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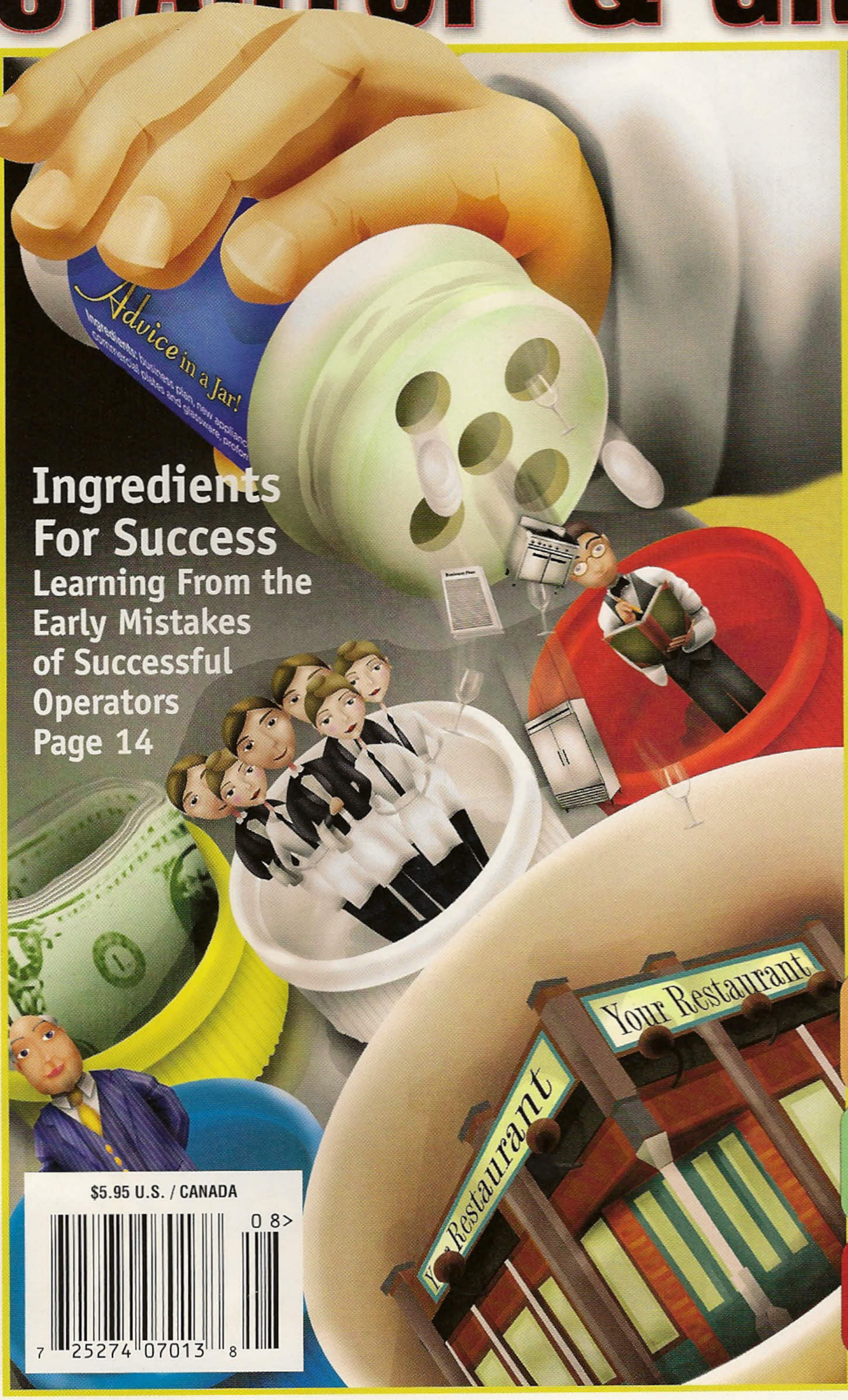

