
3. Financial Reporting
   - gathering and consolidating daily, weekly, monthly, and annual statistics on revenues, expenses, guest counts, and occupancy for reporting purposes
   - preparing and distributing periodic productivity and operating reports
   - verifying billing accuracy and revenue control procedures
4. Protection and Maintenance of Company Assets
   - purchasing and overseeing computer systems (usually point of sale systems and those designed for purchasing, inventory, and menu analysis)
   - ensuring efficient operation and evaluating system effectiveness
   - trouble-shooting minor system problems
   - knowledgeably recommending needed upgrades (in larger companies, staff assistance may be required to accomplish these items)

**Discussion Topics**

Discuss common organizational structures of restaurants, especially the advantages and disadvantages associated with each (from a small local restaurant to a megacorporation). Which functions of the manager are most important?

5. Other Duties
   - coordinating and assisting in month-end inventories
   - correlating the expense budget with business volumes
   - preparing monthly operating reports
   - recommending menu pricing
   - forecasting costs and revenue contributions
   - developing revenue strategies and expense control systems
   - establishing and administering the annual profit plan
   - developing sanitation standards
   - upholding standards of ethical conduct by avoiding actual or apparent conflicts of interest and advising all appropriate parties of any potential conflict

Eric interviewed several promising candidates who matched the role described above before deciding on Myla Thomas. During Myla's job interview, Eric questioned Myla about the steps she would take to implement expense controls.

**Eric:** As I mentioned earlier, we are going to end 2008 with a very nice profit in the rooms division but not in the food and beverage division. What you may not know is that we had some very big financial problems this year.

**Myla:** Let me guess. You had problems managing expenses in the first and fourth quarters.

**Eric:** How did you know?

**Myla:** Most of your revenues are in the second and third quarter, right?

**Eric:** Sure, everyone wants to visit Monterey in the spring and summer, but not in the winter months when it is cold.

**Myla:** So you don't have much revenue in the first and fourth quarter, just like many of your competitors?

**Eric:** Right.

**Myla:** And in the second and third quarters, you are busy trying to keep up with heavy demand for rooms and food and beverage services?

**Eric:** Sure.

**Myla:** Do you have a system in place for controlling expenses?

**Eric:** Are you kidding? Of course not. My manager, Robert, has a real-estate background. Hotels, food and beverage, the industry in general is fascinating to him, but he and I are both new to this business.

**Myla:** Here's my philosophy: Anything I manage I measure. It helps to prevent too much slack and creates disciplined spending. It helps to keep costs in line.

**Eric:** So what do you think we should do about the situation we have?

**Myla:** The first step is to work on weekly, monthly, and yearly revenue forecasts that managers can use for staffing and purchasing commitments. The second step is to gain some understanding of inventory management and to develop systems for control. The benefits are lower cost of sales and better control of expenses.

With Eric's full backing, Myla set out to implement cost control initiatives, starting with forecasting and inventory control.

**Notes**

This is a good time to invite a food and beverage director to discuss the food service industry as it relates to interdepartmental communication, team effort, cost control challenges, and decision-making processes. Ask the visitor to talk about the process of change in his or her establishment and how it can be difficult at times to make and maintain better controls. Myla, for example, might face resentment in the process of making changes. This vignette is a prelude to many aspects of learning to come.

# Cost-effective Initiatives

A key phrase in the food and beverage manager's vocabulary is cost-effective controls. Myla uses cost-effective control alternatives to rectify cost inefficiencies or, in short, to minimize costs while maximizing profits. She believes that controls must be cost-effective and balanced. They must not impact the customer's perceived value; nor may they run afoul of safety laws or lead to financial losses. In controlling costs at the Sea Breeze, Myla will weigh the advantages and disadvantages of alternative methods and select those that will advance the company's objectives. Myla understands that solutions need to be ethical, suitable, and simple to apply. Myla's decisions about cost-effective controls are most crucial in the area of forecasting, inventory management and valuation, and managing the food and beverage **budget**. Each will be covered in greater detail later in this book.

**budget** A company's plan of operation for a specified period of time that forecasts activity and income, sets limits on expenditures, and establishes any other disposition of company funds.

# Forecasting

Business forecasting involves predicting a company's future performance. It is an integral part of the planning process, particularly when the forecast is used as a basis for budget preparation. Myla will also use forecasts to alert management to weaknesses in various areas so that remedial action may be taken in a timely manner to avert the losses SBH is experiencing. The forecasts customarily cover operations issues (such as staffing levels and purchasing) and financial results (such as estimated costs and revenue percentages). Successful forecasting is nothing more than predicting the consequences of a given decision or set of decisions over a specific time period.

There are many approaches to forecasting. In selecting a specific method that suits the circumstances, Myla must consider these important criteria:

- Is the method practical? What resources and data must be available to make it work?
- Are the method's end results useful and reliable?
- Is the method cost-effective?

Forecasting can be accomplished using a statistical method or by estimation; estimation is the most commonly used method in the food service industry. This approach to forecasting, while benefiting from historical data analysis, is relatively subjective. It presumes that the forecaster's experience, knowledge of the restaurant, judgment, and intuition are sufficient bases for developing meaningful and reliable forecasts. To be successful, Myla will need to apply **key performance indicators (KPI)**; this is how companies define and establish a benchmark by which to measure progress. We will be making references to Figure 1-6 (KPI) throughout this chapter.

**key performance indicators (KPI)** Defined benchmarks by which to measure a company's progress.

In the hotel industry, with both restaurant and catering food and beverage services in one operation, estimated forecasts could be produced using a sales team approach. In this technique, sales and catering managers estimate product sales based on individual client contacts and contracted banquet event orders (BEOs). This estimate then forms the basis for the estimate of room revenues, which in turn is the foundation for food and beverage revenue forecasts and all payroll and other related expenses. This approach is not statistical, but rather integrates judgment factors and experience with situations in which historical data may not be available or applicable. The disadvantage of the sales team approach is that its results are susceptible to the biases of those who are most influential in the group.

