

CHAPTER 1

Managing Revenue and Expense

OVERVIEW

This chapter presents the relationship among a foodservice business's revenue, expense, and profit. As a professional foodservice manager, you must understand the relationship that exists between controlling these three areas and the resulting success of your operation. In addition, the chapter presents the mathematical foundation you must know to report your operating results and express them as a percentage of your revenue or budget. This method is standard within the hospitality industry.

Chapter Outline

- Professional Foodservice Manager
 - Profit: The Reward for Service
 - Getting Started
 - Understanding the Income (Profit and Loss) Statement
 - Understanding the Budget
 - Technology Tools
 - Apply What You Have Learned
 - Key Terms and Concepts
 - Test Your Skills
-

LEARNING OUTCOMES

At the conclusion of this chapter, you will be able to:

- Apply the formula used to determine business profits.
- Express business expenses and profits as a percentage of revenue.
- Compare actual operating results with budgeted operating results.

PROFESSIONAL FOODSERVICE MANAGER

To be a successful foodservice manager, you must be a talented individual. Consider, for a moment, your role in the operation of a profitable foodservice facility. As a foodservice manager, you are both a manufacturer and a retailer. A professional foodservice manager is unique because all of the functions of a product's sale, from menu development to guest service, are in the hands of the same individual. As a manager, you are in charge of securing raw materials, producing a product, and selling it—all under the same roof. Few other managers are required to have the breadth of skills that effective foodservice operators must have. Because foodservice operators are in the service sector of business, many aspects of management are more challenging for them than for their manufacturing or retailing management counterparts.

A foodservice manager is one of the few types of managers who actually have contact with the ultimate consumer. This is not true for the managers of a cell phone factory or automobile production line. These individuals produce a product, but they do not sell it to the person who will actually use it. In a like manner, furniture and clothing store managers will sell products to those who use them, but they have had no role in actually producing the products they sell. The face-to-face guest contact in the hospitality industry requires that you assume the responsibility of standing behind your own work and the work of your staff, in a one-on-one situation with the ultimate consumer, or end user, of your products and services.

The management task checklist in Figure 1.1 shows some of the areas in which foodservice, manufacturing, and retailing managers differ in their responsibilities.

In addition to your role as a food factory supervisor, you must serve as a cost control manager, because if you fail to perform this vital role, your business will perform poorly or may even cease to exist. Foodservice management provides the opportunity for creativity in a variety of settings. The control of revenue and expenses is just one more area in which an effective foodservice operator can excel. In fact, in most areas of foodservice, excellence in operation is measured in terms of a manager's ability to produce and deliver quality products in a way that ensures an appropriate operating profit for the owners of the business.

FIGURE 1.1 Management Task Checklist

Task	Foodservice Manager	Manufacturing Manager	Retail Manager
1. Secure raw materials	Yes	Yes	No
2. Manufacture product	Yes	Yes	No
3. Distribute to end user	Yes	No	Yes
4. Market to end user	Yes	No	Yes
5. Reconcile problems with end user	Yes	No	Yes

PROFIT: THE REWARD FOR SERVICE

In the foodservice industry a manager's primary responsibility is to deliver quality products and services to guests at a price mutually agreeable to both parties. In addition, the quality must be such that buyers of the product or service feel that excellent value was received for the money they spent. When they do, a business will prosper. If, however, management focuses more on reducing costs than providing value to guests, problems will inevitably occur.

It is important to remember that serving guests causes businesses to incur costs. It is wrong to think that "low" costs are good and "high" costs are bad. A restaurant

with \$5 million in sales per year will have higher costs than the same-size restaurant achieving only \$500,000 in sales per year. The reason is quite clear. The amount of products, labor, and equipment needed to sell \$5 million worth of food and beverages is greater than that required to sell only \$500,000.

Remember, if there are fewer guests, there are likely to be lower costs, but less sales and profit as well! Because that is true, a business will suffer if management attempts to reduce costs with no regard for the impact on the balance between managing costs and maintaining high levels of guest satisfaction. In addition, efforts to reduce costs that result in unsafe physical conditions for guests or employees are never wise. Although some short-term savings may result, the expense of a lawsuit resulting from a guest or employee injury can be very high. Managers who, for example, neglect to spend the money to shovel and salt a snowy restaurant entrance area may find that they spend thousands of dollars more defending themselves in a lawsuit brought by an individual who slipped and fell on the ice than they would have spent clearing the snowy walkway.

For an effective manager, the question to be considered is not whether costs are high or low. The question is whether costs are *too high* or *too low*, given the value a business seeks to create for its guests. Managers can eliminate nearly all costs by closing the operation's doors. Obviously, however, when you close the doors to nearly all expenses, you also close the doors to sales and, more importantly, to profits. Expenses, then, must be incurred, but managed in a way that allows the operation to achieve its desired profit levels.

It is especially important for you to understand profits. Some people assume that if a business purchases an item for \$1.00 and sells it for \$3.00, the profit generated is \$2.00. In fact, this is not true. As a business operator, you must realize that the difference between what you have paid for the goods you sell and the price at which you sell them does not represent your profit. Instead, all expenses, including advertising, the building that houses your operation, management salaries, and the labor required to generate the sale, just to name but a few, are among the many expenses that must be subtracted from your income before you can determine your profits accurately.

Every foodservice operator is faced with, and must understand well, the profit formula:

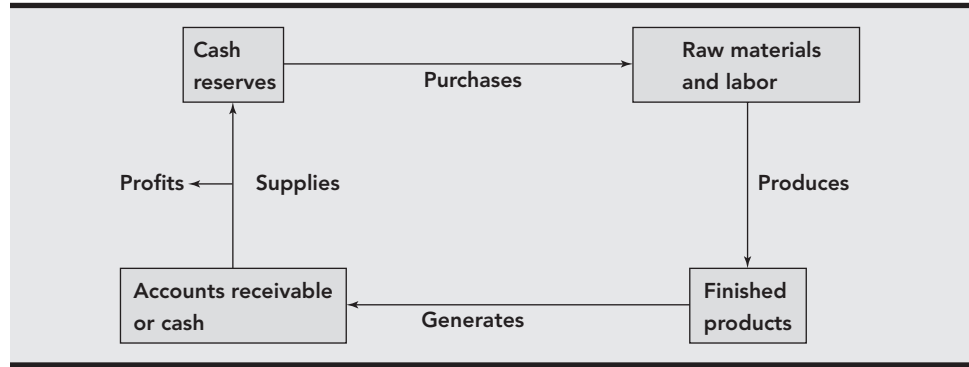
$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

Thus, when you manage your facility, you will receive **revenue**—the money you take in—and you will incur **expenses**—the cost of everything required to operate the business and generate your revenue. **Profit** is represented by the amount that remains after all expenses have been paid. Because doing so is common in the industry, in this book the authors will use the following terms interchangeably: revenues and sales; expenses and costs.

The profit formula holds true even for managers in the nonprofit sectors of foodservice such as schools, hospitals, military bases, and businesses providing meals to their workers. For example, consider the situation of Hector Bentevina. Hector is the foodservice manager at the headquarters of a large corporation that employs many office workers. Hector supplies the foodservice to a large group of these workers, each of whom is employed by the corporation that owns the facility Hector manages. In this situation, Hector's employer may not have profits as its primary motive. That is so because, in most **business dining** situations, food is provided as a service to the company's employees either as a no-cost (to the employee) benefit or at a greatly reduced price. In all cases, however, some provision for profit must be made by nonprofit operations such as the one operated by Hector, although it is not likely their primary motive.