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Who's the Boss

I'm certain that most, if not all of you have been affected in some manner by the rising costs of commodities and supplies over the past year and a half. These cost increases have appeared in almost every category, and although we now have some temporary relief, most of these are expected to continue their ascent. It's been brutal. Supply cost increases, coupled by reduced guest counts, are resulting in tougher economic times for operators. So what are you supposed to do to remain profitable? Where are the opportunities for relief, without cutting quality? Remember that purchasing is an administrative function. It determines the suppliers to use and the purchase specifications for the products that will be used in preparing recipes for items on the menu. Purchasing decisions are the responsibility of owners. While hired unit managers or chefs should certainly provide input to owners on brands, grades and suppliers, the ultimate decision for these matters is the responsibility of the owners — where the buck stops, quite literally.

In this article we'll explore managing the bottom line through aggressive purchasing techniques, and review basics of inventory management to ensure that you are set up internally for success.

Aggressive Purchasing

A few key areas have to do with the intangibles that can be difficult to track. These are areas of cost rarely noticed by operators, yet have a tremendous effect on the bottom line.

Here? Cutting Costs Through Aggressive Purchasing and Inventory Management

By Lee Plotkin

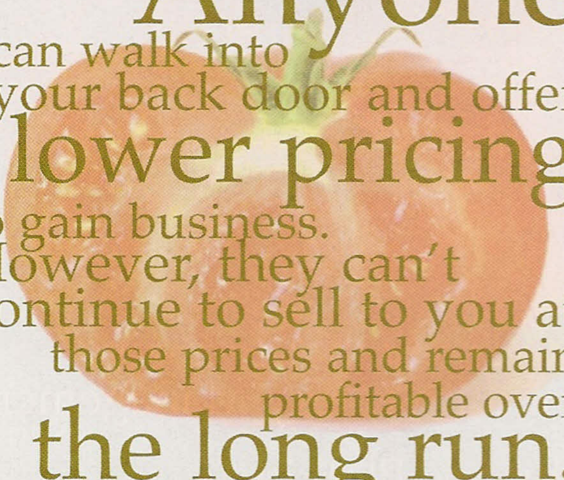
I polled several of my current and past clients. These growing restaurant operations reported that their restaurant staff spends an average of 1,108 hours per year per restaurant ordering and receiving products from their vendors at an average labor cost of $13 per hour. That's $14,404 in annual costs (per restaurant) just to order and receive their food and nonfood supplies. You can drop your own numbers into the equation to see what you are actually paying.

I'd like to take a page out of what many of the larger restaurant chains have been doing to combat rising costs. A key to their survival during these tough economic times has been the consolidation of purchasing. Consolidation, as much as is possible, results in a greater use of their buying power with suppliers and manufacturers, which results in lower overall costs, reducing the number of delivery trucks that show up at the back door and less time for their staff to spend ordering and receiving products, and fewer checks cut, which also costs a great deal of money. These key areas of cost reduction can translate to your operation as well. Let's explore a few of these.

Understand your needs. Does your establishment need many deliveries per week because you have limited storage space, or can you operate with fewer? Can you add all or a good portion of your products to the broadline distribution truck without compromising quality and service? Or, is it important to use a dedicated meat or produce company as well? Defining your needs is a great starting point to reducing costs.

Consolidate your purchasing, wherever possible. The more products a supplier has on its truck, the greater the opportunities to reduce your cost. If that supplier can build their truck with more cases, they can spread that overhead and profit over a greater number of cases, be able to reduce your delivered costs and still operate profitably. Also, you now become a much more important customer to that supplier. I recall this being one of the more important aspects of a supplier relationship a few years back, when the hurricanes hit in Florida and tomatoes were in scarce supply. One of my clients at the time, a Southwest concept, used café tomatoes for their made-from-scratch salsa. They used a ton of cafés, and they had previously committed to consolidate all of their produce on one supplier's truck. When the shortage occurred, and there were only 25 percent of café tomatoes available on the market, they were assured product.