A second type of estimation approach is called customer expectation. Here, management collects and judges information from customer surveys to arrive at a forecast; however, this method incorporates customers' expectations of *their* needs and external factors as the basis for forecasting. While it has the advantage of promptly recognizing changes in customer expectations, this technique is difficult to use in markets whose customers are numerous, transient, or not easily identified. For example, surveys conducted by SBH for guest preference of breakfast

**Figure 1-6** Food and Beverage KPI

| Food and Beverage KPI | Source | Calculation / Definition |
|---|---|---|
| Cover count | Point of Sales System (POS) | This is the tally of customers who purchased meals |
| Cost of Sales | Point of Sales System (POS) | Cost of menu items sold during an accounting period |
| Cost of Sales percentages | Point of Sales System (POS) | Cost of Goods Sold divided by Sales |
| Inventory Turns (Current Year vs. Last Year) | Financial System | Cost of Goods Sold divided by Average Inventory |
| Table Turn | Point of Sales System (POS) | Cover Count divided by Number of Restaurant Seats. It refers to the average number of times during a meal period that a given seat is occupied. This information is used to judge the Effeciency of Seat Capacity |
| Average Inventory | Purchasing Systems | Beginning plus ending inventory divided by two |
| Average Age of Inventory | Purchasing Systems | Average inventory divided by cost of sales and multiplied by number of days in a month is used to determine age |
| Sales Efficiency | POS and Purchasing Systems | Revenue divided by average inventory is used to determine the level of inventory in relation to sales |
| Average Food Check | Point of Sales System | Food Sales divided by Cover Counts |
| Average Beverage Check | Point of Sales System | Beverage sales divided by Cover Counts |
| Average Food and Beverage Check | Point of Sales System | Food and Beverage Sales divided by Cover Counts |
| **Lodging/Room KPI** | | |
| Available Rooms | Reservation System | Total physical rooms on property minus rooms "off the market." Off the market means out of room inventory |
| Average Daily Room Rate | Reservation System | Total occupied Rooms divided by Occupied Rooms |
| Occupancy % | Reservation System | Total Room Revenue divided by Rooms Available |
| Revenue per Guest (Per Cap) | Financial System | Revenue divided by Hotel Guest Count |
| REVPAR | Reservation System | Room Revenue divided by Total Hotel Rooms |
| Rooms Occupied | Reservation System | "Head on a bed" |
| **Payroll/Labor KPI** | | |
| Payroll % | Financial System | Total Payroll per Revenue dollar |
| Revenue Per Labor Hour | Financial System | Revenue divided by Hourly Employees Labor Hours |
| Total Payroll Hours | Payroll System | Total Regular plus Overtime Hours |
| Total Salaries and Hourly Wages | Payroll System | Dollar Amount |

buffet over à la carte reveal that 72 percent prefer a buffet. In actuality, however, only 47 percent of guests ordered the buffet, 20 percent ordered room service, and 33 percent selected à la carte items.

A third type of estimated approach is called executive opinion. This method consists of combining and averaging top executives' views. A hotel might bring together executives from areas such as sales, food and beverage, accounting, purchasing, and culinary in order to get the benefit of broad experience and opinion. In a small operation, this might be accomplished by the owner, general manager, or executive chef. In most cases, the purpose of their meeting is to review, analyze, and critique the information from the first and second forecasting approaches. The advantages and disadvantages parallel those of the sales team approach.

The primary disadvantage of forecasting techniques that employ estimates is that they cannot be verified or assessed objectively until after the fact. Further, because the forecast is inherently subjective, poor logic might go undetected, and the results might be entirely unpredictable. As actual results are produced, Myla should analyze them relative to the forecast to identify ways to improve future estimated forecasts.

## Revenue Forecast

There are ways, however, to conduct forecasting more scientifically. Figures 1-7 and 1-8 show a food and beverage revenue forecast for the Sea Breeze. Hotel occupancy is added to the forecast because, in a hotel restaurant, guests are the number-one source of food and beverage business. By incorporating the occupancy levels of the whole property and combining this with knowledge of group and catering functions, Myla can assess the number of available guests. Restaurants that are not in hotels will not use the occupancy information columns in Figure 1-7; however, the rest of the chart applies well to most operations. Club establishments might incorporate information about club membership, and stand-alone restaurants can take into account regular customer traffic and local events (such as conventions, festivals, and promotional campaigns) when forecasting. We will discuss Figures 1-7 and 1-8 separately, and then we will combine the charts to show how all this information relates in practice (Figure 1-9).

In Figure 1-7, Column A lists the days and dates of the month, followed by the hotel's forecasted occupancy (Column B) and the associated percentage of potential occupancy (Column C). It is important to understand that the occupancy percentages are the number of occupied rooms divided by the number of available rooms.[1] Columns D, E, and F list available guests per meal period. The term **available guests** refers to registered guests who may dine in a lodging establishment's restaurant. For example, SBH has 1,120 guest rooms. The hotel has several meeting rooms, including banquet spaces that could seat up to 2,000 guests for catering events. Currently, the number of registered guests is 1,500. Half these guests have a previous breakfast engagement in one of the hotel banquet rooms. There are no catering events scheduled for dinner. Therefore, the number of available guests Myla can anticipate is 750 for breakfast, 750 for lunch, and 1,500 for dinner.

**available guests** The percentage of the total registered guests that may come to dine in a hotel restaurant.

Some of the available guests will choose to dine outside the hotel, and some may order room service. This is where the forecaster's experience comes into play; Myla will have to team up with other managers to gain that knowledge. Myla will have to use historical information to find the relationship between the number of available guests and restaurant cover counts for the groups in-house. When large groups have come to the hotel, she will also check with group leaders to find out if these guests will be using the restaurant for dinner. This data is invaluable in predicting the number of expected guests for breakfast, lunch, and dinner, which in turn will impact purchasing, kitchen staff preparation, and labor cost.