Figure 1.2 shows the flow of business for the typical foodservice operation. Note that profit dollars must be taken out at some point in the process, or management will be in a position of simply trading equal amounts of cash for cash.

FIGURE 1.2 Foodservice Business Flowchart



In your own operation, if you find that revenue is consistently less than your expenses, with no reserve for the future, you will also find that there is no money for new equipment; needed facility maintenance may not be performed and employee raises (including your own) may be few and far between. In addition, your facility will eventually become outdated due to a lack of funds for remodeling and upgrading. The fact is, all foodservice operations must generate revenue in excess of expenses if they are to thrive.

An appropriate level of business profits is always the result of solid planning, sound management, and careful decision making. The purpose of this text is to give you the information and tools you need to make good decisions about managing your operation's revenue and expenses.

It is important to understand that profit should not be viewed as what is left over after all bills are paid. In fact, careful planning is necessary to earn a profit. In most cases, investors will not invest in businesses that do not generate enough profit to make their investment worthwhile. The restaurant business can be very profitable; however, there is no guarantee that an individual restaurant will make a profit. Some restaurants do, and others do not. Because that is true, a more appropriate formula that recognizes and rewards the business owner for the risk associated with ownership is:

$$\text{Revenue} - \text{Desired profit} = \text{Ideal expense}$$

In this case, **ideal expense** is defined as management's view of the correct or appropriate amount of expense necessary to generate a given level of sales. **Desired profit** is defined as the profit that the owner wants to achieve at that level of revenue. This formula clearly places profit as a reward for providing service, not as a leftover. When foodservice managers deliver quality and value to their guests, anticipated revenue levels and desired profits can be achieved. Desired profit and ideal expense levels are not, however, easily achieved. It takes a talented foodservice operator to consistently make good decisions that will maximize revenue while holding expenses to the ideal or appropriate amount. This book will teach you how to make those good decisions.

REVENUE

Revenue dollars are the result of units sold to customers. Units may consist of individual menu items, lunches, dinners, drinks, or any other item produced by your operation. Revenue varies with both the number of guests coming to your business and the amount of money spent by each guest. You can increase revenue by increasing the number of guests you serve, by increasing the amount each guest you serve spends, or by a combination of both approaches. Adding seating or drive-through windows, extending operating hours, and building additional foodservice units are all examples of management's efforts to increase the number of guests served. Suggestive selling by service staff, creative menu pricing techniques, and discounts

for very large purchases are examples of efforts to increase the amount of money each guest spends.

Management's primary task is to take the steps necessary to attract guests to the foodservice operation. This is true because the profit formula begins with sales made to guests. Experienced foodservice operators know that adding guests and selling more to each guest are extremely effective ways of increasing overall profitability, but *only* if effective cost management systems are also in place.

The focus of this text is on managing and controlling costs, not on generating additional revenue. While the two topics are related, they are very different. Marketing efforts, restaurant design, site selection, employee training, and proper food preparation methods are good examples of factors that directly impact an operation's ability to increase sales levels. Effective expense control cannot solve the problems caused by inadequate revenue resulting from inferior marketing, food quality or service levels. Effective cost control when coupled with management's aggressive attitude toward meeting and exceeding guests' expectations, however, can result in outstanding revenue and profit performance.

Green and Growing!

Good food and service will attract foodservice customers. So will other important factors customers care about, including location, unusual décor, and, increasingly, how "green" an operation is perceived to be. *Green* is the term used to describe those foodservice operations that incorporate environmentally conscious activities into the design, construction, and operation of their businesses. These activities can be related to packaging and shipping materials reduction, energy conservation, or **sustainable development**, a term used to describe a variety of Earth-friendly practices and policies as "development that meets the needs of the present population without compromising the ability of future generations to meet their own needs."

The positive benefits that accrue when businesses incorporate green activities are significant, and are increasing. Managers of green operations help protect the environment. For example, did you know that every ton of 100 percent post-consumer waste recycled paper saves 12 trees, 1,976 pounds of greenhouse gases, and 390 gallons of oil? Green operating is also gaining in popularity because more and more guests seek out and frequent green restaurants simply because they are committed to preserving the environment.

The Green Restaurant AssociationSM (GRA) is a nonprofit, national environmental organization founded to help restaurants and their customers become more "green" (environmentally sustainable) in ways that are convenient and cost-effective. The GRA's agenda includes issues related to:

- Research
- Environmental consulting
- Education
- Public relations and marketing
- Community organizing and consumer activism

To learn more about this increasingly high-profile group, visit the GRA's website, dinegreen.com. To learn more about how your foodservice operation can increase profits by implementing sustainable activities, watch for the "Green and Growing" feature in each upcoming chapter of this book.

UN Brundtland Commission, "Report of the World Commission on Environment and Development: Our Common Future," 42nd session, *Development and International Cooperation: Environment*, August 4, 1987, chapter 2 opener.

EXPENSES

Expenses are used to generate revenue. But managers must carefully control their expenses. There are four major foodservice expense categories that you must learn to control:

1. Food costs
2. Beverage costs
3. Labor costs
4. Other expenses

FOOD COSTS

Food costs are the costs associated with actually producing the menu items sold to guests. They include the expense of meats, dairy, fruits, vegetables, and other categories of food items produced by the foodservice operation. When calculating their food costs, some managers include the cost of minor paper and plastic items, such as the paper wrappers used to wrap sandwiches. In most cases, food costs will make up the largest or second-largest expense category you must learn to manage.

BEVERAGE COSTS

Beverage costs are those expenses related to the sale of alcoholic beverages. It is common practice in the hospitality industry to consider beverage costs of a nonalcoholic nature as an expense in the food cost category, not the beverage category. Thus, milk, tea, coffee, waters, carbonated beverages, and other nonalcoholic beverage items are *not* generally considered a beverage cost.

Alcoholic beverages accounted for in the beverage cost category include beer, wine, and liquor. This cost category may also include the expenses of other ingredients such as cherries, lemons, olives, limes, mixers like carbonated beverages, and the juices needed to produce alcoholic drinks. It may also include miscellaneous items such as stir sticks, napkins, and coasters.

LABOR COSTS

Labor costs include the cost of all nonmanagement as well as management employees needed to run a business. This expense category also includes the amount of any taxes you are required to pay when you have employees on your payroll, as well as the cost of benefits they may receive. In many foodservice operations, labor costs are an operator's highest cost or they are second only to food and beverage costs in the total number of dollars spent.

Consider the Cost

"I'm feeling pretty good about our cost management efforts," said Rachel. "Our labor cost is higher than our food cost."

"I'm pleased with our efforts, too," said Julie. "Our food cost is higher than our labor cost."

"That's great, Julie," said Joseph. "I just calculated our monthly costs, and our food and labor expenses are just about equal. Sounds like we are all doing well!"

Rachel, Julie, and Joseph had all attended hospitality school together. Each had taken a job in the same large city, so they often got together over coffee to talk about their businesses and their jobs. One manages Chez Paul's, a fine-dining French-style restaurant known for impeccable service. Another manages Fuby's, a family-style cafeteria known for its tasty, home-style cooking. The third manages Gardinos, a national restaurant chain that offers mid-priced Italian cuisine in a beautiful Tuscan-style decor.

