

LECTURE 7

BEVERAGE COST PERCENTAGES

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The one thing that stands out in the control of beverage cost is that employees should be prevented from consuming beverage products available for sale. The cost of beverages includes any items received from the kitchen and are used in the preparation of various beverage products. These include lemon, lime, fruit juice, olives etc. this ensures that all compiled costs are precise. A record of daily transfers is maintained for this reason.

Bar Stock Keeping

The process of maintaining stock records for food items is less complicated as opposed to that of the bar. Unopened beverage products can easily be weighed or counted however, the challenge of estimating the same for partly used beverage products is presented by the fact that:

- empty bottles may not be readily available
- each product should be weighed independently
- certain beverage products particularly liquor vary in density

Thus, a lot of details are required in order to be accurate in the measurement. A detail oriented individual is required to perform the evaluations and maintain the records.

Certain shortcuts are used to estimate the cost of used beverages, for instance, a full bottle can be equated to the number to as a half-filled bottle would be assigned a 5/10. These beverages are

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evaluated in order to determine the applicable fraction they should be assigned. This formula may save on time however it may not be as accurate as required particularly if not done right.

Additionally, the use of a ruler may be preferred. Here, the control personnel determine the amount in the bottle by estimating the monetary value of each inch and centimeter for every brand. This approach is more accurate than the tenths method and is hence preferred.

Stock taking is ideally done when the bar is closed in order to prevent interference. The value of the beverages within the dispensing equipment used at the bar can be appropriated if the hold a significant quantity.

Bar Transfers

Management by control of the beverage products details that non-alcoholic and non-beverage products used in the preparation or service of the main items should be factored in as part of the cost. When such products would need to be sourced from the kitchen, they would then be considered as inward transfers. These may include: fruit juice, olives, mint etc.

An independent bar operation may have an easy time accounting for these since they make the purchases as part of the process, however, a bar located within a hotel would need procedures through which they may acquire these additional but basic ingredients.

A proper record of the transfers ought to be maintained for accountability purposes. Their cost affects the beverage percentage and should therefore be evaluated. The purchasing procedure is often set up in such a manner that all edible items are issued to or through the kitchen. As such, requisitions must then be sent through the same, necessitating the need for transfers.

Bar products can also be outwardly transferred. Similarly, the costs of these products should be accounted for. A transfer record may hold information on the date of transfer, product transferred, quality or quantity, the kind of transfer and the issuing and receiving individuals.

Inward bar transfers are dealt with by including them as part of the cost incurred while the outward transfers are subtracted from the costs.

They are an effective way of facilitating different units with their production requirements while still accounting for the costs incurred.

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Beverage Cost

The cost of beverages is evaluated through the following:

$$\text{Beverage Cost \%} = \frac{\text{Beverage Cost}}{\text{Sales}} \times 100$$

Example 1:

1. Assuming that a bar sold beverages worth \$825,300 at a cost of \$542,600, what is the beverage cost % for the period?

$$\begin{aligned} \text{Beverage Cost \%} &= \frac{542,600}{825,300} \times 100 \\ &= 65.7\% \end{aligned}$$

2. Items received from the kitchen came at a cost of \$17,300. Adjust the beverage cost percentage above.

$$\begin{aligned} \text{Beverage Cost \%} &= \frac{542,600 + 17,300}{825,300} \times 100 \\ &= 67.8\% \end{aligned}$$

3. A food facility working in tandem with bar received alcoholic beverages worth \$12,490. To include this in the evaluation above:

$$\begin{aligned} \text{Beverage Cost \%} &= \frac{542,600 + 17,300 - 12,490}{825,300} \times 100 \\ &= 66.3\% \end{aligned}$$

The illustration above indicates the essence of accounting for all costs with a view to an accurate representation of performance as it is evident that accounting for bar transfers alters the beverage cost percentage. Similarly, excluding outward issues minimizes the cost for the bar as the items were not utilized within the section.

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Example 2:

Jazz Bar began operations earlier today with stock worth \$32,480. Assorted drinks worth \$2,600 were issued to a different bar as more drinks were acquired at \$5,750. The closing stock of the day was \$12,970. Calculate the beverage cost percentage if the operation earned \$48,950.

