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RESTAURANT MENU ADJUSTMENTS

FOR

RISING FOOD COSTS

By

Alan G. Herklotz

B.S., U.S. Air Force Academy, 1972

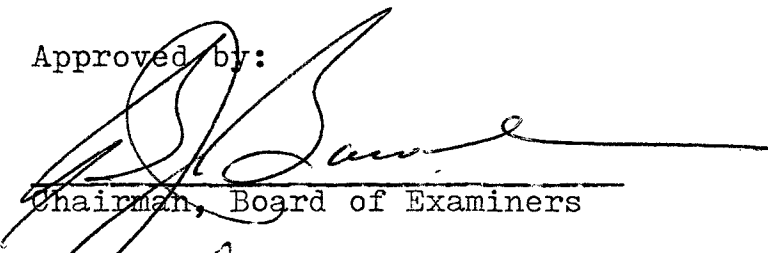
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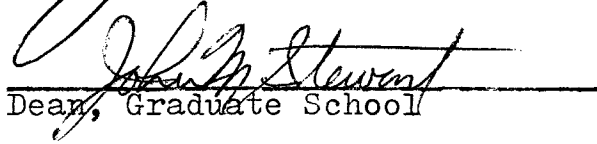
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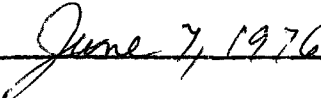
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CHAPTER I

INTRODUCTION

History of the Iron Kettle Restaurant

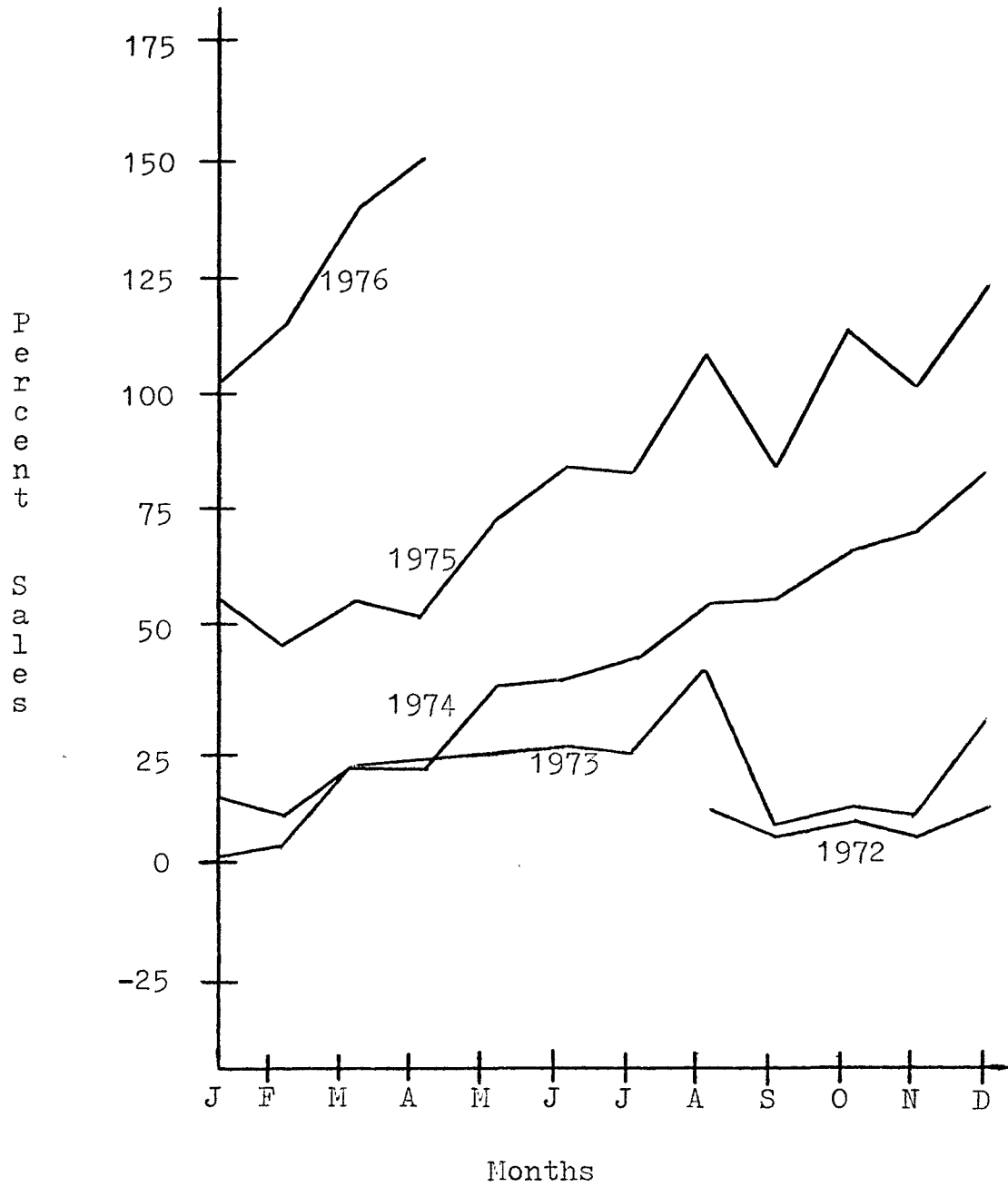
The Iron Kettle Restaurant is a small cafe located in the Westgate Shopping Center, Great Falls, Montana. It has a sixty-five seat capacity and serves primarily breakfasts, hamburgers, and small dinners. The decor and atmosphere are modest and typical of similar restaurants.

Patrons are divided into two primary groups. The largest customer group is the local working class who frequent the restaurant on a regular basis, usually on their way to work and during lunch. The second group is composed of teenage school children seeking a mutual off campus meeting place. Nearly all customers live in the surrounding communities of Riverview, Black Eagle, and Southwestern Great Falls. Employees and customers of other Westgate Shopping Center establishments comprise a large percentage of the above two groups and eat at the restaurant for convenience. Approximately one-half of the patrons frequent the Iron Kettle at least three times per week, making the atmosphere both friendly and casual.