[1] The available room quantity, which is not shown on Figure 1-7, is not always equal to total hotel rooms because certain rooms may be out of order. For example, on Day 1, the occupied room count is 560 and the occupancy percentage is 50. Therefore, the available room count on that day should be 1,120. However, on Day 5 the same number of rooms (560) was occupied, but the occupancy percentage was 52.2. This is because only 1,073 rooms were available on Day 5.

**Figure 1-7** Department Staff Planning Forecast Model / Revenues and Labor Schedule Summary

| K.V.I: Available Guest | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Key Volume Indicator = KVI | | | | | | | | | | | | | | | |
| [A] | | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] |
| | | Rooms information | | Available Guests | | | Forecast Covers | | | | | Forecast Revenues | | | |
| Day | | Occ | Occ % | Bkfst | Lunch | Dinner | Bkfst | Lunch | Dinner | Other | Total | Food | Bev | Other | Total |
| 1 | Mon | 560 | 50.0% | 740 | 740 | 795 | 59 | 52 | 40 | 0 | 151 | 1,858 | 427 | 0 | 2,285 |
| 2 | Tue | 605 | 56.4% | 795 | 859 | 859 | 64 | 60 | 43 | 0 | 167 | 2,029 | 469 | 0 | 2,498 |
| 3 | Wed | 600 | 56.0% | 859 | 852 | 852 | 69 | 60 | 43 | 0 | 172 | 2,055 | 477 | 0 | 2,532 |
| 4 | Thu | 565 | 52.7% | 852 | 802 | 802 | 68 | 56 | 40 | 0 | 164 | 1,932 | 451 | 0 | 2,382 |
| 5 | Fri | 560 | 52.2% | 802 | 795 | 795 | 64 | 56 | 40 | 0 | 160 | 1,912 | 444 | 0 | 2,355 |
| 6 | Sat | 615 | 57.4% | 795 | 873 | 1,123 | 64 | 61 | 56 | 0 | 181 | 2,424 | 541 | 0 | 2,965 |
| 7 | Sun | 505 | 47.1% | 873 | 717 | 717 | 70 | 50 | 36 | 0 | 156 | 1,780 | 420 | 0 | 2,200 |
| 8 | Mon | 550 | 51.3% | 717 | 781 | 781 | 57 | 55 | 39 | 0 | 151 | 1,840 | 424 | 0 | 2,264 |
| 9 | Tue | 605 | 56.4% | 781 | 859 | 859 | 62 | 60 | 43 | 0 | 165 | 2,019 | 465 | 0 | 2,485 |
| 10 | Wed | 620 | 57.8% | 859 | 880 | 880 | 69 | 62 | 44 | 0 | 175 | 2,099 | 487 | 0 | 2,585 |
| 11 | Thu | 630 | 58.8% | 880 | 895 | 895 | 70 | 63 | 45 | 0 | 178 | 2,141 | 496 | 0 | 2,636 |
| 12 | Fri | 635 | 59.2% | 895 | 902 | 902 | 72 | 62 | 45 | 0 | 179 | 2,144 | 497 | 0 | 2,641 |
| 13 | Sat | 715 | 66.7% | 902 | 1,015 | 1,015 | 72 | 71 | 51 | 0 | 194 | 2,386 | 549 | 0 | 2,935 |
| 14 | Sun | 550 | 51.3% | 1,015 | 781 | 531 | 81 | 55 | 27 | 0 | 163 | 1,603 | 400 | 0 | 2,002 |
| 15 | Mon | 515 | 48.0% | 781 | 731 | 731 | 62 | 51 | 37 | 0 | 150 | 1,777 | 414 | 0 | 2,190 |
| 16 | Tue | 545 | 50.8% | 731 | 774 | 774 | 58 | 54 | 39 | 0 | 151 | 1,837 | 424 | 0 | 2,261 |
| 17 | Wed | 610 | 56.9% | 774 | 866 | 866 | 62 | 61 | 43 | 0 | 166 | 2,027 | 467 | 0 | 2,494 |
| 18 | Thu | 625 | 58.3% | 866 | 888 | 638 | 69 | 62 | 32 | 0 | 163 | 1,741 | 421 | 0 | 2,162 |
| 19 | Fri | 660 | 61.6% | 638 | 937 | 437 | 51 | 66 | 22 | 0 | 139 | 1,381 | 345 | 0 | 1,726 |

(*continues*)

(*continued*)

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 20 | Sat | 700 | 65.3% | 437 | 994 | 814 | 35 | 70 | 41 | 0 | 146 | 1,895 | 430 | 0 | 2,325 |
| 21 | Sun | 600 | 56.0% | 494 | 852 | 352 | 40 | 60 | 18 | 0 | 118 | 1,164 | 292 | 0 | 1,456 |
| 22 | Mon | 550 | 51.3% | 352 | 781 | 531 | 28 | 55 | 27 | 0 | 110 | 1,336 | 310 | 0 | 1,646 |
| 23 | Tue | 550 | 51.3% | 531 | 781 | 781 | 42 | 55 | 39 | 0 | 136 | 1,764 | 399 | 0 | 2,163 |
| 24 | Wed | 525 | 49.0% | 781 | 746 | 746 | 62 | 52 | 37 | 0 | 151 | 1,784 | 416 | 0 | 2,199 |
| 25 | Thu | 545 | 50.8% | 746 | 774 | 774 | 60 | 54 | 39 | 0 | 153 | 1,848 | 427 | 0 | 2,275 |
| 26 | Fri | 540 | 50.4% | 774 | 767 | 767 | 62 | 54 | 38 | 0 | 154 | 1,828 | 425 | 0 | 2,253 |
| 27 | Sat | 545 | 50.1% | 767 | 774 | 774 | 61 | 54 | 39 | 0 | 154 | 1,853 | 429 | 0 | 2,282 |
| 28 | Sun | 475 | 44.3% | 774 | 675 | 675 | 62 | 47 | 34 | 0 | 143 | 1,659 | 389 | 0 | 2,048 |
| 29 | Mon | 505 | 47.1% | 675 | 717 | 717 | 54 | 50 | 36 | 0 | 140 | 1,700 | 392 | 0 | 2,092 |
| 30 | Tue | 545 | 50.8% | 717 | 774 | 774 | 57 | 54 | 39 | 0 | 150 | 1,832 | 422 | 0 | 2,255 |
| 31 | Wed | 505 | 47.1% | 774 | 717 | 717 | 62 | 50 | 36 | 0 | 148 | 1,740 | 406 | 0 | 2,146 |
| | | | | | | | | | | | | | | | |
| TOTALS FORECAST: | | | | | | | 1,868 | 1,772 | 1,188 | 0 | 4,828 | 57,385 | 13,353 | 0 | 70,738 |
| BUDGETED DATA----------> | | | | | | | | | | | 4,800 | 57,000 | 14,000 | | 71,000 |
| % OF FORECAST TO BUDGET----------> | | | | | | | | | | | 100.6% | 100.7% | 95.4% | | 99.6% |