Solution:

$$\begin{aligned}\text{Beverage Cost \%} &= (\text{Opening Stock} + \text{Purchases}) - (\text{outward Transfer} + \text{Closing Stock}) \\ &= 32,480 + 5,750 - 2,600 + 12,970 \\ &= 38,230 - 15,570 \\ &= 22,660 \\ &= 22,660 \div 48,950 \times 100 \\ &= \mathbf{46.3\%}\end{aligned}$$

Beverage cost percentages are estimated the same way that food costs are.

Sales

A sale is the gain resulting from the exchange of products for monetary benefits.

Total sales - total volume of the gains from a specific period

Total sales by category - total volume of gains from a specific category of products, e.g. the total beverage sales as seen in the examples above

Selling price – the charge per item, total sales are a sum of these

Average sale- also the average check or average cover, evaluates the performance of various menu items

$$\mathbf{\text{Total Sales} \div \text{Number of Guests}}$$

Seat turnover – evaluates guest numbers over a specific period

$$\mathbf{\text{Total Number of Seats Occupied or Number of Guests} \div \text{Total Number of Available Seats}}$$

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When deciding on the selling price of beverage, it is important to ensure that operational costs are covered, that guests get value for the price they pay and profits are earned.

For a beverage operation, the pricing strategy may be determined based on:

a) **Based on cost**

- Cost plus pricing- estimating the food cost the multiplying it two and a half times over.

$$\text{Selling price} = \text{Food Cost} \times 2.5$$

- Gross profit pricing method – the cost of food is assumed to be equivalent to 40% of the selling price. Therefore, if the cost of producing a dish is \$25, then the selling price will be:

$$\frac{25 \times 100}{40} = \$62.50$$

40

- ROI – the return on investment estimates the costs of operation then adds a mark-up as profit.

The selling price of the dish being produced at a cost of \$25 using a 25% mark-up would be:

$$25 \times 1.25 = \$31.25$$

Or

$$\$25 = 100\%$$

$$? = 125\%$$

$$\frac{125 \times 25}{100} = 31.25$$

100

b) **Based on the market**

- Competitor based pricing – allocating prices that are above, below or at par with those of the completion to attain a competitive edge.
- Going rate – pricing along current market prices
- Loss leader – dropping prices to the cost price to attract customers
- Skimming – use of high profit margins to make quick profits
- Market penetration – items are sold at low margins to allow the new operation to organically gain market share
- Psychological pricing- price levels that convince customers that they are getting value for their money

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Sales Mix

The beverage menu ought to be evaluated in order to determine what drinks are popular and or profitable to the operation. Guest preferences directly affect beverage cost percentages. Beverage price vary depending on the occasion such as banquets, packaging, type of drink, style of service etc. therefore, beverages can be evaluated based on these differences to determine the cost percentage of each. Certain beverage products may be more popular than others, to determine this, the product's popularity is estimated by:

$$\text{Product \% of Total Sales} = \frac{\text{Product Sales}}{\text{Total Sales}} \times 100$$

Example:

Evaluate the sales mix of the following beverage menu items.

Product	Cost (\$)	Sales (\$)	Beverage Cost %
Wine	3,840	12,780	30%
Liquor	6,800	18,200	37%
Cocktails	2,700	8,450	32%
Beer	5,450	19,900	27%
Total	18,790	59,330	31.7%

Solution:

To establish the sales mix for the products outlined in the example above:

$$\text{Wine} = \frac{12,780}{59,330} \times 100$$

59,330

= **21%**

$$\text{Liquor} = \frac{18,200}{59,330} \times 100$$

59,330

= **31%**

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$$\text{Cocktails} = \frac{8,450}{59,330} \times 100$$

59,330

$$= 14\%$$

$$\text{Beer} = \frac{19,900}{59,330} \times 100$$

59,330

$$= 34\%$$

From the illustration above, one might argue that the most popular beverage is beer, while the least popular product being the cocktails. Beverages are a good source of profit for the hospitality industry while they enhance the experience of different travelers and have good margin contributions.

Quiz

1. Evaluate different approaches to stock keeping for the beverage product.
2. Explain why it is necessary to account for bar transfers.
3. Outline various pricing strategies used in beverage operations.
4. Describe the essence of establishing the beverage sales mix for a given operation.

REFERENCES

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