1. Which foodservice operation do you think Rachel manages? Why?
2. Which foodservice operation do you think Julie manages? Why?
3. Which foodservice operation do you think Joseph manages? Why?

FUN ON THE WEB!

The foodservice industry is large and continues to grow. The trade association representing many foodservice businesses is the National Restaurant Association (NRA). Enter "National Restaurant Association" in your favorite browser to visit the website.

When you arrive at the site, click on "News & Research" to see the association's current revenue projections for the restaurant industry, which now has annual sales of over \$650 billion.

OTHER EXPENSES

Other expenses comprise all of the expenses that are not included as a food, beverage, or labor costs. Examples include business insurance, utilities, rent, and such items as linens, china, glassware, kitchen knives, and pots and pans.

Although this expense category is sometimes incorrectly referred to by some as “minor expenses,” your ability to successfully control this expense area is critical to the overall profitability of your foodservice operation.

GETTING STARTED •

Good managers must learn to understand, control, and manage their expenses. Consider the case of Tabreshia Larson, the food and beverage director of the 200-room Renaud Hotel, located in a college town and built near an interstate highway. Tabreshia has just received her end-of-the-year operating reports for the current year. She is interested in comparing these results to those of the prior year. The numbers she received are shown in Figure 1.3.

Tabreshia is concerned about her operation, but she is not sure if she should be. Revenue is higher than last year, so she feels her guests must like the products and services they receive. In fact, repeat business from corporate meetings and special-events meals is increasing. Profits are greater than last year also, but Tabreshia has the uneasy feeling that things are not going as well as they could. The kitchen appears to run smoothly. The staff, however, often runs out of needed items, and there sometimes seems to be a large amount of leftover food that must be thrown away. Also, at times, there seems to be too many employees on the property and not enough work for them to do; at other times, there seems to be too few employees and her guests have to wait too long to get served. Tabreshia also feels that employee theft may be occurring, but she certainly doesn't have the time to watch every storage area within her operation. She would really like to get a handle on the problems (if there are any)—but how and where should she start?

The answer for Tabreshia, and for you, if you want to develop a serious expense control system, is very simple. You start with basic mathematics skills that you must have to properly analyze your revenue and expenses. The mathematics required, and used in this text, are not very hard. They consist of addition, subtraction, multiplication, and division. These tools will be sufficient to build a cost control system that will help you professionally manage the expenses you incur.

To see why managers must be able to analyze their businesses, consider what it would mean to you if a fellow foodservice manager told you that yesterday he spent \$500 on food. Obviously, it means very little unless you know more about his operation. Should he have spent \$500 yesterday? Was that too much? Too little? Was it a “good” day or a “bad” day? These questions raise a challenging problem. How can you properly compare your expenses today with those of yesterday, or your own foodservice unit with another, so that you can see how well you are doing?

The answer to that question becomes even more complex because we know that the value of dollars changes over time. For example, a restaurant that generated revenue of \$1,000 per day in 1954 would be very different from that same restaurant with daily revenue of \$1,000 today because the value of the dollar today

FIGURE 1.3 Renaud Hotel Operating Results

	This Year	Last Year
Revenue	\$1,106,040	\$850,100
Expenses	1,017,557	773,591
Profit	\$ 88,483	\$ 76,509

is quite different from what it was in 1954. Generally, inflation causes the purchasing power of a dollar today to be less than that of a dollar from a previous time period. Inflation can make it challenging to answer the simple question, “Am I doing as well today as I was doing five years ago?”

Alternatively, consider the problem of an individual responsible for the management of several foodservice units. She owns two food carts that sell tacos on either side of a large city. One food cart uses \$500 worth of food products each day; the other uses \$600 worth of food products each day. Are both units being efficiently operated? Does the second food cart use an additional \$100 worth of food each day because it serves more customers or because it is less efficient in utilizing its food?

The answer to all of the preceding questions, and many more, can be determined if we use percentages to relate the expenses of an operation to the revenue it generates. Percentage calculations are important for at least two major reasons. First and foremost, percentages are the most common tools used to evaluate costs in the foodservice industry. Therefore, knowledge of what a percent is and how it is calculated is vital. Second, as a manager in the foodservice industry, you will be evaluated primarily on your ability to compute, analyze, and control these percentages.

Although it is true that many basic management tools such as Microsoft Excel, OpenOffice’s Calc, Lotus 1-2-3, and other software programs can compute percentages for you, it is important that you understand what the percentages mean and how they should be interpreted. Percent calculations are used extensively in this text and are a cornerstone of any effective cost control system.

REVIEWING PERCENTAGES

Understanding percentages and how they are mathematically computed is essential for all managers. The following review may be helpful for some readers. If you already thoroughly understand the percent concept, you may skip this section and the “Computing Percentages” section and proceed directly to the “Using Percentages” section.

Percent (%) means “out of each hundred.” Thus, 10 percent would mean 10 out of each 100. If we asked how many guests would buy blueberry pie on a given day, and the answer is 10 percent, then 10 people out of each 100 we serve will select blueberry pie. If 52 percent of your employees are female, then 52 out of each 100 employees are female. If 15 percent of your employees will receive a raise this month, then 15 out of each 100 employees will get their raise. There are three basic ways to express percent:

1. Common form
2. Fractional form
3. Decimal form

Figure 1.4 shows these three forms, or ways, of writing a percentage.

FIGURE 1.4 Forms of Expressing Percent

Form	Percent		
	1%	10%	100%
Common	1%	10%	100%
Fraction	1/100	10/100	100/100
Decimal	0.01	0.10	1.00

COMMON FORM

In its common form, the % sign is used to express the percentage. If we say 10 percent (or 10%), then we mean “10 out of each 100,” and no further explanation is necessary. If we say 50 percent (or 50%), then we mean “50 out of each 100,” and no further explanation is necessary. In the common form, the percent is equivalent to the same amount expressed in either the fraction or the decimal form.

FRACTION FORM

In fraction form, the percentage is expressed as the part, or a portion of 100. Thus, 10 percent is written as 10 “over” 100 (10/100). Similarly, 50 percent is written as 50 “over” 100 (50/100). When using the fraction form, the “part” is the numerator and is always placed “on top,” while the “whole” is the denominator and it is always placed “on the bottom.”

Despite the fact that it looks different, when writing 10 percent, or any other percent, use of the fraction form is simply another way of expressing the relationship between, in this example, the part (10) and the whole (100).

DECIMAL FORM

A decimal is a number developed directly from the counting system we use. It is based on the fact that we count to 10, then start over again. In other words, each of our major units—10s, 100s, 1,000s, and so on—is based on the use of 10s, and each number can easily be divided by 10.

Unlike the common or fraction form, the decimal form of expressing a percentage uses the decimal point (.) to present the percent relationship. Thus, 10 percent is expressed as 0.10 in decimal form; 50 percent is expressed as 0.50. When utilizing the decimal form, the numbers to the right of the decimal point express the percentage.

Professionals throughout the foodservice industry use each of these three methods of expressing percentages. To be successful, you must develop a clear understanding of how a percentage is computed and when it is properly used. Once you know that, you can express the percentage in any form that is required or that is useful to you.