| Box A | | |
|---|---|---|
| Average Check Statistic | | |
| | FOOD | BEV. |
| Brkfst | $5.03 | $1.69 |
| Lunch | $7.11 | $2.10 |
| Dinner | $29.79 | $5.45 |
| Other | $16.15 | $4.07 |
| Other | $9.75 | $2.19 |

**Figure 1-8** Hotel and Restaurant

| | HOTEL AND RESTAURANT | | | | | | | | | | | | Month: | | 5-Jan | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | [P] | [Q] | [R] | [S] | [T] | [U] | [V] | [W] | [X] | | | | Department: | | | | | |
| | FORECAST LABOR HOURS PER STAFFING GUIDE | | | | | | | | | | | | Authorizing Sign.: | | | | | |
| | $11.50 | $6.70 | $9.20 | $5.40 | $4.70 | $9.50 | $4.50 | | | | | | | | | | | |
| | | | SERVICE LABOR HOURS | | | | | | | [Y] | [Z] | [AA] | [BB] | [CC] | [DD] | [EE] | [FF] | [GG] |
| Day | Culi-nary | Stwrd person | Host/ hostess | Bus person | Food servers | Bar-tender | Cocktail Server | Total Svc Hrs | Total Service $ | Labor | | Salary | | Total Hours | Total Dollars | Sched Hours | Sched Dollars | Var Hrs to Model |
| | | | | | | | | | | Hours | Dollars | Hours | Dollars | | | | | |
| 1 Mon | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 71 | 631 | −15 |
| 2 Tue | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 86 | 762 | 8 |
| 3 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 72 | 638 | −6 |
| 4 Thu | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 170 | 1506 | 92 |
| 5 Fri | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 64 | 567 | −14 |
| 6 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 90 | 800 | 4 |
| 7 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 72 | 644 | 10 |
| 8 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 62 | 556 | -8 |
| 9 Tue | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 78 | 691 | 0 |
| 10 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 78 | 691 | 0 |
| 11 Thu | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 80 | 709 | 2 |
| 12 Fri | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 82 | 726 | 4 |
| 13 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 90 | 800 | 4 |
| 14 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 70 | 626 | 8 |
| 15 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 16 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 17 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 76 | 673 | −2 |
| 18 Thu | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 65 | 581 | 3 |
| 19 Fri | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 65 | 581 | 3 |
| 20 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 82 | 729 | −4 |

(*continues*)

(*continued*)

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 21 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 22 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 23 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 59 | 528 | −3 |
| 24 Wed | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 25 Thu | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 26 Fri | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 27 Sat | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 28 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 29 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 30 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 31 Wed | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 60 | 537 | −2 |
| | | | | | | | | | | | | | | | | | | |
| | 848 | 150 | 72 | 176 | 212 | 248 | 248 | 956 | 6,081 | 1,954 | 16,838 | 248 | 2,790 | 2,202 | 19,628 | 2,300 | 20498 | 98 |
| | | | | | | | | | | | 16,600 | | 2,800 | | 19,400 | | 19,400 | |
| | | | | | | | | | | | 101.40% | | 99.60% | Standard | 103.80% | | 105.70% | |
| | | | | | | | | | | Holiday Allowance: | | | $500 | | | | $500 | |
| | | | | | | | | | | Total Labor Per Standard | | | $17,338 | | $2,790 | | $20,128 | |

**Box B**

**Staffing Standard**

| Cover Range | | Bar-tender hours | Cocktail Server hours | Food Server hours | Others Hours | Others hours | Others hours | Table Busser hours | Kitchen Staff Hours | Steward Hours |
|---|---|---|---|---|---|---|---|---|---|---|
| From | To | | | | | | | | | |
| 0 | 39 | 8 | 8 | 6 | 0 | 0 | 0 | 4 | 24 | 4 |
| 40 | 59 | 8 | 8 | 8 | 0 | 0 | 0 | 8 | 32 | 6 |
| 60 | 79 | 8 | 8 | 24 | 0 | 0 | 0 | 12 | 40 | 8 |
| 80 | MAX | 8 | 8 | 32 | 0 | 0 | 0 | 16 | 40 | 8 |

**Box C**

| Salaried Labor | Hours | Dollars |
|---|---|---|
| Manager | 8 | 90 |
| Culinary | 0 | 0 |
| Total | 8 | 90 |