The Iron Kettle Restaurant was established in 1960 and has been owned and operated by three different individuals. The first two owners had little success with the business. Monthly sales were extremely low. During this period the restaurant encountered several difficulties including poor local recognition, inefficient and unreliable employees, and severe financial problems. In the summer of 1972 the second owner declared bankruptcy and the present owner purchased the restaurant.

The new owner's first goal was to improve the public image of his restaurant. Reliable and efficient employees were hired and substantial investment in new equipment was made. The retention of reliable employees has contributed significantly to the gradual improvement in restaurant sales. Workers are paid higher than union wages and receive many fringe benefits. Because of this, most employees hired in August, 1972 are still employed at the Iron Kettle and have become extremely proficient in the performance of their jobs. The practice of serving only high quality food was also established by the present owner in 1972. In April, 1975 radio advertising was used for the first time to increase the restaurant's exposure. In January, 1976 newspaper advertisements along with radio helped increase public awareness further.

Figure 1 shows monthly sales since August, 1972. Relatively steady sales increases have occurred since 1974.



(NOTE: Percent sales based on January, 1973 sales)

Fig. 1. Historic Iron Kettle Restaurant Sales

Historically, sales have decreased from August to September each year as a result of school openings. The Christmas holiday season has caused a similar decline during December and January each year. Under new ownership, sales at the Iron Kettle have increased 130 percent over the last four years.

During the first two years of operation, the present owner experienced total food costs of approximately 30 percent of total sales. Gradually, food costs rose to approximately 40 percent. Inflation was increasing the Iron Kettle's food costs significantly. Unfortunately, increasing sales during this period were not producing corresponding profits as a result.

The purpose of this study is to find an effective method of compensating for, or reducing food costs at the Iron Kettle Restaurant. Such a solution must not only reduce the effects of high food costs, but also maintain current sales levels.

National Restaurant Operations

The restaurant business is the third largest industry in the U.S. Approximately 3.3 million people, at more than 371,000 individual restaurants, prepare 750 million meals per week.¹ Bureau of Census statistics show total

¹Donald E. Lundberg, The Hotel and Restaurant Business, (Chicago: Institution/Volume Feeding Magazine, 1971), p. 151.

1975 sales approaching \$40 billion. Figure 2 shows monthly average restaurant sales from 1974 through January, 1976.

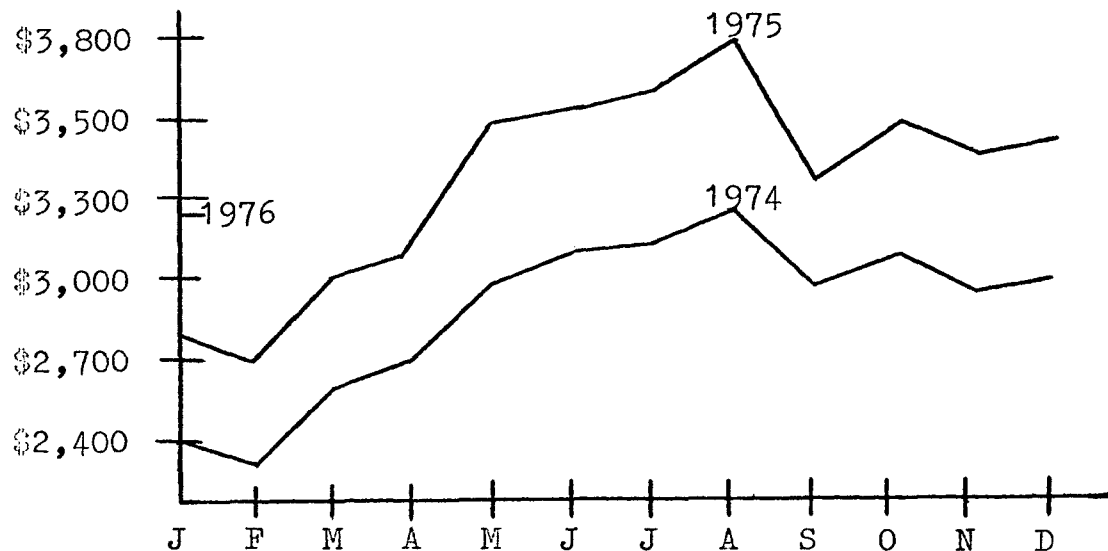


Fig. 2. Monthly Restaurant Sales (1974-1976)

As with the Iron Kettle, restaurants throughout the country have experienced a rise in food costs. Naturally, food costs vary greatly depending upon the type of restaurant. Usually where high labor costs are present, food costs will be lower. If labor costs are low, food quality and price may be higher. National averages for food costs in a restaurant similar to the Iron Kettle are approximately 36 percent of total sales.²

²Ibid., p. 178.

CHAPTER II

SOLUTIONS TO RISING FOOD COSTS

There are two basic solutions to rising food costs:

1. Through some change in operating procedures actual food costs may be reduced;
2. Make compensations for the higher costs.

The following specific methods to control food costs all are included in the above solutions.³ Each method will be evaluated as to its applicability to the Iron Kettle Restaurant.

A Food Cost Accounting System

The purpose of this control is to break down total food costs into its components so management has more detailed information to base decisions. A cost sheet with all food items purchased should be used to indicate monthly price changes. If important price changes occur, they can be easily detected and management will be able to respond appropriately. An accurate cost accounting system

³Paul Fairbrook, Starting and Managing a Small Restaurant, (Washington D.C.: Office of Public Information, 1964), pp. 96-98.

is basic and essential to good operations. If specific increased food costs are not noticed, it is impossible to make adjustments properly.

At present, the Iron Kettle breaks its food costs down into only two categories, meats and groceries. Monthly records of these total costs are kept, but accounts of individual item costs are not maintained. Unless a drastic change of food cost in a specific item occurs, the Iron Kettle manager will not be aware of it. Currently, total food costs are calculated by totalling monthly bills. This procedure is quick and simple, but not detailed enough to properly monitor food costs.