Set up supply partnerships that make financial sense. I've heard many of the conversations regarding weekly bidding out (grid buying) vs. primary supplier program buying.



Anyone can walk into your back door and offer lower pricing to gain business. However, they can't continue to sell to you at those prices and remain profitable over the long run.

It's been my experience that primary supplier program buying yields the greatest cost savings. Although the sales representative who bids on your business every week may offer what appears to be low pricing on high-volume items, they have to make that up somewhere to remain profitable. Those costs can show up on the lower hanging fruit that you are buying from them. Anyone can walk into your back door and offer lower pricing to gain business. However, they can't continue to sell you at those prices and remain profitable over the long run. Let your supplier of choice know that you are aware that they can become more profitable if you add some more of your business to their truck, and ask them to show you how that might translate to lower prices for you. What would your markups be for all of those categories, and how would that look costwise? In today's marketplace it also makes financial sense to benchmark those prices and markups with other suppliers for a cost-plus program to make sure that your partner is in the ballpark. Markups are important. But remember: It's how those delivered costs show up that will let you know whether your supplier is actually saving you money overall. That's a great way to start a relationship by ensuring that the financial model makes sense.

Don't turn a blind eye toward pricing out of love for your sale representative. Typically, your opinion of your distributor is based on your relationship with the sales representative. This person may be the same representative that started with you on Day 1, getting credit established, answering the phone on weekends, making emergency deliveries in their car. That is great, but it can cause you to lose sight of the financial picture and focus on other areas of your business that require attention, especially when things are running smoothly from a service standpoint. A thorough review of your pricing can yield great opportunities for savings. Ask your supplier to provide you with two different volume reports. One report should detail your overall purchases from when you first started using them, and the second detailing where your overall volume is at presently. Your business may have grown with them over the years. However, they may still be pricing you at markups that were determined when the relationship started. This can be great information for you to have on hand to begin negotiating with your supplier, so that the program, markups and delivered pricing can more accurately reflect your growth.

Audit your supplier. This is really where the checks and balances come into play for the primary supplier relationship. If you have a commitment with that supplier and a contract, you should have audit privileges available. The audit is for an agreed-upon number of items (off your invoices) for a certain window of time, and that supplier has to produce the manufacturer invoices and freight documents that lead up to the delivered cost on your invoice (including the markup). It provides the assurances that your supplier is in contractual compliance with the terms of your agreement with them.

Leverage your supply partner's buying power. Once you have that relationship where you feel comfortable, arrange a meeting with the right person from that supplier to discuss the next steps in cutting costs. Usually, a supervisor or director-level contact will have the authority to work on manufacturer deals on your behalf. That supplier may already have manufacturer deals in their system that can be used for some of your higher-volume products, which can further lower costs. Keep in mind that they have much greater buying power than one unit or a growing chain. Enlist their help in continuing to do this. Schedule meetings every month or to go over progress and discuss the next steps.

Identify similar products that match your quality specifications. Your supplier can do a thorough review of your product mix and provide you with an alternative product list. These are products they have in stock that may be the same quality at a lower price. Stage product cuttings with them, and run tests in your operation to see if there is a fit. Have your supply partner do a walk-through with you and show them exactly how the products are used. For example, if you use a #1 avocado for guacamole that's made in the kitchen, they can sample you on #2's at a greatly reduced cost to see how that might work. Trash can liners and other disposables are areas that can be reviewed and help your bottom line.

Be diligent about checking yields. Do product cuttings with your supply partner to determine the true yield and finished cost of the important products you buy. A case of shrimp you purchase may have a lower price per pound, but has many broken pieces or a higher amount of glaze than another that has a higher price per pound delivered. The finished cost on the higher-priced product may actually work out to be lower. Another good example is lettuce. Determine what your true yield is for the quality spec you buy. You may find that buying a higher-quality level (different brand) will actually yield a lower food cost.