**Figure 1-9** Combined Figure 1-7 & 1-8

| K.V.I: Available Guest | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Key Volume Indicator = KVI | | | | | | | | | | | | | | | |
| [A] | | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] |
| | | Rooms information | | Available Guests | | | Forecast Covers | | | | | Forecast Revenues | | | |
| Day | | Occ | Occ % | Bkfst | Lunch | Dinner | Bkfst | Lunch | Dinner | Other | Total | Food | Bev | Other | Total |
| 1 | Mon | 560 | 50.0% | 740 | 740 | 795 | 59 | 52 | 40 | 0 | 151 | 1,858 | 427 | 0 | 2,285 |
| 2 | Tue | 605 | 56.4% | 795 | 859 | 859 | 64 | 60 | 43 | 0 | 167 | 2,029 | 469 | 0 | 2,498 |
| 3 | Wed | 600 | 56.0% | 859 | 852 | 852 | 69 | 60 | 43 | 0 | 172 | 2,055 | 477 | 0 | 2,532 |
| 4 | Thu | 565 | 52.7% | 852 | 802 | 802 | 68 | 56 | 40 | 0 | 164 | 1,932 | 451 | 0 | 2,382 |
| 5 | Fri | 560 | 52.2% | 802 | 795 | 795 | 64 | 56 | 40 | 0 | 160 | 1,912 | 444 | 0 | 2,355 |
| 6 | Sat | 615 | 57.4% | 795 | 873 | 1,123 | 64 | 61 | 56 | 0 | 181 | 2,424 | 541 | 0 | 2,965 |
| 7 | Sun | 505 | 47.1% | 873 | 717 | 717 | 70 | 50 | 36 | 0 | 156 | 1,780 | 420 | 0 | 2,200 |
| 8 | Mon | 550 | 51.3% | 717 | 781 | 781 | 57 | 55 | 39 | 0 | 151 | 1,840 | 424 | 0 | 2,264 |
| 9 | Tue | 605 | 56.4% | 781 | 859 | 859 | 62 | 60 | 43 | 0 | 165 | 2,019 | 465 | 0 | 2,485 |
| 10 | Wed | 620 | 57.8% | 859 | 880 | 880 | 69 | 62 | 44 | 0 | 175 | 2,099 | 487 | 0 | 2,585 |
| 11 | Thu | 630 | 58.8% | 880 | 895 | 895 | 70 | 63 | 45 | 0 | 178 | 2,141 | 496 | 0 | 2,636 |
| 12 | Fri | 635 | 59.2% | 895 | 902 | 902 | 72 | 62 | 45 | 0 | 179 | 2,144 | 497 | 0 | 2,641 |
| 13 | Sat | 715 | 66.7% | 902 | 1,015 | 1,015 | 72 | 71 | 51 | 0 | 194 | 2,386 | 549 | 0 | 2,935 |
| 14 | Sun | 550 | 51.3% | 1,015 | 781 | 531 | 81 | 55 | 27 | 0 | 163 | 1,603 | 400 | 0 | 2,002 |
| 15 | Mon | 515 | 48.0% | 781 | 731 | 731 | 62 | 51 | 37 | 0 | 150 | 1,777 | 414 | 0 | 2,190 |
| 16 | Tue | 545 | 50.8% | 731 | 774 | 774 | 58 | 54 | 39 | 0 | 151 | 1,837 | 424 | 0 | 2,261 |
| 17 | Wed | 610 | 56.9% | 774 | 866 | 866 | 62 | 61 | 43 | 0 | 166 | 2,027 | 467 | 0 | 2,494 |
| 18 | Thu | 625 | 58.3% | 866 | 888 | 638 | 69 | 62 | 32 | 0 | 163 | 1,741 | 421 | 0 | 2,162 |
| 19 | Fri | 660 | 61.6% | 638 | 937 | 437 | 51 | 66 | 22 | 0 | 139 | 1,381 | 345 | 0 | 1,726 |

(*continues*)

(*continued*)

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 20 | Sat | 700 | 65.3% | 437 | 994 | 814 | 35 | 70 | 41 | 0 | 146 | 1,895 | 430 | 0 | 2,325 |
| 21 | Sun | 600 | 56.0% | 494 | 852 | 352 | 40 | 60 | 18 | 0 | 118 | 1,164 | 292 | 0 | 1,456 |
| 22 | Mon | 550 | 51.3% | 352 | 781 | 531 | 28 | 55 | 27 | 0 | 110 | 1,336 | 310 | 0 | 1,646 |
| 23 | Tue | 550 | 51.3% | 531 | 781 | 781 | 42 | 55 | 39 | 0 | 136 | 1,764 | 399 | 0 | 2,163 |
| 24 | Wed | 525 | 49.0% | 781 | 746 | 746 | 62 | 52 | 37 | 0 | 151 | 1,784 | 416 | 0 | 2,199 |
| 25 | Thu | 545 | 50.8% | 746 | 774 | 774 | 60 | 54 | 39 | 0 | 153 | 1,848 | 427 | 0 | 2,275 |
| 26 | Fri | 540 | 50.4% | 774 | 767 | 767 | 62 | 54 | 38 | 0 | 154 | 1,828 | 425 | 0 | 2,253 |
| 27 | Sat | 545 | 50.1% | 767 | 774 | 774 | 61 | 54 | 39 | 0 | 154 | 1,853 | 429 | 0 | 2,282 |
| 28 | Sun | 475 | 44.3% | 774 | 675 | 675 | 62 | 47 | 34 | 0 | 143 | 1,659 | 389 | 0 | 2,048 |
| 29 | Mon | 505 | 47.1% | 675 | 717 | 717 | 54 | 50 | 36 | 0 | 140 | 1,700 | 392 | 0 | 2,092 |
| 30 | Tue | 545 | 50.8% | 717 | 774 | 774 | 57 | 54 | 39 | 0 | 150 | 1,832 | 422 | 0 | 2,255 |
| 31 | Wed | 505 | 47.1% | 774 | 717 | 717 | 62 | 50 | 36 | 0 | 148 | 1,740 | 406 | 0 | 2,146 |
| | | | | | | | | | | | | | | | |
| TOTALS FORECAST: | | | | | | | 1,868 | 1,772 | 1,188 | 0 | 4,828 | 57,385 | 13,353 | 0 | 70,738 |
| BUDGETED DATA----------> | | | | | | | | | | | 4,800 | 57,000 | 14,000 | | 71,000 |
| % OF FORECAST TO BUDGET----------> | | | | | | | | | | | 100.6% | 100.7% | 95.4% | | 99.6% |