Food Purchases

There is a tendency for the small restaurant operator to order food on an informal basis. Once small operators have established their initial contacts and set up their ordering procedures, they tend to remain with the same purveyor for a long period of time. This is acceptable unless lower prices could be obtained elsewhere. Restaurant managers should constantly be aware of all available food prices and should not hesitate to change purveyors to take advantage of reduced prices offered by another wholesaler.

The manager of the Iron Kettle orders food on a formal basis. However, greater attention to competitive prices could be beneficial. Food purchasing could be improved in

another respect at the Iron Kettle. Frequent shortages of food supplies have occurred in the past. Instead of contacting their purveyors in advance, food has been purchased from Buttrey's Food Store, a retail supermarket, at higher prices. Better planning and inventory management could reduce food costs slightly by eliminating excessive shortages.

Receiving Food

When food is delivered to the restaurant, it should be checked to ensure it complies with the order. Meat should be inspected for spoilage. The Iron Kettle is very careful when receiving food orders. Virtually all items are checked and little waste has occurred due to undiscovered spoilage. Because of personnel limitations, meat is usually not weighed upon delivery. Occasional spot checks are performed by the owner to ensure delivered meat has met with the order stipulations.

Food Storage

All spoiled food should be considered part of total food costs. Improper storage may result in waste and increased food costs. Despite limited storage space, the Iron Kettle has not experienced a problem in this area.

Food Issue

Control of storageroom food is mandatory. Records indicating the flow of food throughout the restaurant should be maintained. Theft and waste may be prevented by a systematic issue of food.

The Iron Kettle does not have a system to record the use of food taken from storage. The storageroom is located adjacent to the kitchen and the cook is the only person normally working in the area. Because of the high reliability of the employees, loss from storageroom theft has not occurred at the restaurant. However, because of its importance, records should be kept to indicate food taken by the cook from storage and occasional spot checks should be made by the owner.

Portion Control

It is important that all cooks make all menu items exactly the same. This is important not only to maintain the quality of the food, but also to keep its cost constant. Meats should be precut and weighed. Recipes should be made of all items on the menu and cooks should adhere to their directions.

The Iron Kettle has a problem with portion control. The three cooks employed are not required to follow specific recipes. Some of the meats come precut from the supplier

(steaks, chicken), but roast beef, turkey, ham, and other sandwich meats must be sliced in the kitchen. It is not uncommon to have noticeable differences when two different cooks prepare the same meal item. There are no measuring devices for french fries, potato salad, pancake batter, etc., so servings may vary even when the same cook prepares two orders of the same meal.

Portion control can also be used to reduce food costs directly. Current prices may be maintained while changing the contents of the meal's proportions. For example, a fifteen ounce steak may be reduced in size to twelve ounces with a larger baked potato or more french fries added to the plate. In this case the more expensive steak could be replaced with the relatively inexpensive potato. The total food cost of the meal would be reduced while the menu price remained the same. Depending on the tastes of the customers, very often less costly foods are preferred in larger quantity over more expensive items. French fries, hash brown potatoes, waffles, and pancakes are examples of cheap food that could be used to reportion a meal. If portions are changed slowly and accurately, this solution could be highly successful.

The Iron Kettle has not attempted to reduce food costs by substituting or reportioning their menu. Until an accurate portion control program is instituted for existing menu items, reportioning can not be used properly to

reduce food costs. Increased emphasis in this area is required.

Selling Prices

Fundamental to most businesses, the determination of a proper selling price is one of the most important methods to compensate for high costs. When calculating the selling price, the following ideas should be considered:⁴

1. Cost of food
2. Amount of labor required to prepare it
3. Attitude of customers towards prices
4. Special considerations such as leftovers, loss leaders, and specials.

Current prices had been in effect at the Iron Kettle for over ten months. At that time prices were set based upon previous prices, expected customer reaction to increased prices, and prices at similar restaurants. Food costs, the most important factor in determining price, were not specifically used. The owner of the Iron Kettle was not aware of his exact food costs for his individual menu items. He knew that he may have spent two hundred dollars on breakfast steaks the previous two months, but he did not know how much food cost was involved when the menu item "Montana Breakfast Steak" was prepared in the kitchen. Without knowing specific food costs for each menu item, it is impossible to determine how profitable they are to the operation.

⁴Ibid., p. 74.

Table 1, Competitor Menu Prices, shows comparable menu items' prices at ten different restaurants in Great Falls during March, 1976. Prices at the Iron Kettle were at or slightly below the average of its competitors.

Production Control

Many restaurants prepare meals in advance in anticipation of selling them during the day. Often waste is created by this procedure in the form of leftovers. If it is necessary to prepare meals in advance, records should be maintained indicating number of meals prepared, number sold, and number of leftovers. From this record customer patterns will develop which can be used to predict how many advance meals will be required in the future.

Almost all meals at the Iron Kettle are prepared upon order. Items such as tossed green salad and soup are prepared in the morning, but any leftovers can be used the next day. Waste of this kind does not exist to any appreciable amount.

Theft

Employee and customer theft is potentially a very serious contributor to increased food costs. Employees may eat food that is not normally allocated for their meals or they may remove food directly from the storageroom. It has become increasingly common to have customers walk away

