



Key Item Variances & Ideal Costs The *Xpress Way*

Looking At The Big Picture – Ideal Costs

We've all known about the existence of recipe costing software for many years now. So why has a tool with so much potential for increasing profits made so little headway in the Food & Beverage industry to date? Sure, some national chains and super high volume operations have the technical and administrative resources required to build and maintain integrated POS and recipe databases. But what about the vast majority of operations out there – the multi-unit chains and independent operators?

The *Xpress Way* is the culmination of a more than two decade long journey working with Food & Beverage operations of all types and sizes all across the US and around the world. What was learned? No two operations are identical when it comes to sales volume, product mix, staff experience and skill sets, etc. These variables make a "one size fits all" approach almost impossible. For an ideal cost solution to work it must first take into account all of the different operational conditions and then be flexible enough to customize to that unique environment.

Important Quick Note: If you haven't read the "Xpress Way – Actual Costs" document yet, you will want to read that first so you will understand the *Xpress Way* bottom line:

The Xpress Way builds progressively on a solid foundation one step at a time to the ultimate in inventory cost control – item variance and ideal cost reporting!

This means starting with the store level basics and building your way to higher levels of reporting as your skills improve. The key is to start with a solid foundation and, like a pyramid, add each level of higher reporting and control on top of your mastery of the previous level.

That's exactly what "The Xpress Way To Inventory Control" is designed to do!

Caution! "Point of Diminishing Returns" Approaching Fast

When it comes to ideal cost reporting there is a critical line known to the *Xpress Way* as the "**point of diminishing returns**". This is when you find your operation spending more in time and money than you could possibly ever get back in savings from a solution. According to the *Xpress Way*, if a solution cannot quickly pay for itself, it isn't really a solution – it's an expense.

This is the 'Achilles Heel' of most ideal cost reporting programs. These ideal cost solutions start from the top and work their way down to the store level. That's like trying to build a pyramid upside down. It typically collapses from its own complexity and weight.

This is because they start with all of their focus on the end result – corporate level ideal cost reporting – which requires all recipes to be built and tied to the POS. But first a list of recipe ingredients must be generated. And from that list the sub-recipes (prepped items) and main recipes (what is sold on the POS) are created. This can be a massive project taking weeks, months or even longer. For many – this chasing of a constantly changing list of inventory items, menu items and POS settings somehow never crosses the finish line.



But if it does, they now have a list of recipe ingredients from which they can extract a list of inventory items for the store level to buy and count. Unfortunately, most solutions focus the least attention on this mission critical stage. If store level managers find the program to cumbersome or complex (as is often the case) or find themselves unable to accurately and reliably enter invoices and ending counts, the end result is GIGO: Garbage In = Garbage Out.

Other operations have invested the time to build massive spreadsheet programs with macros linking prices to items and items to ingredients and ingredients to recipes and recipes to POS menu item codes. Truth is you can do almost anything with a powerful spreadsheet program. The problem is such a spreadsheet is necessarily complex and cumbersome with no easy way to find and fix mistakes in recipe ingredients, formulas or macro links. And mistakes are inevitable. Such reporting often falls victim to the “Black Box” syndrome where store managers push back against reporting that criticizes their performance because they have no way to validate or challenge the outcomes. You can’t trust what you don’t understand and cannot easily trace or verify. And you can’t confidently act on feedback you don’t trust.

In both cases, the majority of operations eventually cut their losses and give up on their goal of ideal cost reporting. They end up using their significant investment as a glorified calculator to generate actual store level inventory costs.

Xpress Way clients custom build their solution according to their needs only paying for and advancing to higher levels of reporting as their skills and profits permit.

Your License To Drive The *Xpress Way* – Rules of the Road



Know Thy Business: Socrates is famous for his original version of this quote: “Temet Nosce” – Know Thyself. What has it got to do with the Food & Beverage business? Truth is some operations will never be able to achieve full ideal cost reporting but don’t know it yet. Others may be able to achieve full ideal cost reporting, but will almost certainly cross the “point of diminishing returns” doing so and never realize a profit as a result. So what about your company?

Constantly Changing Menus: Operations with constantly changing menus like institutional foodservice, finer dining and catering operations are especially susceptible to failing victim to the “point of diminishing returns”. Finer dining operations often have new menu items every day. Schools, hospitals and office cafeterias often rotate menus on a regular schedule. Whether just a few special menu items each day or a core menu rotation multiple times a year, substantially more time spent chasing recipe changes increases odds of human error and makes it much harder to realize a return on ideal cost reporting investment.

Multiple Units/Single Concepts: Single stores with unique menus do not capture the “economy of scale” that multiple units of a shared menu concept gain when it comes to building and maintaining accurate and reliable recipe databases.

Multiple Vendors/Pack Sizes: If your operation shops multiple vendors for the best prices on key items, you may suffer from a constant change in pack sizes and item yields that make it much harder build and maintain accurate recipes.