| Box A | | |
|---|---|---|
| Average Check Statistic | | |
| | FOOD | BEV. |
| Brkfst | $5.03 | $1.69 |
| Lunch | $7.11 | $2.10 |
| Dinner | $29.79 | $5.45 |
| Other | $16.15 | $4.07 |
| Other | $9.75 | $2.19 |

| | HOTEL AND RESTAURANT | | | | | | | | | | | | Month: | | 5-Jan | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | [P] | [Q] | [R] | [S] | [T] | [U] | [V] | [W] | [X] | | | | Department: | | | | | |
| | FORECAST LABOR HOURS PER STAFFING GUIDE | | | | | | | | | | | | Authorizing Sign.: | | | | | |
| | $11.50 | $6.70 | $9.20 | $5.40 | $4.70 | $9.50 | $4.50 | | | | | | | | | | | |
| | | | SERVICE LABOR HOURS | | | | | | | [Y] | [Z] | [AA] | [BB] | [CC] | [DD] | [EE] | [FF] | [GG] |
| Day | Culi-nary | Stwrd person | Host/ hostess | Bus person | Food servers | Bar-tender | Cocktail Server | Total Svc Hrs | Total Service $ | Labor | | Salary | | Total Hours | Total Dollars | Sched Hours | Sched Dollars | Var Hrs to Model |
| | | | | | | | | | | Hours | Dollars | Hours | Dollars | | | | | |
| 1 Mon | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 71 | 631 | −15 |
| 2 Tue | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 86 | 762 | 8 |
| 3 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 72 | 638 | −6 |
| 4 Thu | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 170 | 1506 | 92 |
| 5 Fri | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 64 | 567 | −14 |
| 6 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 90 | 800 | 4 |
| 7 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 72 | 644 | 10 |
| 8 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 62 | 556 | -8 |
| 9 Tue | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 78 | 691 | 0 |
| 10 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 78 | 691 | 0 |
| 11 Thu | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 80 | 709 | 2 |
| 12 Fri | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 82 | 726 | 4 |
| 13 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 90 | 800 | 4 |
| 14 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 70 | 626 | 8 |
| 15 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 16 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 17 Wed | 32 | 6 | 0 | 8 | 8 | 8 | 8 | 32 | 193 | 70 | $601 | 8 | $90 | 78 | $691 | 76 | 673 | −2 |
| 18 Thu | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 65 | 581 | 3 |
| 19 Fri | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 65 | 581 | 3 |
| 20 Sat | 32 | 6 | 8 | 8 | 8 | 8 | 8 | 40 | 266 | 78 | $675 | 8 | $90 | 86 | $765 | 82 | 729 | −4 |

(*continues*)

(*continued*)

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 21 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 22 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 23 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 59 | 528 | −3 |
| 24 Wed | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 25 Thu | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 26 Fri | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 27 Sat | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 28 Sun | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 62 | 555 | 0 |
| 29 Mon | 24 | 4 | 8 | 4 | 6 | 8 | 8 | 34 | 235 | 62 | $538 | 8 | $90 | 70 | $628 | 72 | 646 | 2 |
| 30 Tue | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 64 | 572 | 2 |
| 31 Wed | 24 | 4 | 0 | 4 | 6 | 8 | 8 | 26 | 162 | 54 | $465 | 8 | $90 | 62 | $555 | 60 | 537 | −2 |
| | | | | | | | | | | | | | | | | | | |
| | 848 | 150 | 72 | 176 | 212 | 248 | 248 | 956 | 6,081 | 1,954 | 16,838 | 248 | 2,790 | 2,202 | 19,628 | 2,300 | 20498 | 98 |
| | | | | | | | | | | | 16,600 | | 2,800 | | 19,400 | | 19,400 | |
| | | | | | | | | | | | 101.40% | | 99.60% | Standard | 103.80% | | 105.70% | |
| | | | | | | | | | | Holiday Allowance: | | | $500 | | | | $500 | |
| | | | | | | | | | | Total Labor Per Standard | | | $17,338 | | $2,790 | | $20,128 | |

**Box B**

**Staffing Standard**

| Cover Range | | Bar-tender hours | Cocktail Server hours | Food Server hours | Others Hours | Others hours | Others hours | Table Busser hours | Kitchen Staff Hours | Steward Hours |
|---|---|---|---|---|---|---|---|---|---|---|
| From | To | | | | | | | | | |
| 0 | 39 | 8 | 8 | 6 | 0 | 0 | 0 | 4 | 24 | 4 |
| 40 | 59 | 8 | 8 | 8 | 0 | 0 | 0 | 8 | 32 | 6 |
| 60 | 79 | 8 | 8 | 24 | 0 | 0 | 0 | 12 | 40 | 8 |
| 80 | MAX | 8 | 8 | 32 | 0 | 0 | 0 | 16 | 40 | 8 |

**Box C**

| Salaried Labor | Hours | Dollars |
|---|---|---|
| Manager | 8 | 90 |
| Culinary | 0 | 0 |
| Total | 8 | 90 |

Other factors to consider include the percentage of outside customers (people not registered as hotel guests) who may patronize the restaurant on a given day, outside conventions that may increase business, and holidays.

Myla places the forecasts—by meal period and total—in Columns G through J of Figure 1-7. In this example, average check information is contained in Box A beneath the chart. Multiply the average check amounts by the forecasted cover amounts in G through J. These are SBH's forecasted revenues, which will go in Columns L, M, and N.