TABLE 1

COMPETITOR MENU PRICES

Item	SCHEFFI'S	COUNTRY KITCHEN	SAMBOS	FREDO'S	IGA	BAIRS	HERBIE'S	BARREL CAFE	TRACY'S	JB'S
Brk Steak	3.25	3.25	2.95	3.00	----	2.85	2.75	2.60	2.85	----
Ham & Eggs	2.35	----	1.90	1.75	1.50	1.85	1.85	2.00	2.55	1.90
Bac & Eggs	2.10	1.49	1.90	1.75	1.50	1.85	1.85	2.00	2.55	1.90
Sau & Eggs	2.10	1.45	1.90	1.75	1.50	1.85	1.85	1.90	2.55	1.90
Eggs/H Brn	----	----	----	1.00	1.00	1.30	1.00	1.25	1.35	.99
Tomato J.	.50	----	.55	.30	.30	.40	.35	.30	.40	.50
Fries	.65	.55	.45	.50	.30	.55	.35	.50	.55	.50
Shrimp	3.85	3.65	2.60	2.75	----	1.85	2.75	----	3.95	2.95
Chicken	3.10	2.85	2.75	2.50	1.50	2.75	2.60	2.25	2.85	2.70
Rib Steak	4.60	----	3.95	4.50	----	5.50	6.00	3.75	5.50	4.50
T-Bone	4.60	4.65	3.95	4.50	----	5.75	6.00	4.50	7.75	----
Hamburger	1.10	1.40	1.10	.75	.55	.80	.70	.60	.75	1.00
Ch. Burger	1.20	1.50	1.20	.85	.65	.90	.80	.75	.85	----
Coffee	.25	.25	.20	.15	.20	.20	.10	.10	.20	.25
Soda	.35	.30	.25	.30	.40	.35	.30	.30	.35	.35
Milk	.45	.35	.30	.30	.20	.35	.30	.20	.40	.30
BLT	1.25	----	1.10	1.00	.80	1.15	1.20	1.00	1.25	1.10
Stk. Sand.	2.75	----	----	3.25	----	2.95	1.85	2.50	2.95	2.75

without paying their bills. More careful surveillance of both customers and employees will help eliminate theft. Physical layout changes and administrative records of food flow will reduce the problem.

The Iron Kettle is fortunate to employ trustworthy personnel. Since it is a very small establishment, employees can monitor customers that attempt to avoid paying their bills. It is impossible to stop theft entirely, but at the Iron Kettle it is not a significant problem.

CHAPTER III

ORGANIZATION OF STUDY

Solution Selected for Study

Chapter II discussed some of the methods available that may be used to reduce or compensate for food costs. A manager should use all methods to his greatest advantage. However, if two or more methods were instituted at the same time, it would be impossible to measure their individual effects. For the purpose of this study, menu price adjustment was selected to compensate for increased food costs at the Iron Kettle Restaurant. Since prices had not been changed in ten months and actual menu item food costs were not used to determine previous prices, this method promised to be the most decisive and beneficial.

Assumptions and Limitations

The following basic assumptions and limitations were involved with this study:

1. The months of March and April are typical of business associated with the Iron Kettle Restaurant. No seasonal peaks, community events, or other abnormal occur-

rances took place during this period. Figure 1 shows that sales during these two months from 1973-1975 were quite stable.

2. The duration of the data collection period (two/one month periods) was long enough to indicate any significant customer trends.

3. Although food usually comprises the highest cost associated with a restaurant, labor and overhead are very important factors. This study was limited to consideration of food costs only.

4. At the request of the owner of the Iron Kettle, actual sales and profit data were expressed as a percentage increase or decrease rather than an explicit amount.

Organization

During the period from March 1, 1976 to March 30, 1976 all individual menu item sales at the Iron Kettle were recorded directly from sales/meal order slips. Menu prices remained the same as the previous ten months during March.

Also during March, menu item proportions and actual food costs were determined. Based on this information, new menu prices were adopted on April 1, 1976.

During the period April 1, 1976 to April 30, 1976 sales data were again collected as in the previous month, only with the new menu prices being effective. Sales data from both months were then compared to determine the effect of the increased menu prices.

CHAPTER IV

DETERMINATION OF MENU FOOD COSTS AND NEW PRICES

Food Cost Determination

Records of all food purchases during March were used to identify most food costs concerned with the operation of the Iron Kettle. Costs of certain items that were not purchased during the month were determined by contacting the applicable wholesaler. Table 2, Food Costs, lists the costs of most foods used by the Iron Kettle.

After these costs were calculated, menu item proportions were determined. Since exact recipes were not used by the cooks, it was necessary to physically measure and weigh all ingredients of each menu item. Table 3, Menu Item Food Costs, lists the ingredients and associated costs of the most important menu items.

New Menu Prices

After analyzing the menu food cost data, it was apparent that only a few items' costs exceeded forty percent of their sale price. However, the items identified as having high food costs were also items that contributed heavily to total sales (steaks, shrimp, chicken). Hence,

TABLE 2

FOOD COSTS

ITEM	COST	ITEM	COST
Eggs	.66/doz	Butter	1.07/lb
Bacon	1.43/lb	Roast Beef	2.24/lb
Ham	2.15/lb	Corn Beef	1.27/lb
Country Sausage	1.09/lb	Lettuce	.26/hd
Link Sausage	1.09/lb	Tomato	.15/tomato
Breakfast Steak	2.33/lb	Tuna Fish	.55/can
Hashbrowns	.31/lb	Cheese	1.35/lb
Pancake Mix	.41/lb	Mashed Potatoes	.015/ser.
Muffin	.65/pk	Beef Patty	.79/lb
Bread	.52/loaf	Shrimp	3.60/lb
Rye Bread	.69/loaf	French Fries	.29/lb
Hamburger Rolls	.55/pk	Chicken	1.26/lb
Hard Rolls	.77/pk	Rib Steak	1.68/lb
Dinner Rolls	.47/pk	T-Bone Steak	1.86/lb
Jelly	.02/pk	Cottage Cheese	.98/lb
Salad Dressing	.30/lb	Coffee	1.66/lb
Mayonnaise	.39/lb	Pickles	1.61/gal
Turkey	1.17/lb	Pie	.22/slice
Ice Cream	2.65/gal	Chicken Fried Stk	1.12/lb
Pepsi	.01/oz	Milk	.40/qt
Iced Tea Mix	.08/oz	Hot Choc. Mix	1.09/lb