COMPUTING PERCENTAGES

To determine what percent one number is of another number, you divide the number that is the part by the number that is the whole. Usually, but not always, this means dividing the smaller number by the larger number. For example, assume that 840 guests were served during a banquet at your hotel and that 420 of them asked for coffee with their meal. To find what percent of your guests ordered coffee, divide the part of the group who ordered coffee (420) by the size of the whole group (840).

The process looks like this:

$$\frac{\text{Part}}{\text{Whole}} = \text{Percent, or } \frac{420}{840} = 0.50, \text{ or } 50\%$$

Recall that a percentage can be expressed in three ways. Thus, 50% (common form), 50/100 (fraction form), and 0.50 (decimal form) all represent the proportion of people at the banquet who ordered coffee.

Some new foodservice managers have difficulty computing percent figures. That’s because sometimes it is easy to forget which number goes “on the top” and which number goes “on the bottom.” In general, if you attempt to compute a percentage and get a whole number (a number larger than 1), either a mistake has been made or revenue is extremely low and/or costs are extremely high!

FIGURE 1.5 Percent Computation

Possibilities	Examples	Results
Part is smaller than the whole	$\frac{61}{100} = 61\%$	Always less than 100%
Part is equal to the whole	$\frac{35}{35} = 100\%$	Always equals 100%
Part is larger than the whole	$\frac{125}{50} = 250\%$	Always greater than 100%

Some people also become confused when converting from one form of percent to another. If that is a problem for you, remember the following conversion rules:

1. To convert from common form to decimal form, move the decimal two places to the left; that is, $50.00\% = 0.50$.
2. To convert from decimal form to common form, move the decimal two places to the right; that is, $0.40 = 40.00\%$.

In a restaurant, the “whole” is most often a revenue (sales) figure. Expenses and profits are the “parts,” which are usually expressed in terms of a percent. It is interesting to note that, in the United States, the same system in use for our numbers is in use for our money. Each dime contains 10 pennies; each dollar contains 10 dimes, and so on. Thus, in discussions of money, it is true that a percent refers to “cents out of each dollar” as well as “out of each 100 dollars.” When we say 10 percent of a dollar, we mean 10 cents, or “10 cents out of each dollar.” Likewise, 25 percent of a dollar represents 25 cents, 50 percent of a dollar represents 50 cents, and 100 percent of a dollar represents \$1.00.

Sometimes, when using percentages to express the relationship between portions of a dollar and the whole dollar, we can find that the part is indeed larger than the whole. Figure 1.5 demonstrates the three possibilities associated with computing a percentage. Great care must always be taken when computing percentages, so that the percentage arrived at does not represent an error in mathematics. In turn, the mathematical errors could cause you to make poor foodservice decisions.

HERE’S HOW IT’S DONE 1.1

When a manager calculates a food expense percentage, labor expense percentage, or any other expense percentage, the mathematical result is usually a number less than 1. In most cases, the mathematical formula used to calculate a percentage will result in the percentage being expressed in decimal form.

For example, if the cost of food for a menu item is \$3.60 and the menu item sells for \$12.00, the percentage that represents the cost of food is calculated as:

$$\frac{\$3.60 \text{ Cost of food}}{\$12.00 \text{ Selling price}} = 0.30$$

In this example, the menu item’s food cost is expressed in decimal form (0.30).

When a percentage is expressed in decimal form, the numbers to the right of the decimal represent the size of

the percentage. To convert the percentage from decimal form to common form, simply multiply the decimal form amount times 100.

In this example, the conversion from decimal form to common form would be:

$$0.30 \times 100 = 30\%$$

Therefore, the menu item’s food cost percentage, when expressed in common form, is 30%.

If the percentage in this example is to be expressed in fractional form, the part (30) is the numerator and would be placed on top of the whole (100). 100 is the whole and thus is the denominator. The denominator is always placed on the bottom. In this example, the result would be expressed as 30/100.

USING PERCENTAGES

The ability to calculate a percentage is important because percentages are useful tools. To illustrate, consider a restaurant that you are operating. Imagine that your revenue for a week is \$1,600. Expenses for that same week are \$1,200. Given these facts and the information presented earlier in this chapter, your profit formula for the week would be as follows:

$$\begin{aligned} \text{Revenue} - \text{Expenses} &= \text{Profit} \\ \text{or} \\ \$1,600 - \$1,200 &= \$400 \end{aligned}$$

If you had planned for a \$500 profit for the week, you would have been “short” by \$100. Using the alternative profit formula that identifies desired profit and presented earlier, you would find:

$$\begin{aligned} \text{Revenue} - \text{Desired profit} &= \text{Ideal expense} \\ \text{or} \\ \$1,600 - \$500 &= \$1,100 \end{aligned}$$

Note that your expense in this example (\$1,200) exceeded your ideal expense (\$1,100), and as a result, too little profit was achieved.

These numbers can also be expressed in terms of percentages. If we want to know what percentage of our revenue went to pay for our expenses, we would compute it as follows:

$$\begin{aligned} \frac{\text{Expense}}{\text{Revenue}} &= \text{Expense \%} \\ \text{or} \\ \frac{\$1,200}{\$1,600} &= 0.75, \text{ or } 75\% \end{aligned}$$

In this example, expenses are 75 percent of revenue. Another way to state this relationship is to say that each dollar of revenue costs 75 cents to produce. As a result, each revenue dollar taken in results in 25 cents profit:

$$\$1.00 \text{ Revenue} - \$0.75 \text{ Expense} = \$0.25 \text{ Profit}$$

As long as your business’s expenses are smaller than its revenues, some profit will be generated, even if it is not as much as you had planned.

Managers can calculate their expense percentages, and they can also calculate their profit percentages. You can compute profit percentages using the following formula:

$$\frac{\text{Profit}}{\text{Revenue}} = \text{Profit \%}$$

In our example:

$$\frac{\$400 \text{ Profit}}{\$1,600 \text{ Revenue}} = 25\% \text{ Profit}$$

We can compute what we had planned our profit percentage to be by dividing desired profit (\$500) by revenue (\$1,600):

$$\frac{\$500 \text{ Desired profit}}{\$1,600 \text{ Revenue}} = 31.25\% \text{ Desired profit}$$

In simple terms, we had planned to make 31.25 percent profit, but instead made only a 25 percent profit. Excess costs account for the difference. If these costs could be identified and corrected, we could perhaps achieve the desired profit percentage in the future. Expenses expressed as cost percentages are important, and most foodservice operators compute many cost percentages, not just one. The major cost divisions used in foodservice are:

1. Food and beverage costs
2. Labor costs
3. Other expenses

Because these are the major cost categories, in foodservice operations a modified profit formula can be developed as follows:

$$\text{Revenue} - (\text{Food and beverage costs} + \text{Labor costs} + \text{Other expenses}) = \text{Profit}$$

Put in another format, the equation would look like this:

	Revenue (100%)
Minus (-)	Food and beverage cost %
Minus (-)	Labor cost %
Minus (-)	Other expenses %
Equals (=)	Profit %

This expression of the profit formula makes sense because it clearly shows that managers start with 100 percent of their revenue, subtract their expense percentages, and the amount that remains represents the operation’s profit percentage. Regardless of the form in which percentages are reported, professional foodservice managers carefully evaluate their revenue and expenses, and they use percentages to do so.