## Labor Cost Forecast

The same process can be applied to labor cost forecasting (Figure 1-8). Note the staffing guide information in Box B below the chart, which we have provided as an example. It works like this: This box lists how many hours Myla will require of each position, based on how busy the restaurant is. For example, if she forecasts 31 covers in the restaurant, she will need 24 hours of kitchen staff, 8 hours of bartending, and 6 hours of food service. (The staffing guide is discussed much more fully in Chapter 14, so you will learn how each of these steps is handled.) Then, in Columns P through V, these positions and hours are listed, along with their rates of pay. Column W totals these hours for service staff, and in Column X these totals are multiplied by their wage rates to reach a total labor cost. Columns Y and Z provide the combined totals for service, stewarding, and kitchen personnel.

In Column AA, salaried labor is counted; this cost is in Column BB. You can see wages for salaried personnel in Box C under the chart. Column CC totals all hours required for that particular day, and DD totals all wages. Column EE lists what Myla has scheduled for the day. On most days, she has more hours scheduled than this staffing guide requires. This could be due to VIPs staying in the hotel or special requests. The staffing guide does not incorporate holiday hours or pay; these are added manually at the bottom ($500). This is an area Myla can fine-tune with more experience in this establishment.

If Myla did use those extra staff hours, the effects appear in the forecasted expenditures in Column FF. The total amount required by the staffing guide plus holiday allowance ($500) is $20,128. The amount scheduled, including holiday pay on July 4, is $20,507. With detailed forecasts like these, Myla can see where extra expenditures are going and act to cut them.

### Forecast Review

Myla will have to present her forecast to Eric for his review and approval. Will he accept it as presented? Let's review the information from Figures 1-7 and 1-8.[2]

## Summary

*Total Average Check:* Column O ÷ column K = $70,738 ÷ 4,828 = $14.65. Lower dinner business levels are contributing to a low average check. Hotel occupancy could have an impact. Management needs to introduce menu items that could draw locals with a special menu advertising campaign. (Chapter 15 discusses ways to do this.)

*Non-salaried productivity:* Column K ÷ (Column EE − Column AA) = 4,828 ÷ 2,052 = 2.35 (covers per total non-salaried scheduled hours). This number is too low. The staffing guide and menu items need to be looked at and revised. (Chapter 14 provides a detailed discussion.)

*Non-salaried labor percentage:* (Column FF − Column BB) ÷ Column O = $17,717 ÷ $70,738 = 25.05 percent. This number seems high, and may be due to the staffing guide, hourly rate, and menu selections.

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[2] Myla did not include average daily rate (ADR), rev. par, pace, and on-the-book (OTB), because her responsibilities do not include room revenue. That information is appropriately covered in lodging textbooks.

Any of the above indicators could diminish SBH's opportunity to generate profits. With Eric's full support, Myla needs to work with the management team to address them. As stated earlier, Figure 1-9 is a combined version of Figures 1-7 and 1-8. We discussed them separately to illustrate the different stages of preparing a forecast. Below we have combined them, to show how you would use this chart in practice.

**Discussion Topic**

How are forecasts generated? What are the advantages of each method?

# Inventory Management and Valuation

SBH's inventory-management decisions have significant effects on profit reporting and asset valuations. It is vital that Myla supervise inventory procedures because they directly affect profit, cash flow, production levels, and customer service. Myla must provide input on reorder frequencies, economical order quantities, and the quantities required to meet desired customer service levels. SBH's vendors must be able to assure consistent availability of the products to meet demands.

Myla will have to educate the chef, the manager, and the buyer about how success in inventory management is measured—in terms of available cash flow, decreased theft, reduced cost, and reduced waste. All of these factors could have contributed to the losses SBH is experiencing. Failures can be categorized as misappropriation—buying too much, too little, or incorrect stock—and incorrect valuation, which refers to placing a lower or higher value on inventory than it is actually worth. As an example, a change in menu offerings (or sales mix) may leave material surpluses because product needs have changed. Alternatively, prices may have declined substantially while the inventory value SBH has on the books still has the original high prices.

Proper inventory valuation is required for food and beverage accountancy. A high **inventory turnover ratio**—a figure calculated to show how quickly SBH is using products—may indicate that the company is not buying too much stock. A low ratio means the opposite: The company is buying too much and sinking its cash into that expense. Part of the manager's role is to assist in the management of the inventory, both to turn over stock correctly and to monitor the inventory in a way that helps control costs.

**inventory turnover ratio** A ratio of sales to inventory, which shows how many times the inventory of a company is sold and replaced during an accounting period.

To be more specific, Myla should also be valuing SBH's inventory, which means using one of a number of methods to count what the company has and match it to a dollar figure. These values are vital to reporting and comparison in order to show where SBH stands, what costs are being incurred, and where waste and inefficiency are damaging the company's profit-making capabilities. If a manager improperly values the inventory, it can distort the important relationships between current inventory and working capital, turnover, and average age of inventory items. These are all ratios and formulas you'll read about in Chapter 11, where inventory methods are discussed in detail.

## Inventory Review

Myla examined past inventory policies and practices by reviewing a binder reporting the beginning inventory from January 2006 as $30,000 in goods. During the month of January, food purchases totalled $26,000. At the end of January, the inventory, counted and extended, was valued at $31,000.

Given this information, Myla performed the following calculations:

***Cost of sales:*** **($30,000 + $26,000 − $31,000) = $25,000.**

*Cost of sales percentage:* $25,000 ÷ $70,738 (revenue from Figure 1-7) = 35.34 percent. This is higher than the cost of sales information in Figure 1-5, which recommends 33 percent for a full-service restaurant.

Other calculations revealed the following:

The average inventory is ($30,000 + $31,000) ÷ 2 = $30,500.

The average age of inventory is ($30,500 ÷ $25,000) × 31 days in January = 37.82 days.

Sales efficiency is $70,738 ÷ $30,500 = 2.32.

After completing the analysis, Myla took the document to Eric and Robert for their review.

**Myla:** Here are the results of my inventory review. The financial indicators confirm why SBH is losing money. Too much cash is tied in food inventory and cannot be accessed for other important expenses. High inventory is causing spoilage.