TABLE 3

MENU ITEM FOOD COSTS

Menu Item	Ingredients	Amount	Cost/Unit	Extension	Total Cost
Montana Breakfast Steak	Sirloin Steak	4½ oz	.656	.656	\$.85
	Eggs	2	.055	.110	
	Hash Browns	4 oz	.026	.026	
	Toast or	2 sl	.017	.034	
	Small Pancakes	5 oz	.013	.039	
Ham and Eggs	Ham	3 oz	.134	.042	\$.60
	Eggs	2	.055	.110	
	Hash Browns	4 oz	.026	.026	
	Toast or	2 sl	.017	.034	
	Small Pancakes	5 oz	.013	.039	
Bacon and Eggs	Bacon	4½ oz	.089	.400	\$.60
	Eggs	2	.055	.110	
	Hash Browns	4 oz	.026	.026	
	Toast or	2 sl	.017	.034	
	Small Pancakes	5 oz	.013	.039	
Sausage and Eggs	Sausage	4½ oz	.068	.306	\$.77
	Eggs	2	.055	.110	
	Hash Browns	4 oz	.026	.026	
	Toast or	2 sl	.017	.034	
	Small Pancakes	5 oz	.013	.039	
Chopped Ham and Scrambled	Ham	1½ oz	.134	.201	\$.43
	Eggs	3	.055	.165	
	Toast or	2 sl	.017	.034	
	Small Pancakes	5 oz	.013	.039	

(NOTE: For Items requiring butter, syrup, etc., add \$.02 to total cost)

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/Unit	Extension	Total Cost
Special Plate	Egg	1	.055	.055	\$.31
	Bacon or Sausage or Ham	2 $\frac{1}{4}$ oz	.089	.200	
		2 $\frac{1}{4}$ oz	.068	.153	
		1 $\frac{1}{4}$ oz	.134	.201	
	Large Pancakes	9 oz	.018	.054	
Waffle Special	Waffle	5 oz	.030	.030	\$.38
	Egg	1	.055	.055	
	Sausage	4 oz	.068	.272	
Junior Plate	Pancakes	3 $\frac{1}{2}$ oz	.013	.026	\$.20
	Egg	1	.055	.055	
	Bacon	1 1/8 oz	.089	.100	
Plain Omelet	Eggs	3	.055	.165	\$.25
	Milk	1 oz	.012	.012	
	Batter	1 oz	.010	.010	
	Toast or Small Pancake	2 sl	.017	.034	
		5 oz	.013	.039	
Cheese Omelet	Eggs	3	.055	.165	\$.45
	Cheese	2.4 oz	.067	.201	
	Milk	1 oz	.012	.012	
	Batter	1 oz	.010	.010	
	Toast or Small Pancake	2 sl	.017	.034	
		5 oz	.013	.039	
Ham Omelet	Eggs	3	.055	.165	\$.45
	Ham	1 $\frac{1}{2}$ oz	.134	.201	
	Milk	1 oz	.012	.012	
	Batter	1 oz	.010	.010	
	Toast or Small Pancake	2 sl	.017	.034	
		5 oz	.013	.039	

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/ Unit	Extension	Total Cost
Ham and Cheese Omelet	Eggs	3	.055	.165	\$.65
	Ham	1½ oz	.134	.201	
	Cheese	2.4 oz	.067	.201	
	Milk	1 oz	.012	.012	
	Batter	1 oz	.010	.010	
	Toast or Small Pancake	2 sl	.017	.034	
		5 oz	.013	.039	
Eggs and Hash Browns	Eggs	2	.055	.110	\$.21
	Hash Browns	4 oz	.026	.026	
	Toast	2 sl	.017	.034	
	Jelly	1 pk	.020	.020	
Pancake and Egg Plate	Egg	1	.055	.055	\$.13
	Small Pancakes	6 2/3 oz	.013	.052	
French Toast	Bread	3 sl	.017	.051	\$.18
	Egg	1	.055	.055	
	Pancake batter	1½ oz	.010	.010	
	Powdered Sugar	1 tsp	.010	.010	
	Strawberry Preserves	½ oz	.034	.034	
Waffle	Waffle	5 oz	.030	.030	\$.11
	Egg	1	.055	.055	
Hot Corn Beef on Rye Sandwich	Rye Bread	2 sl	.031	.062	\$.44
	Corn Beef	3 oz	.079	.237	
	Cheese	1.6 oz	.067	.134	
	Pickles	2 sl	.005	.010	

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/ Unit	Exten- sion	Total Cost
Grilled Cheese Sandwich	Bread Cheese Pickles	2 sl 1 sl 2 sl	.017 .067 .005	.034 .067 .010	\$.11
Bacon Lettuce and Tomato Sandwich	Bacon Lettuce Tomato Bread Mayonnaise Pickles	2 $\frac{1}{4}$ oz 1 pc 2 sl 2 sl 1 tsp 2 sl	.089 .010 .025 .017 .024 .005	.200 .010 .050 .034 .006 .010	\$.31
Cold Roast Beef Sandwich	Beef Bread Pickles Lettuce	2 oz 2 sl 2 sl 1 pc	.140 .017 .005 .010	.280 .034 .010 .010	\$.33
Ham Sandwich	Ham Lettuce Bread Pickles	1 $\frac{1}{2}$ oz 1 pc 2 sl 2 sl	.134 .010 .017 .005	.201 .010 .034 .010	\$.26
Egg Salad Sandwich	Egg Salad Dressing Relish Lettuce Bread Pickles	1 1 tbl 1 tsp 1 pc 2 sl 2 sl	.055 .030 .005 .010 .017 .005	.055 .015 .005 .010 .034 .010	\$.13
Tuna Salad Sandwich	Tuna Fish Salad Dressing Relish Lettuce Bread Pickles	1 $\frac{1}{2}$ oz 1 tbl 1 tsp 1 pc 2 sl 2 sl	.090 .030 .005 .010 .017 .005	.135 .015 .005 .010 .034 .010	\$.21

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/ Unit	Exten- sion	Total Cost
Sliced Turkey Sandwich	Turkey	1½ oz	.073	.110	\$.18
	Lettuce	1 pc	.010	.010	
	Mayonnaise	1 tbl	.024	.013	
	Bread	2 sl	.017	.034	
	Pickles	2 sl	.055	.010	
Low Calorie Special	Cottage Cheese	4 oz	.061	.244	\$.45
	Beef Patty	2½ oz	.132	.132	
	Tomato	2 sl	.025	.050	
	Crackers	2 pk	.013	.026	
Salad Bowl	Egg	1	.055	.055	\$.58
	Tomato	4 sl	.025	.100	
	Ham	1½ oz	.134	.201	
	Turkey	1½ oz	.079	.110	
	Lettuce	7½ oz	.010	.010	
	Toast	2 sl	.017	.109	
Kiddie Special	Beef Patty	2½ oz	.132	.132	\$.21
	Mashed Potatoes	5 oz	.015	.015	
	Hot Roll	1	.039	.039	
Chopped Beef Steak	Beef Patty	7½ oz	.132	.396	\$.54
	Salad	Small	.045	.045	
	Dressing	2 tbl	.030	.030	
	Texas Toast	1 sl	.023	.023	
	Hash Browns	4 oz	.026	.026	
	or French Fries	7 oz	.126	.126	