Discuss incentive opportunities with your supply partner. It seems like most of us want our delivery truck to show up between 7 a.m. and 9 a.m. If you have the flexibility in your operation to take off-peak deliveries it may help your supplier and can result in discounts or rebates. Also, a good topic for discussion is building the truck (reducing deliveries) with the possibility of incentives for hitting target delivery-size levels. Again, it's about finding out what makes your supplier profitable, and seeing how they can share those efficiencies with you.

Appreciate food safety as it relates to cost. Most of us have to occasionally get in the car and pick up products at the grocery store or from a buying club. It's just part of the nature of the business, when the operation is short-supplied or orders are missed. Using big-box stores for continual replenishment because costs may be less expensive can be a risky endeavor. I have nothing against big-box stores. They do a great job and serve an important niche of the market. It's important, however, to be aware that broadline distributors, and most reputable suppliers, require their manufacturers to provide "indemnification insurance" or adequate coverage if a product is tainted or someone breaks a tooth on a chicken nugget. That means that your costs are covered by the insurance. In addition, those suppliers should have a paper trail back to the source in a product recall (remember last year's episode with tomatoes?). Keep in mind that when you purchase products at the big-box stores, the liability ends when you pay. Ask yourself if the savings are truly worth the risk.

Take advantage of sales tax certificates. Most states offer sales tax relief on certain items (to-go paper products and containers, for example) if a sales tax certificate has been filled out. Ask your supply partner to check in their system to make sure it's on file.

Inventory Management Techniques and Tools

Use order guides. Your supply partner can help you set up your order guide in the order of your storeroom. Getting this set up in a more efficient manner will save you time and money. Let them know how you would like the order guide customized.

Take advantage of online ordering. Most suppliers have online ordering capabilities and would prefer for their customers to order that way. It's really a great tool and it allows the operator the flexibility of ordering at their convenience (given that it's before the supplier's cut-off time). Most suppliers can provide information on out-of-stock items and substitutions at the time the order is submitted. And the order can be printed for easy reference.

Include par stocks on your order guide for easy reference. Set par stocks for all of your ingredients and supplies so that they can be easily tracked and aren't left off orders. Adjust pars by season, and order enough to get you through the next delivery, not just up to the next delivery. In other words, allow enough of a "par stock" backup to be your buffer if the delivery truck is late.

Rotate all products. First in-first out (FIFO) is the rule here. When I ran the purchasing department at a resort hotel, we dated each item and case in stock. This is not necessary to go to those lengths if you are rotating.

Use food storage labels. Use labels to date perishable products and on containers of products made at the restaurants.

Always look for ways to improve storage of perishable products. Do a walk-through of your storage areas with your sales representative or an expert from the supplier to identify areas of improvement. For example, storing fresh-squeezed orange juice in the coldest part of the refrigeration unit will prolong its shelf life and flavor.

If you are purchasing catch weight products, buy a scale. Check catch weights to make sure that you get what you pay for. Open boxes of produce to check quality, and refuse any products on the spot that don't meet your quality specifications. And … use your order guide as your reference to make sure that all of the order has been delivered and is intact. Most drivers will pick up on the fact that you keep tight reins on receiving. That information usually makes it back to the supplier and somehow quality improves.

Always reconcile invoices. Assign someone in your establishment the task of reconciling invoices against the order guide. Typically, it's someone different from the person who received the order so that you can ensure that there are also checks and balances on your end.

Reviewing your purchasing and inventory business models with an open mind toward continual improvement can lead to significant savings to your bottom line without affecting quality and service, and can help position you for successful growth as the economy improves.

Ride Your Business, Not the Market

Inventory and purchasing strategy is an integral component of your business plan because of its direct effect on profit margins, cash management, asset turnover and return on investment. Efficient inventory management and purchasing lowers costs without a corresponding decrease in quality or portion sizes. Menu prices remain stable and more competitive than those of restaurateurs who "ride the market" weekly to obtain needed items. **RS&G**