**Rob:** But the chef won't reduce his inventory for fear of running out.

**Eric:** Well, we'll have to look at that issue. Myla, thank you. I can see from your report that if we don't reduce the level of inventory and improve sales efficiency, the restaurant will continue to drain the profits from the rooms division. Let's schedule a meeting with the chef and the team to address this.

Myla is responsible for reporting to management on the success or failure of an inventory program. These reports should incorporate comments from the restaurant manager or chef regarding the reasons for deficient results, as well as plans for correcting problem areas. In Chapter 11 you will find a detailed set of plans and exercises to help you accomplish inventory goals and objectives.

# Summary

Many operations do not have an employee with the title *food and beverage manager* or *cost controller*, but all of the duties described in this chapter are necessary, and someone must to undertake them in any successful operation. This person might be a manager, operator, owner, or other employee who works at controlling costs. Sometimes the tasks are shared by different people in a variety of positions. However it works in an establishment, the person in this role holds a great responsibility for the company. Budgeting, forecasting, inventory control, labor control, and other tasks are very important to the company's profitability. The discussions in this chapter will be detailed further as you continue through this book, with more information and useful forms to help you use the ideas you learn.

# Chapter Questions

## Critical Thinking Questions

1. What is a forecast?
2. Why is it important to analyze the inventory turnover ratio?
3. If a hotel has 250 rooms, how many room nights are available in a 30-day month?
4. Assuming the data in Question 8, if 5,800 rooms are occupied during this period, what is the occupancy percentage?

## Objective Questions

1. Globally, travel and tourism is the world's largest industry. True or False?
2. Successful forecasting is defined as predicting the consequences of a given decision or set of decisions over a given time. True or False?

## Multiple Choice Questions

1. In the United States, the food service industry directly supports approximately
   A. 2 million jobs.
   B. 4 million jobs.
   C. 7 million jobs.
   D. 12 million jobs.

2. According to the National Restaurant Association (NRA), on a typical day in 2008, the food service industry is expected to post sales of:
   A. $1.53 billion
   B. $3 billion
   C. $1 billion
   D. $2.5 billion

3. The average annual household expenditure for food away from home in 2008 was:
   A. $4,206
   B. $2,676
   C. $3,000
   D. $1,500

4. The manager's key job functions lie in cost control, specifically in the following areas:
   A. Planning for Labor Productivity Controls
   B. Financial Reporting
   C. Evaluating and Consulting
   D. Protection and Maintenance of Company Assets
   E. Other duties such as developing revenue strategies and expense control systems
   F. All of the above

5. There are many approaches to forecasting. In selecting a specific method that suits the circumstances, consider these important criteria:
   A. Is the method practical? What resources and data must be available to make it work?
   B. Is this method cost-effective?
   C. Are its end results useful and reliable?
   D. All of the above

6. A high inventory turnover ratio—a figure calculated to show how quickly a company is using products—may indicate:
   A. that the unit is buying too much stock
   B. that the unit inventory is exposed to theft
   C. that the unit is not buying too much stock
   D. that the unit revenue is below forecast

7. The bulk of the industry consists of:
   A. institutional eating places
   B. commercial eating places
   C. military eating places
   D. non of the above

8. The term *FTE* refers to:
   A. a measurement equal to one staff person consistently working overtime.
   B. a measurement equal to group of staff persons working a full-time work schedule.
   C. a measurement equal to one staff person working a full-time work schedule for one year.
   D. a measurement equal to two or more staff person working a full-time work schedule for one year.

9. What are the main factors behind higher food commodity costs in the United States?
   A. weather-related production problems
   B. increased use of some food commodities, such as corn, for biofuel uses
   C. stronger global demand for food
   D. all of the above

10. What is the biggest challenge and opportunity the foodservice industry faced in 2008?
   A. maintaining customer loyalty
   B. employee retention
   C. high utility-gas costs
   D. high insurance

# Case Study

Note: This case study requires the ability to build on concepts that are introduced only briefly in the text. To some degree, this case anticipates issues that will be covered in more depth in later chapters.

## 1. Approaches to Forecasting

Fish King Restaurants, a well-known restaurant chain in the Midwest, is in the initial stages of preparing its annual forecast for 2007. Kevin Vieden has recently joined Fish King's accounting staff and wants to learn as much as possible about the company's forecasting processes. During a recent lunch with Scott Bruce, restaurant manager, and Brenda Clement, sales manager, Kevin initiated the following conversation:

**Kevin:** Since I'm new around here and am going to be involved with the preparation of the annual revenue forecast, I'd be interested to learn how the two of you estimate sales and production numbers.

**Brenda:** We start out very methodically by looking at recent history and discussing what we know about current accounts, potential customers, and the general state of consumer spending. Then we add that usual dose of intuition to come up with the best forecast we can.

**Scott:** I usually take the sales projections as the basis for my projections. Of course, we have to make an estimate of what this year's closing inventories will be, which is sometimes difficult.

**Kevin:** Why does that present a problem? There must have been an estimate of closing inventories in the forecast for the current year.

**Scott:** Those numbers aren't always reliable, since Brenda makes some adjustments to the sales numbers before passing them on to me.

**Kevin:** What kinds of adjustments?

**Brenda:** Well, we don't want to fall short of the sales projections, so we generally give ourselves a little breathing room by lowering the initial sales projection anywhere from 2 to 5 percent.

**Scott:** So you can see why this year's forecast is not a very reliable starting point. We always have to adjust the projected production rates as the year progresses and, of course, this changes the ending inventory estimates. By the way, we make similar adjustments to expenses by adding at least 10 percent to the estimates; I think everyone around here does the same thing.

### Your task:

Kevin, Brenda, and Scott have described the use of what is sometimes called forecasting slack.

1. Explain why Brenda and Scott behave in this manner, and describe the benefits they expect to realize from the use of forecasting slack.
2. Explain how the use of forecasting slack can adversely affect Brenda and Scott.
3. As a management accountant, Kevin Vieden believes that the behavior described by Brenda and Scott may be unethical. Explain why the use of forecasting slack may be unethical.