

Review of Important Measures for Controlling Costs for Running a Successful Restaurant Business

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Abstract

The article will throw a light on factors which contribute to the success of the restaurants through controlling costs. Cost control is the practice of analyzing and reducing restaurant purchases to increase profits, and it starts with the budget forecasting. There are many factors which contribute to the success of the restaurant, one of them is controlling of cost. Factors in controlling costs are Inventory control, Employee Management, Yield Management, Waste management and pilferages, Creative construction of menu. Inventory control, employee management, waste and pilferages are the control measures which can be implemented directly in to a daily routine of the business. Yield management and creative construction of menu requires planning and research from the inception level.

Keywords: Restaurant Cost Control, Inventory Control, Employee Management, Yield Management, Waste Management and Pilferages, Creative Construction of Menu

INTRODUCTION

There are many factors which contribute to the success of the restaurant, one of them is controlling of cost.

Cost control is the practice of analyzing and reducing restaurant purchases to increase profits, and it starts with the budget forecasting. The owner should compare actual results with the budgeted expectations, and if actual costs are higher than planned, management needs to take action immediately. As an example, a company can obtain quotations from various vendors for the same product or service which will help in recognizing a competitive pricing, which helps in lowering costs (Will Kenton, 2018).

According to Association of hotel and restaurants, Guidance Document on Food Safety Management System (FSMS).

“Catering in India has now become integral part for the success of various events and social occasions.”

It is one of the fastest growing sectors that has seen surge in demand across the country and has contributed a major financial share in the last financial year 2016 the total market share in FY 2016 of Catering establishments were Rs 3, 09,110 Cr that has grown by 7.7 %

Table 1: Financial Share of Catering Sector in FY 2016 and Expected Growth in Next FY 2021

Food Services	Contribution in Crores	Contribution in Crores
	2016	2021
Chain market	20,400	50,950
Standalone market	72,255	1,39,660
Standalone hotels	8,820	13,570
Unorganized market	2,07,635	2,93,950
Total market	3,09,110	4,98,130

The Indian catering sector though largely unorganized (nearly 67% in 2016) is estimated to be dominated by over two-million caterers primarily in metros, tier 1 and tier 2 cities.

Table 2: Market Share of Various Catering Establishments and Expected Shift

Sector	2013	2016	2021
Unorganized Market	70 %	67%	59%
Organized Standalone	22%	23%	28%
Chain Market	5%	7%	10%
Restaurants in Hotel	3%	3%	3%

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The sector has witnessed paradigm shift over the years with state-of-the-art technological offerings, Innovative concepts, growth in Indian regional food, multi cuisine cross region specialties and global cuisine trends being decisive factors.

As per recent report, there has been significant increase in online search for catering services, esp. restaurants that are emerging as an important local service category. Also, the report indicated a tremendous increase in Restaurants. It is estimated that the top 75 cities across India have 1, 50, 000 – 1, 75,000 restaurants in the organized segment.

The main reason most restaurants are not able to manage their finances and undergo losses is that they are not able to keep their restaurant costs in check. Restaurant Cost Control is vital as it allows you to identify the area of your expenses and take remedial and precautionary measure to keep a healthy ratio between your everyday expenditure and finances. In this article, we will converse how one can track, manage, and control costs in restaurants.

FOLLOWING ARE THE IMPORTANT CONTROL MEASURE FOR RESTAURANT COST CONTROL

Inventory Control to Manage Costs

Managing stock is main part of inventory control, in restaurant business. Maintaining inventory is a bit tedious task to do but advancement in technology has made it much easier to conduct the inventory, as everything is maintained in computer and software helps to reduce the time and gives the effective output. One must understand the importance of it, as each and every ingredient and item is a cost to organization and makes impact on profitability of restaurant there are few points on which organization can keep in mind while doing inventory such as old methods like FIFO (First In First Out) and LIFO (Last In First Out). The duration of taking inventory is daily or monthly depends upon policy of the organization and category of the product. It is very important to keep inward and outward of vendors to allow the smooth operation of inventory.

Optimum utilization of the ingredient that is going to be used in the restaurant like food and beverages and purchasing of it restaurant should have good tie ups with the vendors which offers most competitive rates in the

market and should have yearly tie up to avoid fluctuation in the rates. Restaurant must give emphasis on choosing right supplier which will give quality ingredients and good credit period.

Employee Management

As a said golden rule cost of employee turnover should be kept minimum as possible as company can, to achieve this in current competitive market is much more difficult. To retain employees who are your internal customers as they play a very important role in contributing success of the organization. The investment in employee cost is always more and to retain them is also a difficult task. To achieve this restaurant should take steps from the beginning process like hiring right people for the right job, & to train them according the company standards. Talent pool that restaurant is getting should be from good source such as educational institute which provides the technical knowledge in this industry. Restaurant should take effort and invest in training and development of the staff which will help to compete with current new market trends and survive in the market competition. To safeguard the future of the employee and minimize the attrition rate restaurant should think of giving insurance policy, pension scheme and any other facility provided by the government.

Yield Management

Yield management plays a very important role in the cost control. Restaurant should follow the practice of using standard recipe which will help to achieve the standard yield. As yield management is a combination of standard recipe and standard yield and its extremely helpful in restaurants slow period and peak period as restaurant business fluctuate because of various reasons such as location, competition in the market, seasonality, menu offered in the restaurant there by restaurant management needs to control on the daily operational cost to achieve yield management.

Waste Management and Pilferages

Restaurant should pay detailed attention to waste management as said earlier each and every item in the restaurant cost and impacts on the profitability of the

restaurant. having educated or quality manpower who understand the importance of the waste control, as talked earlier if company follows standard recipe and standard portion on strict line which will automatically will help in waste management, restaurant should give emphasis on rechauffe cooking means produce good dishes out of leftover food manage internal theft and pilferages if attention not paid on this. It will impact mainly on the loss of restaurant in monetary terms.

Organization should have set parameters to manage waste and pilferages and internal thefts advancement in technology has given more opportunity in theft through online sale.

Creative Construction of Menu

One should construct a menu by always keeping in mind by location of the restaurant the targeted customer the no of ingredients used in the menu and no of dishes offered on the menu. Restaurant should pay keen attention towards Pricing of the menu in low as well as peak season to avoid the fluctuations in profit margins to achieve this in slow period management should come out with a innovation in menu planning according to the new trends as well as incorporating local and seasonal produce maximum for instance if any basic ingredient has got high price due to some unavoidable situation instead of taking out that ingredient completely try out the substitute of that ingredient avoid frequent changes in pricing of menu.

CONCLUSION

Restaurant success is depending on many factors such as location, its USP amongst its competitor's, employees and standard operating procedures that restaurant follows.

And managing restaurant costs at each and every step will contribute to the steady success and growth with expected or budgeted profit there by restaurant must control its purchasing of ingredients, menu planning, hiring of staff, standard recipe, standard yield, yield management waste management and pilferages and internal thefts at every point.

The above article is based on the secondary data, published by various agencies and organization, newspapers, books and internet.

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