

Food Cost Control - Strategic Food Cost Issues - By Joe Dunbar

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Many companies take a serious look at central production. The prospect of better consistency and the opportunity to run larger batches lure too many of these companies into a trap.

Recently, I observed the final meetings for a single unit operator expanding to a new commissary with capacity to handle production for 5 additional units. The owner wanted a new control system to handle the increased demands of his expanding business.

Unfortunately, it was far too late to offer my views on commissary construction. The long term lease was signed, construction was nearing completion and heavy equipment installations were in progress.

The new commissary opened and the organization is bleeding red on the bottom line. With the commissary draining funds each month, the chance of starting any of the new units is remote. Break even sales volume seems out of reach despite strong growth. So what went wrong? This was a successful single unit operator enjoying better than average unit volume for the region and decent sales growth.

The strategy here is flawed.

Creating the capacity to handle production for 6 units with only one unit operational is suicide. The new monthly fixed costs are too high, production workers spend too much time walking around the mammoth kitchen. Freezers and walkins designed to handle five times the current volume have raised the monthly utility bills. The fleet of vans has increased to handle movement between locations. Sales barely cover the fixed costs and wages.

Rather than wasting the owner's precious time (he works 16 hour days - 7 days a week), I told him he needs to focus on volume rather than food cost control. His sales are too far below break even to worry about incremental food cost improvement.

I'll be working with a different company in the same region. They just opened a new unit in this hot growth area. Sales are double their average unit volume and the operators are feeling the strain. Fortunately, profits and cash flow are robust.

Joe Dunbar

Dunbar Associates

P.O. Box 579

Fairfax, VA 22038-0579

800-949-3295

<http://www.joedunbar.com>

jdunbar401@aol.com

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