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/ Unit	Exten- sion	Total Cost
Shrimp in Basket	Shrimp Salad Dressing Texas Toast Hash Browns	4½ oz Small 2 tbl. 1 sl 4 oz	.225 .045 .030 .023 .026	1.013 .045 .030 .023 .026	\$1.16
	or French Fries	7 oz	.126	.126	\$1.26
Chicken Fried Steak	Steak Breaded Salad Dressing Texas Toast Hash Browns	5 oz ½ oz Small 2 tbl. 1 sl 4 oz	.070 .045 .030 .023 .026	.350 .045 .030 .023 .026	\$.48
	or French Fries	7 oz	.126	.126	\$.58
Open Steak Sandwich	Sirloin Steak French Fries Salad Texas Toast Dressing	4½ oz 7 oz Small 1 sl 1 tsp	.656 .126 .020 .023 .020	.656 .126 .020 .023 .020	\$.84
Baron of Beef Club Sandwich	Beef Potato Salad Tomato Lettuce Bread	1 oz 1 sc 2 sl 1 pc 2 sl	.140 .050 .025 .010 .017	.140 .050 .050 .010 .034	\$.35
French Dip Sandwich	Hard Roll Beef Au Jus Salad Dressing	1 3 oz 6 oz Small 1 tsp.	.077 .140 .010 .020 .010	.077 .420 .060 .020 .010	\$.59

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/Unit	Extension	Total Cost
Country Club Sandwich	Tomato	2 sl	.025	.050	\$.51
	Bacon	2½ oz	.089	.223	
	Turkey	2 oz	.073	.146	
	Lettuce	1 pc	.010	.010	
	Potato Salad	1 sc	.050	.050	
	Bread	2 sl	.017	.034	
Reuben Sandwich	Corn Beef	4 oz	.079	.316	\$.67
	Swiss Cheese	1.6 oz	.067	.134	
	Sauerkraut	2 oz	.034	.034	
	Rye Bread	2 sl	.031	.062	
	French Fries	7 oz	.126	.126	
Deluxe Burger	Roll	1	.046	.046	\$.23
	Pickles	2 sl	.005	.010	
	Beef Patty	2½ oz	.132	.132	
	Onion	1 sl	.005	.005	
	Lettuce	1 pc	.010	.010	
	Tomato	1 sl	.025	.025	
Deluxe Cheese Burger	Roll	1	.046	.046	\$.29
	Pickles	2 sl	.005	.010	
	Tomato	1 sl	.025	.025	
	Lettuce	1 pc	.010	.010	
	Beef Parry	2½ oz	.132	.132	
	Cheese	8 oz	.067	.067	
Rustler Burger	Roll	1	.046	.046	\$.36
	Beef Parry	2½ oz	.132	.132	
	Pickles	2 sl	.005	.010	
	Bacon	1 1/8 oz	.089	.100	
	Cheese	8 oz	.067	.067	
	1000 Island Dressing	1 tsp	.030	.007	

TABLE 3-Continued

Menu Item	Ingredients	Amount	Cost/ Unit	Exten- sion	Total Cost
Patty Melt on Rye	Beef Patty Rye Bread Cheese Pickles	2½ oz 2 sl 8 oz 2 sl	.132 .031 .067 .005	.132 .062 .067 .010	\$.27
Hot Roast Beef Sandwich	Roast Beef Mashed Potato/Gravy Salad Dressing	2 oz 1 sc Small 1 tbl	.140 .020 .020 .030	.280 .020 .020 .015	\$.34
Chicken in Basket	Chicken Salad Dressing French Fries Texas Toast	11½ oz Small 2 tbl 7 oz 1 sl	.078 .045 .030 .126 .023	.906 .045 .030 .126 .023	\$1.15
Rib Steak	Steak Salad Dressing French Fries Texas Toast	14 oz Small 2 tbl 7 oz 1 sl	.105 .045 .030 .126 .023	1.470 .045 .030 .126 .023	\$1.71
T-Bone Steak	Steak Salad Dressing French Fries Texas Toast	15 oz Small 2 tbl 7 oz 1 sl	.116 .045 .030 .126 .023	1.740 .045 .030 .126 .023	\$1.98
Beef Burger	Roll Patty Pickles	1 2½ oz 2 sl	.046 .132 .005	.046 .132 .010	\$.19
Cheese Burger	Roll Patty Pickles Cheese	1 2½ oz 2 sl .8 oz	.046 .132 .005 .067	.046 .132 .010 .067	\$.26

total food costs were pushed upwards to forty percent by these high cost items.

Although actual food cost was the primary factor in setting new prices, other influences mentioned in Chapter II were also important. An example was the T-Bone Steak. Its total food cost was fifty percent of its \$3.95 March selling price. If a thirty percent food cost was desired, the price of the T-Bone Steak should have been increased to \$6.60. The customer's reaction to this price change as well as competitive prices, limited the increase to \$4.35. Table 4, March/April Menu Prices, lists the old and new menu prices.

Although costs were about thirty percent, coffee was increased from \$.20 to \$.25 per cup for two reasons. First, frequent refills, usually three or more per sale, were given away free. Second, competitive prices allowed an increase to \$.25 per cup.