UNDERSTANDING THE INCOME (PROFIT AND LOSS) STATEMENT

Foodservice operations generate revenue and incur expenses whenever they are open for business. Periodically, these operations will want to report their income and expense activity. To see how this is typically done, consider Figure 1.6, a summary of revenue, expense, and profits generated by Dan’s Steakhouse.

All of Dan’s expenses and profits can be computed as percentages by using the revenue figure of \$400,000 as the whole and the food and beverage costs, labor costs, other expenses, and profit representing the parts as follows:

$$\frac{\text{Food and beverage costs}}{\text{Revenue}} = \text{Food and beverage cost \%}$$

or

$$\frac{\$150,000}{\$400,000} = 37.50\%$$

$$\frac{\text{Labor costs}}{\text{Revenue}} = \text{Labor cost \%}$$

or

$$\frac{\$175,000}{\$400,000} = 43.75\%$$

$$\frac{\text{Other expenses}}{\text{Revenue}} = \text{Other expenses \%}$$

or

$$\frac{\$25,000}{\$400,000} = 6.25\%$$

$$\frac{\text{Total expenses}}{\text{Revenue}} = \text{Total expenses \%}$$

or

$$\frac{\$350,000}{\$400,000} = 87.50\%$$

$$\frac{\text{Profit}}{\text{Revenue}} = \text{Profit \%}$$

or

$$\frac{\$50,000}{\$400,000} = 12.50\%$$

The accounting tool that managers use to report their operations' revenue, expenses, and profit for a specific time period is called the **statement of income and expense**. The statement of income and expense is also commonly known as the **income statement** or the **profit-and-loss statement**, which is very often shortened by foodservice managers to simply the **P&L**.

The P&L lists all of an operation's revenue, food and beverage costs, labor costs, and other expenses. The P&L also identifies profits by using the profit formula. Recall that the profit formula is:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

Figure 1.7 is a simplified P&L statement for Dan's Steakhouse (*Note: detailed information on properly preparing and analyzing an income statement will be addressed in Chapter 9, "Analyzing the Income Statement"*). Notice the similarity of Figure 1.7 to Figure 1.6. In Figure 1.7, expenses and profits are expressed in terms of both dollar amounts and percentages of revenue.

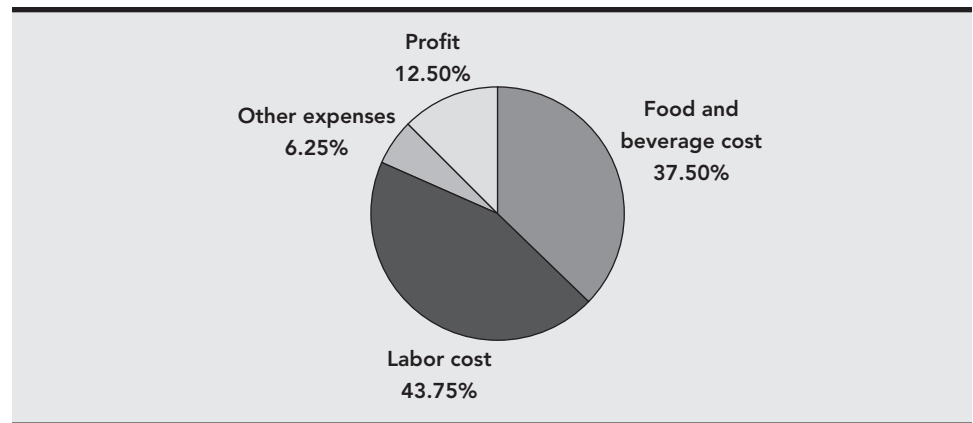
Another way of looking at Dan's simplified P&L is shown in Figure 1.8. The pieces of the pie represent Dan's cost and profit categories. Costs and profit total 100 percent, which is equal to Dan's total revenues. Put another way, out of every sales dollar Dan generates, 100 percent is designated as either costs or profit.

FIGURE 1.6 Dan's Steakhouse

Revenue		\$400,000
Expenses		
Food and Beverage Cost	\$150,000	
Labor Cost	175,000	
Other Expenses	<u>25,000</u>	
Total Expenses		\$350,000
Profit		\$ 50,000

FIGURE 1.7 Dan's Steakhouse P&L

Revenue	\$400,000	100%
Food and Beverage Cost	\$150,000	37.5%
Labor Cost	175,000	43.75%
Other Expenses	25,000	6.25%
Total Expenses	\$350,000	87.5%
Profit	\$ 50,000	12.5%

FIGURE 1.8 Dan's Steakhouse Costs and Profit as a Percentage of Revenues

Dan knows from the P&L that revenues represent 100 percent of the total dollars available to cover expenses and provide for a profit. Food and beverage costs are 37.50 percent, and labor costs are 43.75 percent. Other expenses percentage equals 6.25 percent, and the total expenses percentage is 87.50 percent ($37.50 + 43.75 + 6.25 = 87.50\%$). The steakhouse profit equals 12.50 percent. Thus, for each dollar in revenue, Dan earns a profit of 12.50 cents.

In restaurants that serve alcohol, food revenues and beverage revenues are most often reported separately. Likewise, food costs and beverage costs are most often separated into two categories in the P&L. This is done so that food costs can easily be compared to food revenues, and beverage costs can be easily compared to beverage revenues. This is helpful when, for example, one manager is responsible for controlling food costs in the restaurant and another manager is responsible for controlling beverage costs in the bar.

The P&L is an important management tool because it indicates the efficiency and profitability of a business. It is important that they are accurate and easily understood. Because so many individuals and groups are interested in a facility's performance, it is important that the P&L and other financial statements are prepared in a manner that is consistent with other facilities. If, for example, you own two Italian restaurants, it would be very confusing if the units' two managers used different methods for preparing and reporting their P&Ls. You, your investors, accountants, governmental taxing entities, and your creditors will all be interested in your operational results, and unless you report and account for these in a manner that is consistent and that can be easily understood, confusion is likely to result.

To avoid such a set of circumstances, **The Uniform System of Accounts for Restaurants (USAR)** is used to report financial results in many foodservice units. This system was created to ensure uniform reporting of financial results. A *Uniform System of Accounts* exists for restaurants, another for hotels, and another for clubs.

These uniform accounting systems are continually reviewed and periodically revised. This text was prepared using reporting principles contained in the 8th edition of the *USAR*, which was released in 2010. Important specific recommendations of the *USAR* will be addressed in detail in the appropriate portions of this text.

The use of the *USAR* when producing a P&L is not mandatory, but its use is highly recommended. This is so because the primary purpose of preparing a P&L is to clearly identify revenue, expenses, and profits for a specific time period. As a manager, your individual efforts will greatly influence your operation's profitability. Good managers want to provide excellent value to their guests, which will cause guests to return. When they do, sales will increase. In addition, good managers know how to analyze, manage, and control their costs. When costs are controlled well an operation's expenses are held to the amounts that were preplanned by its manager. The final result is the desired profit level.

Good managers influence the success of their units and their own employees. The results for them personally are promotions, added responsibilities, and salary increases. If you wish to succeed in the hospitality industry, it is important to remember that your performance will be evaluated primarily on your ability to achieve the profit levels your operation has planned for.

In addition to your own efforts, many factors influence profit dollars and profit percent, and you must be aware, and in control, of all of them. All of the factors that make up professional food and beverage cost control and that will impact your profits are directly addressed in later chapters of this text.