Multiple POS Configurations: If you have multiple stores with essentially a shared menu concept but your POS configurations are different store to store you will have to first synchronize your POS systems and lock the store level out from making changes before you can consider a shared recipe database.

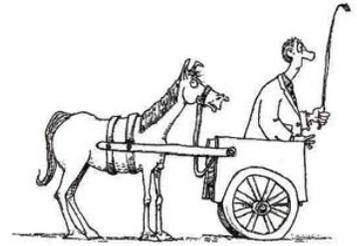
Buffet/AYCE Operations: All You Can Eat buffet style operations obviously cannot build recipe “plates” since each customer will eat different items and different quantities. However, it is possible to track key specialty item sales like steaks, chicken and fish sold in addition to the food bar.

Older POS Systems: Older POS systems may not support easy product mix and sales polling. If your POS cannot easily be polled by a remote PC, then you must manually key in every menu item sold for each day to generate

full ideal cost reporting. This is a tedious, time consuming and highly error prone manual process making it hard to get to reliable ideal cost reporting.

Does this sound like you? Don't be discouraged! All Xpress Way clients can easily track their "High Cost / High Loss" inventory items using Xpress Daily.

Accurate Actual Costs Before Ideal Costs: The **Xpress Way** only works when store managers make certain to master the basics of inventory – accurately receiving purchases and entering ending counts. Ideal cost reporting depends on accurate recipes and ideal usages which depend on accurate prices and actual usages. Unless and until the store level managers have mastered this foundational step, there is no point in comparing ideal cost reporting to actual cost reporting. We recommend that ideal cost reporting not be applied until the store level has demonstrated mastery of the **Xpress Way** actual cost Trouble Shooting process for at least three consecutive inventory cycles.



The Xpress Way makes it fast and easy to find and fix every possible purchase and/or count entry error within minutes of the ending count.

Key Item Variances Before Full Ideals: The **Xpress Way** recommends focusing first on “High Cost / High Loss” inventory items by targeting them for Daily Variance reporting using the **Xpress Daily** reporting function. This simple step can give any **Xpress Way** client air tight control over their highest cost and most vulnerable items regardless of their business profile (see **Know Thy Business** above). Xpress Daily clients can quickly add recipes for just their key menu items and poll or manually input sales for those menu items within minutes. Daily counts also take just minutes each day. The end result is a report on demand that identifies what you sold, what you used and what you lost for these critical cost items. By focusing first on these “High Cost / High Loss” inventory items, **Xpress Way** clients can realize an immediate return on investment and improved profitability as they develop their inventory cost control tool kit and skills.

Every Xpress Way client can easily target their "High Cost / High Loss" items using Xpress Daily to pinpoint variances on demand.

Rocks in Glass Houses: We've all heard the saying, “Nobody throws a rock in a glass house”. The **Xpress Way** calls for true recipe and reporting transparency. The quickest way to turn store level management against an ideal cost reporting tool is to treat it like the proverbial “Black Box” that churns out judgment on store level performance but offers no way to be fairly challenged. The **Xpress Way** gives all managers the ability and training to understand and trace every ingredient of every recipe and every variance for each item. This not only turns your managers into **Inventory Xperts** who can flag and find potential mistakes in the inventory or recipe databases for correction, it helps them buy into the validity of the reporting. The Drill Item report makes such research fast and easy for any manager – while not allowing store level managers to make any unauthorized changes in the recipes themselves. Managers cannot act forcefully to attack losses they can't verify and trust. The Drill Item tool gives managers the confidence they need to take prompt and aggressive action against confirmed item losses.

The Xpress Way empowers store level managers to buy into, take ownership of and aggressively apply ideal cost reporting to drive profits higher.

Nobody's Perfect: One could argue that recipe and ideal cost reporting can and should always be exact and perfect. In the real world this is just not the case – and probably never will be. This is why the **Xpress Way** warns against stores running 100% or more efficient. In addition to the inevitable shrinkage (no store can run better than perfect without shorting customer portions), there are often “holes” in the ideal cost accounting that cannot easily be resolved. It is important to recognize the complexity and the limitations of Ideal Cost reporting so expectations are set realistically. For example:

- 1) Modifiers: POS systems are configured first and foremost for speed and simplicity at the server level. You want a POS configuration that any server can quickly learn how to use and that speeds customer service. This often leads to the use of shared or consolidated modifiers. For example, you might have an “Add” key, a “No” key, an “On Side” key, a “Sub” key, even a “See Server” key. Then you might have Mayo, Mustard, Ketchup and Onion modifier keys. At the end of the cycle, the POS can tell you how many times “Onion” was touched but cannot tell you how many were “Add”, “No” or “Sub”. Fortunately, experience shows that modifiers represent less than half of 1% of ideal costs. Chasing modifiers would require making the front of the house POS configuration so overwhelmingly complex that customer service would suffer or building recipes so complex you cross “*the point of diminishing returns*”.
- 2) Constant Pack Size Changes: Hardly a week goes by it seems without a product shortage or “out-of-stock” substitution. Some are temporary and some are permanent. Unfortunately, the vendor often is unable to announce the change ahead of time.
- 3) Constant Recipe Changes: In today’s competitive market, constant menu reinvention has become the rule and not the exception. The typical recipe database has over 3,000 separate ingredient entries. Constant recipe changes are subject to human error – same as at the store when it comes to invoice entry and counts. The difference is that the store can instantly find and fix mistakes while recipe errors are not discovered until the morning of inventory.
- 4) Constant Yield Changes: Week to week the “usable” portion of items, especially Produce, will change. In some markets, an item’s yield can change radically in under a week. Recipes cannot keep up with this quick enough.
- 5) Condiments/Soft Drinks: Some stores sell Steaks in markets that don’t use A1 Sauce (think Texas). Some stores sell French Fries in markets that smother them in Ranch Dressing instead of Ketchup (think California). Some stores sell soft drinks in markets where teenagers sit for hours drinking down free refills. No POS can accurately track such items so they must be “guesstimated”.

There are a great many variables when it comes to ideal costs. Expecting recipes to be perfect all the time is as unrealistic as expecting every store to enter all invoices and counts accurately every time – it just isn’t going to happen.

***The Xpress Way has decades of experience overcoming recipe database challenges
and maximizing the accuracy and reliability of your ideal cost reporting!***

Tips For Store Managers: The ***Xpress Way*** only works when store level managers embrace the path and process. Here are some suggestions on how to make the ***Xpress Way*** work for you:



Accurate Actual Costs Before Ideal Cost Reporting: Some managers will skip past the ***Xpress Way*** Actual Cost Trouble Shooting report and go straight to Ideal Cost reporting. This is a mistake. While it is true that item variance reporting can flush out mistakes in the Actual Inventory, the vast majority of errors can be easily found and corrected using the ***Xpress Way*** Trouble Shooting report before the first Ideal Cost report is processed. Looking first to Ideal Cost reporting can call into question a manager’s intentions as some will use Ideal Cost reporting to “count to the variance” rather than conducting an accurate, honest ending count.

Take Ownership Of Database Accuracy: Once you understand that the recipe database will never be perfect, you’ll see that the store manager is in the best position to take ownership over the accuracy of the inventory and recipe databases. Store managers will often learn about product yield or pack size changes before anyone centrally managing the inventory and recipe databases. This means you are in the best position to help the team generate the most accurate and reliable reporting. Fact is, without you taking ownership and reporting

changes, the inventory and recipe databases will always be chasing the “facts on the ground” – the latest changes at the store level.

Focus On Lowering Actual Costs, Not Just Raising Ideals: There are only two ways to increase profits: raise sales or lower costs. Some managers will spend too much of their inventory time trying to raise the ideal by dimes when there are dollars slipping through the cracks due to controllable waste and theft. While this improves the reporting it does not improve profits. As noted, there will always be room for improvement in the recipe database and everyone wants the most accurate and reliable reporting possible. But at the end of the day, the biggest goal is to increase margins by lowering actual costs. Balance your time and be sure not to look past verified item losses that can be aggressively controlled today and tomorrow.

The Xpress Way helps store managers become Inventory Xperts who can pinpoint problem items and take aggressive steps in complete confidence to grow profits.

Why The Xpress Way Works

The **Xpress Way** works where most others fail because of our unique and highly effective training program and support resources. These training tools have evolved over more than two decades of working with Food & Beverage managers from all types of operations all across the world. We use a time proven combination of one-on-one training, online training videos, FAQs (Frequently Asked Questions), and detailed documentation resources.

No two operations are exactly same. No two managers learn at the same pace. No two people learn best in the exact same way. A one-size-fits-all approach simply won't work. Neither will a cram course training marathon. Sadly, all too many helpdesks secretly ascribe to the “RTFM” philosophy when it comes to customer service (“Read The Freaking Manual!”). The rest charge an arm and a leg for each and every request for assistance. This is a symptom of an overly complex program or weak support resources and that's definitely not the **Xpress Way!**

The Xpress Way understands the time constraints and varying skill sets of F&B managers and offers a customizable package of training and support to meet each stores' needs.

The Xpress Way Bottom Line



Start with the basics (**Xpress Basic**) and build your way to higher levels of reporting as your skills improve. Next your store can master the process of accurately entering line item invoices and conducting more frequent ending counts as well as Trouble Shooting your work to instantly flag and fix any and all remaining human error (**Inventory Xpress**). At this stage you will have the reporting in hand to target specific problem items and areas where you are overstocked and where you can improve costs. Once you have mastered **Inventory Xpress**, you can build to even higher levels of reporting and control like tracking key item variances on a daily basis (**Xpress Daily**) or even build a full ideal cost recipe database (**Xpress Menu**). The key is start with a solid foundation and, like a pyramid, add each level of higher reporting and control on top of your mastery of the previous level.

The Xpress Way builds progressively on a solid foundation one step at a time to the ultimate in inventory cost control – item variance and ideal cost reporting!