In total, eight menu items' prices were increased:

- Sausage and Eggs
- Tomato Juice
- Shrimp in the Basket
- Chicken in the Basket
- Rib Steak
- T-Bone Steak
- Coffee
- Pepsi

TABLE 4

MARCH/APRIL MENU PRICES

Menu Item	Total Food Cost	Current Menu Price	Difference/ Percent Cost	New Menu Price
Mont. Brk Stk.	.87	2.85	1.98/31%	----
Ham & Eggs	.62	2.00	1.38/31%	----
Bacon & Eggs	.62	1.95	1.33/32%	----
Sausage & Eggs	.79	1.85	1.06/43%	1.95
Chop. Ham & Eggs	.45	1.70	1.25/26%	----
Special Plate	.36	1.60	1.24/23%	----
Waffle Special	.40	1.80	1.40/22%	----
Junior Plate	.22	1.35	1.13/16%	----
Eggs/Hashbrns	.21	.95	.74/22%	----
Pancake/Egg Pl.	.15	.95	.80/16%	----
French Toast	.20	.95	.75/21%	----
Waffle	.13	.95	.82/14%	----
Plain Omelet	.27	1.45	1.18/19%	----
Cheese Omelet	.47	1.65	1.18/28%	----
Ham Omelet	.47	1.75	1.28/27%	----
Ham/Ch. Omelet	.67	1.85	1.18/36%	----
Muffin	.10	.45	.35/22%	----
Toast/Jelly	.08	.35	.27/23%	----
Bacon	.40	1.05	.65/38%	----
Sausage	.31	1.05	.74/29%	----
Ham	.40	1.10	.70/36%	----
Egg (1)	.06	.40	.34/15%	----
Egg (2)	.12	.60	.48/20%	----
Hash Browns	.03	.55	.52/05%	----
Pancakes (6)	.16	.80	.64/20%	----

TABLE 4-Continued

Menu Item	Total Food Cost	Current Menu Price	Difference/ Percent Cost	New Menu Price
Pancakes (3)	.08	.60	.48/20%	----
Cin. Roll	.10	.60	.50/17%	----
Orange J.(S)	.04	.30	.26/13%	----
Orange J.(L)	.08	.50	.42/16%	----
Tomato J.(S)	.13	.30	.17/43%	.35
Tomato J.(L)	.26	.50	.24/52%	.55
Corn Beef	.44	1.30	.86/34%	----
Grilled Cheese	.11	.65	.54/17%	----
BLT	.31	1.35	1.04/23%	----
Roast Beef	.33	1.25	.92/26%	----
Ham Sandwich	.26	1.25	.99/21%	----
Egg Salad	.13	.75	.62/17%	----
Tuna Salad	.21	.95	.74/22%	----
Turkey Sandwich	.18	1.45	1.27/12%	----
Low Ca. Spc.	.45	1.45	1.00/31%	----
Salad Bowl	.58	1.85	1.27/31%	----
Kiddie Spc.	.21	.75	.54.28%	----
Cottage Cheese	.22	.45	.23/48%	----
Potato Salad	.10	.45	.35/22%	----
Tossed Salad	.08	.45	.37/18%	----
French Fries	.13	.45	.32/29%	----
Chopped Steak	.64	2.15	1.51/30%	----
Shrimp	1.26	2.75	1.49/45%	2.95
Chicken	1.15	2.45	1.30/47%	2.75
Chick. Frd. Stk.	.58	2.20	1.62/26%	----
Rib Steak	1.71	3.55	1.84/48%	3.95
T-Bone Steak	1.98	3.95	1.97/50%	4.35

TABLE 4-Continued

Menu Item	Total Food Cost	Current Menu Price	Difference/ Percent Cost	New Menu Price
Hot RB Sand.	.34	2.05	1.71/17%	-----
Steak Sand.	.84	2.65	1.81/32%	-----
Beef Club	.35	1.95	1.60/18%	-----
Country Club	.51	2.05	1.54/25%	-----
French Dip	.59	1.95	1.36/30%	-----
Reuben	.67	1.85	1.18/36%	-----
Hamburger	.19	.75	.56/25%	-----
Ch. Burger	.26	.85	.62/27%	-----
Deluxe Burger	.23	.85	.58/32%	-----
D. Ch. Burger	.29	.95	.66/31%	-----
Rustler Bur.	.36	1.20	.84/30%	-----
Patty Melt	.27	.85	.58/32%	-----
Pie	.22	.65	.43/34%	-----
Ice Cream (S)	.08	.25	.17/32%	-----
Ice Cream (L)	.10	.35	.25/29%	-----
Shakes	.18	.55	.37/33%	-----
Malts	.18	.60	.42/30%	-----
Coffee	.06	.20	.14/30%	.25
Soda	.16	.30	.14/53%	.35
Milk (L)	.10	.35	.25/28%	-----
Hot Choc.	.07	.25	.18/28%	-----
Iced Tea	.01	.25	.24/40%	-----

CHAPTER V

MARCH/APRIL SALES

Table 5, March/April Sales, shows the comparable sales of individual menu items during the two months. As seen in Figure 1, total sales in April increased by over seven percent from March, continuing the trend that started in January, 1976.

On an individual basis, only twelve items experienced fewer sales in April. These menu items were:

French Dip Sandwich	Tomato Juice (small)
Reuben Sandwich	Orange Juice (large)
Hot Chocolate	Shrimp in the Basket
Sausage and Eggs	Chicken in the Basket
Special Plate	T-Bone Steak
Side Order of Eggs (2)	Deluxe Cheeseburger

It is significant to note, that of the eight items that increased in price, four experienced reduced sales during April. T-Bone Steak, Chicken in the Basket, Shrimp in the Basket, and Sausage and Eggs all had lower sales in April. The fact that sales declined on certain items does not necessarily indicate a loss to the restaurant. An analysis of the contribution of these four items is shown below:

Chicken in the Basket

	MARCH	APRIL	DIFFERENCE
Sales	\$235.20	\$225.50	
Cost	\$110.40	\$ 94.30	
Contribution	<u>\$124.80</u>	<u>\$131.20</u>	+\$6.40