FUN ON THE WEB!

For restaurant managers, learning is an ongoing process. Fortunately, a large number of sources of important information are readily available to managers who seek to continue their education. To examine some of these resources, enter "restaurant industry financial results" in your favorite search engine and review current data about how the restaurant industry is performing.

UNDERSTANDING THE BUDGET

Some foodservice managers do not generate revenue on a daily basis. Consider, for a moment, the foodservice manager who operates Camp Eureka, a children's summer camp. In this case, parents pay a fixed fee to cover housing, activities, and meals for a set period of time. The foodservice manager, in this situation, is just one of several camp managers who must share this revenue. If too many dollars are spent on providing housing or play activities, too few dollars may be available to provide an adequate quantity or quality of meals. On the other hand, if too many dollars are spent on providing foodservice, there may not be enough left to cover other needed expense areas. In a case like this, as in many other cases, foodservice operators must prepare a budget.

A **budget** is simply an estimate of projected revenue, expenses, and profit. In some hospitality companies, the budget is known as the forecast, or the **plan**, referring to the fact that the budget details the operation's estimated, or "planned for," revenue and expenses for a given accounting period. An **accounting period** is any specific hour, day, week, or month in which an operator wishes to report and analyze an operation's revenue and expenses.

All effective managers, whether in the commercial (for-profit) or nonprofit sector, should use budgets. Budgeting is simply planning for an operation's revenue, expenses, and profit. If these items are planned for, you can determine how close your actual performance is to your plan or budget.

To illustrate the importance of a budget using the summer camp example, assume the following information is known:

1. Number of campers to be served each day is 180.
2. Number of meals served to each camper per day is 3.
3. Length of campers' stay is 7 days.

With 180 campers eating 3 meals each day for 7 days, 3,780 meals will be served ($180 \text{ campers} \times 3 \text{ meals per day} \times 7 \text{ days} = 3,780 \text{ meals}$).

Generally, in a case such as the summer camp, the foodservice manager is given a dollar amount that represents the allowed expense for each meal to be served. For example, if \$1.85 per meal is the amount budgeted for this foodservice manager, the total revenue budget would equal \$6,993 ($\$1.85 \text{ per meal} \times 3,780 \text{ meals} = \$6,993$).

From this figure, an expense budget can begin to be developed. In this case, we would be interested in the amount of expenses budgeted and the amount actually spent on those expenses. Equally important, we are interested in the percent of the budget we actually used, a concept known as comparing **performance to budget**.

A simple example may help to explain the idea of budget and performance to budget. Assume that a child has \$1.00 per day to spend on candy. On Monday morning, the child's parents give the child \$1.00 for each day of the week, or \$7.00 total ($\$1.00 \times 7 \text{ days} = \7.00).

If the child spends exactly \$1.00 per day, he or she will be able to buy candy all week. If, however, too much is spent on any one day, there might not be any money left at the end of the week. To ensure a full week of candy eating, a good "candy purchasing" budget could be created, such as the one shown in Figure 1.9.

To prepare this budget, the "% of Total" column is computed by dividing \$1.00 (the part) by \$7.00 (the whole). Notice that we can determine the percent of total that should have been spent by any given day; that is, each day equals 14.28 percent, or $1/7$ of the total.

This same logic applies to a foodservice operation. Managers determine how much of their total budgets can be spent in any specific time period. Figure 1.10 represents commonly used budget periods and their accompanying proportional amounts.

In the foodservice industry, the use of monthly budgets is very popular. Some foodservice operations, however, recognize that different months include different numbers of days. As a result, some operators are changing from one-month budget periods to budget periods of 28 days. The **28-day-period approach** divides a year into 13 equal periods of 28 days each. Therefore, each period has four Mondays, four Tuesdays, four Wednesdays, and so on. This helps the manager compare performance from one period to the next without having to compensate for extra days in any one month.

FIGURE 1.9 Budgeting Candy Purchases

Weekday	Budgeted Amount	% of Total
Monday	\$1.00	14.28%
Tuesday	1.00	14.28%
Wednesday	1.00	14.28%
Thursday	1.00	14.28%
Friday	1.00	14.28%
Saturday	1.00	14.28%
Sunday	1.00	14.28%
Total	\$7.00	100.00%

FIGURE 1.10 Common Foodservice Budget Periods

Budget Period	Portion	% of Total
One week	One day	1/7 or 14.28%
Two-week period	One day	1/14 or 7.14%
	One week	1/2 or 50.0%
One month	One week	1/4 or 25.0%
28 days	One day	1/28 or 3.6%
30 days	One day	1/30 or 3.3%
31 days	One day	1/31 or 3.2%
Six months	One month	1/6 or 16.7%
One year (365 days)	One day	1/365 or 0.3%
	One week	1/52 or 1.9%
	One month	1/12 or 8.3%

The disadvantage of the 28-day period approach is that managers can no longer talk about the month of April, because, if a budget began at the first of the year, “Period 4” would occur during part of March and part of April. Although using the 28-day-period approach takes a while to get used to, it is often an effective way to measure performance and plan from period to period.

Managers are interested in comparing actual performance to budgeted performance. At Camp Eureka, after one week’s camping was completed, we calculated the results shown in Figure 1.11.

We used the expense records from the previous summer as well as our solid industry knowledge and experience to develop initial budget amounts. Detailed information about this budgeting process is addressed in Chapter 10, “Planning for Profits.” When, as in this case, an accurate budget has been developed we can directly compare our budgeted (planned) performance to our actual performance.

Figure 1.12 shows a performance-to-budget summary with revenue and expenses presented in terms of both the budget amount and the actual amount. In all cases, percentages are used to compare actual expenses with the budgeted amount, using the formula:

$$\frac{\text{Actual}}{\text{Budget}} = \% \text{ of Budget}$$

Note that, in this example, fewer meals were actually served than were originally budgeted. Revenue remained the same, but some campers skipped (or slept through!) some of their meals. This is often the case when one fee or price buys

FIGURE 1.11 Camp Eureka One-Week Budget

Item	Budget	Actual
Meals Served	3,780	3,700
Revenue		\$6,993
Food Expense	\$2,600	\$2,400
Labor Expense	\$2,800	\$2,900
Other Expenses	\$ 700	\$ 965
Total Expenses	\$6,100	\$6,265
Profit	\$ 893	\$ 728

FIGURE 1.12 Camp Eureka Performance to Budget Summary

Item	Budget	Actual	% of Budget
Meals Served	3,780	3,700	97.9%
Revenue	\$6,993	\$6,993	100.0%
Food Expense	\$2,600	\$2,400	92.3%
Labor Expense	\$2,800	\$2,900	103.6%
Other Expenses	\$ 700	\$ 965	137.9%
Total Expenses	\$6,100	\$6,265	102.7%
Profit	\$ 893	\$ 728	81.5%

a number of meals, whether they are eaten or not. In some other cases, managers will receive revenue only for meals actually served. This, of course, is true in a traditional restaurant setting. In either case, budgeted amount, actual expenses, and the concept of percent of budget, or performance to budget, are important management tools.

In looking at the Camp Eureka performance-to-budget summary, we can see that the manager served fewer meals than planned and, thus, spent less on food than estimated, but spent more on labor than was originally thought necessary. In addition, much more was spent than estimated for other expenses—that is, 137.9 percent of the budgeted amount. As a result, profit dollars were lower than planned. This manager has some problems, but note that there are not problems everywhere in the operation.

How do we know that? If our budget is accurate and we are within reasonable limits of our budget, we are said to be “in line,” or in compliance, with our budget. It is difficult to budget exact revenue and expenses, so if we determine that plus (more than) or minus (less than) 10 percent of budget in each category is considered in line, or acceptable, then a close examination of Figure 1.12 shows we are in line with regard to meals served, food expense, labor expense, and total expenses. We are not in line with other expenses, however, because they were 137.9 percent of the amount originally planned. Thus, they far exceed the 10 percent variation that was reasonably allowed. Profit was also outside the acceptable boundary we established because it was only 81.5 percent of the amount budgeted. Note that, in this illustration, figures over 100 percent mean too much (other expenses), and figures below 100 percent mean too little (profit).

Many operators use the concept of “significant” variation to determine whether a cost control problem exists. In this case, a significant variation is any variation in expected costs that management feels is an area of concern. This variation can be caused by costs that were either higher or lower than the amount originally budgeted or planned for.

In the foodservice industry, the essence of cost control is identifying actual costs, comparing them to planned costs, and taking corrective action when necessary. When you manage a foodservice operation and you find that significant variations from your planned results occur, you must:

1. Identify the problem.
2. Determine the cause.
3. Take corrective action.

It is crucial to know the kind of problem you have if you are to be an effective problem solver. Management’s attention must be focused on the proper area of concern. In the summer camp example, the proper areas for management’s concern are **other expenses** and **profit**. If, in the future, food expense became *too* low, it *too* would be an area of concern. Why? Remember that expenses create revenue; thus, it is not your goal to eliminate expense. In fact, managers who focus too much on

eliminating expense, instead of building revenue, often find that their expenses are completely eliminated when they are forced to close their operation's doors permanently because guests did not feel they received good value for the money spent at that restaurant! Control and management of revenue and expenses are important. Elimination of either is not desired.

As you have seen, revenue and expenses directly impact profit. Your important role as a hospitality manager is to analyze, manage, and control your costs so that you achieve planned results. It can be done, and it can be fun.

The remainder of this text discusses how you can best manage and account for foodservice revenue and expenses. With a good understanding of the relationship among revenue, expenses, and profit, and your ability to analyze these areas using percentages, you are ready to begin the cost control and cost management process.

Technology Tools

Most hospitality managers would agree that an accurate and timely income statement (P&L) is an invaluable aid to their management efforts. There are a variety of software programs on the market that can be used to develop this statement for you. You simply fill in the revenue and expense portions of the program, and a P&L is produced. Variations include programs that compare your actual results to budgeted figures or forecasts, to prior-month performance, or to prior-year performance. In addition, P&Ls can be produced for any time period, including days, weeks, months, quarters, or years. Most income statement programs will have a budgeting feature and the ability to maintain historical sales and cost records. Some of these have been developed specifically for restaurants, but cost-effective generic products are also available.

A second issue, and one that must be kept foremost in mind, is that of information accessibility. For example, an executive chef would certainly need to have information readily available on food costs, however, it may not be wise to allow servers or cooks access to payroll information. While labor expenses certainly affects costs, individual worker pay should be shared only with those who need to know. Thus, as you examine (in this chapter and others) the cost control technology tools available to you, keep in mind that not all information should be accessible to all parties, and that security of your cost and customer information can be just as critical as its accuracy.

FUN ON THE WEB!

Intuit is the company that produces the popular *QuickBooks* line of accounting software. QuickBooks can help you create a monthly income statement (P&L) and do much more. To view QuickBooks product offerings, go to the Intuit company website and review the features available in its newest version of QuickBooks.

Cost Control Around the World

Food and beverage cost control is truly a topic of international importance. Consider that there are now over 33,500 McDonald's restaurants operating in 119 countries. The operations serve over 69 million customers per day. Although there are over 13,500 McDonald's located in the United States, nearly twice that number of McDonald's restaurants are located outside the United States.

Although McDonald's is among the best known, many other hospitality companies operate in the international market and the number of those doing so increases

each year. Burger King, KFC, Wendy's, Hilton Hotels & Resorts, Hyatt, Marriott, Aramark, Subway, Dunkin' Donuts, Baskin-Robbins, Pizza Hut, Taco Bell, and Rainforest Cafe are just a few examples of the increasingly large number of US-based companies expanding their international presence. As a result, more and more foodservice professionals working in restaurants, hotels, and contract foodservice businesses are being given cost control-related assignments in their companies' rapidly expanding international divisions.

Apply What You Have Learned

Jennifer Caratini has recently accepted the job as the foodservice director for Techmar Industries, a corporation with 1,000 employees. As their foodservice director, Jennifer's role is to operate a company cafeteria, serving 800 to 900 meals per day, as well as an executive dining room, serving 100 to 200 meals per day. All of the meals are provided "free of charge" to the employees of Techmar. One of Jennifer's first jobs is to prepare a budget for next year's operations.

1. In addition to the cost of food products and foodservice employees, what other expenses will Techmar incur by providing free meals to its employees?
2. Since employees do not pay for their food directly, what will Jennifer likely use as the "revenue" portion of her budget? How do you think this number should be determined?
3. In addition to her know-how as a foodservice director, what skills will Jennifer likely need as she interacts with the executives at Techmar who must approve her operating budget?

Key Terms and Concepts

The following are terms and concepts discussed in the chapter that are important for you as a manager. To help you review, please define the terms below.

revenue	beverage costs	P&L
expenses	labor costs	The Uniform System
profit	other expenses	of Accounts for
business dining	percent	Restaurants (USAR)
ideal expense	statement of income and	budget/plan
desired profit	expense	accounting period
sustainable development	income statement	performance to budget
food costs	profit and loss statement	28-day-period approach

Test Your Skills

You may download the Excel spreadsheets for the Test Your Skills exercises from the student companion website at www.wiley.com/college/dopson. Complete the exercises by placing your answers in the shaded boxes and answering the questions as indicated.

1. Last month, Lani's Pizza Parlor generated \$75,000 in revenues. Her total expenses last month were \$63,000. Create the formula Lani needs to calculate the amount of profit she made last month. How much profit did she make?

Lani's Pizza Parlor	
Revenue	
Expenses	
Profit	

2. At the conclusion of her first month of operating Val’s Donut Shop, Val computed the following revenue and expense figures:

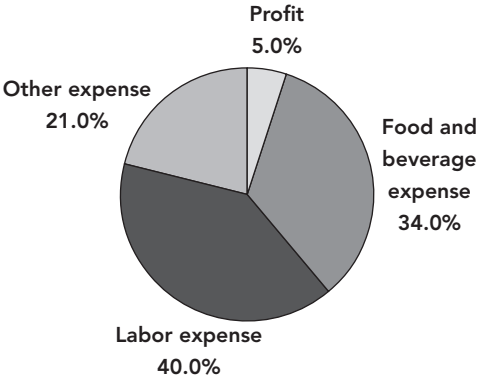
Week	Revenue	Expenses	Profit/Loss
1	\$ 894.50	\$ 761.80	
2	1,147.60	522.46	
3	1,261.80	879.14	
4	1,345.11	1,486.20	
Month			
To Receive \$1,200.00 Profit for the Month			
Month			

Prepare both weekly and monthly profit formulas so that Val has a good idea about her current profit situation. Also, given her sales for the month, tell her how much her ideal expense should have been to realize her desired profit of \$1,200.