TABLE 5

MARCH/APRIL SALES

Menu Item	March Sales	April Sales	Menu Item	March Sales	April Sales
Mont. Brk. Stk	90	116	Ham & Eggs	304	330
Bacon & Eggs	196	204	Sausage & Eggs	340	336
Chp. Ham & Eggs	60	90	Special Plate	80	78*
Waffle Spec.	54	64	Jr. Plate	28	36
Plain Omelet	4	16	Ch. Omelet	22	38
Ham Omelet	8	28	Ham & Ch. Omelet	42	54
Eggs & Hashbrns	278	392	Pan. & Egg Plt.	46	86
French Tst.	72	94	Waffle	36	56
Muffin	20	34	Toast	296	360
Bacon	66	102	Sausage	66	76
Ham	26	36	Eggs (1)	36	76
Eggs (2)	128	114*	Hash Browns	58	64
Pancakes (3)	36	156	Pancakes (6)	24	34
Plain Waffle	10	44	Rolls	1262	1322
Donuts	142	236	Tomato J. (S)	20	14*
Tomato J. (L)	2	20	Orange J. (S)	90	130
Orange J. (L)	40	32*	Corn Beef	40	54
Grilled Ch.	128	146	BLT	94	106
Roast Beef	36	86	Ham Sand	78	92
Egg Salad	24	52	Tuna Salad	38	46
Turkey Sand	34	58	Low Cal Spec.	42	44
Salad Bowl	86	108	Kiddie Spec.	94	102

*indicates sales in April were less than March

TABLE 5-Continued

Menu Item	March Sales	April Sales	Menu Item	March Sales	April Sales
Cottage Ch.	30	36	Potato Salad	6	56
French Fries	240	266	Din. Salad	172	236
Beef Steak	106	140	Shrimp	86	72*
Chick. Fr. Stk.	326	326	Chicken	96	82*
Rib Steak	50	74	T-Bone Stk.	58	42*
Hamburger	364	398	Ch. Burger	330	336
De. Burger	224	258	Rustler Bur.	280	292
De. Ch. Burger	290	232*	Patty Melt	96	122
Hot RB Sand.	214	288	Stk. Sand.	92	146
Beef Club	42	56	Country Club	104	112
French Dip	178	168*	Reuben	204	194*
Coffee	6880	7288	Hot Choc.	242	176*
Soda	1300	1630	Iced Tea	31	85
Hot Tea	146	158	Milk (L)	216	242
Milk (S)	492	586	Pie	300	384
Ice Cream	10	22	Shakes	198	215

*indicates sales in April were less than March

Sausage and Eggs

	MARCH	APRIL	DIFFERENCE
Sales	\$629.00	\$655.20	
Cost	\$268.60	\$265.44	
Contribution	<u>\$360.40</u>	<u>\$389.76</u>	+\$29.36

Shrimp in the Basket

	MARCH	APRIL	DIFFERENCE
Sales	\$236.50	\$210.40	
Cost	\$108.36	\$ 90.72	
Contribution	<u>\$128.14</u>	<u>\$119.68</u>	-\$8.46

T-Bone Steak

	MARCH	APRIL	DIFFERENCE
Sales	\$229.10	\$182.70	
Cost	\$114.84	\$ 83.16	
Contribution	<u>\$114.26</u>	<u>\$ 99.54</u>	-\$14.72

Despite a drop in sales, both Sausage and Eggs and Chicken in the Basket contributed more towards fixed costs and profit during April.

Coffee showed a very large improvement in total contribution during April:

Coffee

	MARCH	APRIL	DIFFERENCE
Sales	\$1376.00	\$1822.00	
Cost	\$ 412.80	\$ 437.28	
Contribution	<u>\$ 963.20</u>	<u>\$1384.72</u>	+\$421.52

The contribution of coffee increased by \$ 421.52. This increase was caused by both the sales price increase of \$.05 per cup and also increased sales. Increased sales accounted for \$ 57.12, whereas the \$.05 per cup price increase contributed \$ 307.28.

During the month of April, profits rose from eleven percent to 16.1 percent because of two factors:

1. The overall increase in sales;
2. The reduction in total food costs from 40.1 percent to 34.8 percent. This percentage drop in total food costs was caused exclusively by the menu price increases, not a drop in wholesale food prices.

CHAPTER VI

CONCLUSION

Results of the Price Increase

The increase in menu prices had an important and real effect on the Iron Kettle Restaurant. In only two out of eight items that were increased did a reduction in contribution occur. In both of these items it was a very small decrease. The increase in prices decreased total food costs from 40.1 percent to 34.8 percent of total sales and helped push profits to 16.1 percent. The objective of maintaining the sales level while decreasing the effects of high food costs was satisfied by this method of compensation.

Recommendations for Further Adjustments

Further adjustments for food costs can and should be made at the Iron Kettle. Although a profit of 16.1 percent is very comfortable, there are areas of operation that can be changed to further increase it.

1. Price increases should be tried on more items. Since the first price increases were limited, gradual experimentation should be continued. Caution must be taken not to increase prices too quickly or sharply. As was evident

in this study, the customers of the Iron Kettle are price conscious. An attempt should be made to find the price which maximizes profit without losing the customer's goodwill.

2. A stricter portion control program should be started to ensure all cooks place the same quantities of food on plates. Considering the strong relationship of the owner with his employees, this should not be a difficult task. Measuring devices, specific recipes, and scales should be used to control portions.

3. Menu item portions should be varied to determine the flexibility and receptiveness of the customer. Changes should be slow and closely monitored for customer acceptance and should not take place until a strong portion control system has been developed. Since meat items are the most costly, meals with large amounts of meat should be considered for reportioning first.

4. A greater emphasis on wholesale purchases should be considered to reduce the amount of goods bought at retail prices. Although inventory is limited by inadequate storage space, proper documentation of food shortages should enable the owner to make more accurate and timely orders.

5. Individual food costs must continue to be monitored for changes. At least every quarter the cost of every menu item should be calculated with the current cost information. A constant monitoring of these prices will allow

the Iron Kettle to maintain a consistent total food cost and a more steady profit.

Concluding Comment

The operation and success of the Iron Kettle Restaurant has steadily improved during the last four years. Advertising and improved service have been primarily responsible for this success to this point in time. Today both sales and profits are very good. With careful planning and adjustments, sales and profits can be improved further. However, careful planning requires a great amount of time and energy devoted to maintaining sales, cost, and other data. The owner must decide whether the possible increases in profit are worth the amount of effort required to attain them.

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