3. Su Chan manages a popular restaurant called the Bungalow. Her P&L for the month of March is as follows:

The Bungalow’s March P&L		
Revenue	\$100,000.00	100.0%
F&B Expense	\$ 34,000.00	34.0%
Labor Expense	40,000.00	40.0%
Other Expenses	21,000.00	21.0%
Total Expenses	\$ 95,000.00	95.0%
Profit	\$ 5,000.00	5.0%

Su has a meeting with the owner of the Bungalow next week, so she decided to create a pie chart showing the percentage of her costs in relation to her total sales (see the following diagram).



At the meeting with the owner, Su is asked to change the information on the pie chart to reflect the next month’s projections. The owner suggests that April revenue and costs should be as follows:

- April revenue = \$120,000
- Food and beverage expense = \$44,000
- Labor and other expenses remain constant.

Using these numbers, is the owner’s profit percentage going to be higher or lower than that in March? By how much?

After looking at the owner’s projections, she thinks it might be too difficult (and not so good for her guests) if she cannot increase labor costs along with sales. She proposes a compromise and tells the owner that if he will agree to increase labor costs, she will try to decrease other expenses. So Su proposes the following:

- April revenue = \$120,000
- Food and beverage expense = \$44,000
- Labor expense = \$50,000
- Other expenses = \$19,000

Using these numbers, is the owner’s profit percentage going to be higher or lower than that in March? By how much?

Which set of projections has more reasonable goals?

Note: If you use the Excel spreadsheets from this book’s student resources site, the changes you make to the numbers should be reflected on the pie charts as well.

4. The dining room at the Roadrock Inn is extremely popular. Terry Ray, the food and beverage director, is pleased to see that his revenue is higher than last year’s. Of course, expenses are higher also. Express Terry’s expenses and profit as a percentage of total revenue, for both this year and last year (fill in all empty blanks).

	This Year	%	Last Year	%
Total Revenue	\$965,971.00		\$875,421.00	
F&B Expense	\$367,069.00		\$350,168.00	
Labor Expense	338,090.00		315,151.00	
Other Expenses	144,896.00		140,068.00	
Total Expenses				
Profit				

How is Terry doing in managing his expenses this year compared to last year? How do changes in revenue affect his performance?

5. Pamela Cantu operates a school foodservice department in a small, rural community. She feeds approximately 1,000 students per day in three different locations. She receives an average of \$1.20 in revenues per meal. Her budget, set at the beginning of the school year by the superintendent, is developed in such a way that a small amount is to be reserved for future equipment purchases and dining-room renovation. These funds are available, however, only if Pamela meets her budget. She hopes to use this year’s reserve (profit) to buy a \$5,000 refrigerated salad bar for the high school. Because it is the midpoint of her school year, help her determine her “performance to budget” thus far (fill in all blanks).

Item	Budget	Actual	% of Budget
Meals Served	300,000	149,800	
Revenue			
Food Expense	\$170,000	\$84,961	
Labor Expense	125,000	63,752	
Other Expenses	60,000	31,460	
Total Expenses	\$355,000		
Reserve	\$ 5,000		

Assuming that the year is 50 percent completed and Pamela continues doing what she is doing, is she likely to meet the reserve requirement and thus be able to purchase the salad bar by the end of the year? If not, what changes should she make over the next six months to ensure that she will have the \$5,000 in reserve?

- Sam Guild operates a dining room reserved for doctors in a large hospital in the Northeast. Sam’s boss has given Sam a target of 33 percent food cost but has indicated that the target might be adjusted. Currently, the doctors’ meals sell for \$15.00. Sam knows he currently can spend \$4.95 for the food required to produce each meal. Fill out the chart below to help Sam find out how much he will be able to spend on each meal at various food cost percentage levels if his boss adjusts his target.

Meal Selling Price	Food Cost %	Amount That Can Be Spent for Food
\$15.00	20%	
\$15.00	25%	
\$15.00	30%	
\$15.00	33%	\$4.95
\$15.00	35%	
\$15.00	40%	

How will the doctors’ meals likely be affected if the target cost percentage is reduced? What if it is increased?

- Dawne Juan is the food and beverage director for a mid-size hotel in a beach destination area. The general manager of the hotel has given Dawne a target of 10 percent profit for this year. Dawne’s staff is predominantly composed of her beach buddies. Although she is good at controlling most of her costs, she has a hard time telling her friends to go home when business slows down, and she needs to reduce her staff. If she doesn’t make her profit goal, her general manager will likely reprimand her, and she could possibly lose her job. Express Dawne’s expenses and profit as a percentage of total revenue, both this year and last year, to determine if she met her profit goal (fill in all blanks).

	This Year	%	Last Year	%
Total Revenue	\$1,448,956		\$1,094,276	
F&B Expense	463,666			35%
Labor Expense	652,030			40%
Other Expenses		15%	186,027	
Total Expenses				
Profit				8%

Was Dawne effective at controlling her expenses? Did she meet the profit goal set by the general manager? If not, what could Dawne do in the future to help her make her target profit?

- Lee Ray operates the Champs Steak and Seafood restaurant. Last month, Lee budgeted \$3,500 for food, in the specific categories listed on the following page. It was a busy month, but Lee thought he did a good job managing his costs. Imagine his surprise when, at the end of the month, Lee calculated

his actual expenses and entered them in the chart below. He found he was way over budget! Calculate Lee's % of Budget in each category listed on the chart, as well as the total.

	Budget	Actual	% of Budget
Meats and Poultry	\$1,500	\$1,600	
Seafood	1,200	1,500	
Fruits and Vegetables	350	370	
Dairy Products	200	210	
Groceries	250	270	
Total			

By how much money was Lee over his total budget? In which categories did Lee's costs vary more than 10 percent from the amount he had originally budgeted? Lee said it was a busy month. Would the number of customers he served affect his actual costs? What would you recommend he do next to further analyze the reasons for his restaurant's budget performance last month?

9. Daudi owns and manages a restaurant featuring Middle Eastern cuisine. His operating results for this year are listed below. For next year, Daudi expects that his revenue will increase 5 percent. He also expects that the percentage of revenue he spends on food will remain unchanged, but that employee raises and rising health care costs will mean he will spend 10 percent more for the cost of labor next year than he spent this year. Because of new cost control measures he plans to implement, Daudi expects the total amount that he will spend for other expenses next year will be unchanged from this year.

Help Daudi prepare a budget for next year that will show the amount of revenue, expenses, and profit his operation will likely experience. Show each amount in dollars and as a percentage of revenue. Should Daudi's profits next year be greater or lesser than this year? By how much?

	This Year Actual	Percent	Next Year Budget	Next Year Percent
Revenue	\$1,500,000	100%		
Cost of Food		35%		
Cost of Labor		30%		
Other Expenses		20%		
Total Expenses		85%		
Profit	\$ 225,000	15%		

10. Some foodservice professionals feel the best way to improve profits is to reduce costs. Others feel that increasing revenue is the best way to increase profits. Name three specific steps a manager can take to reduce current costs. Name three specific steps a manager can take to increase revenues. Which approach do you feel would be best for the type of foodservice operation you want to manage in the future?