BUSINESS SUPPORT GUIDANCE SHEET

Subject	Costing a Menu
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The correct costing of your menu is imperative to the success of your business. To cost a menu you need to identify your direct and indirect costs in operating your menu. Getting this right will be crucial to the profitability of the venture, especially at times of rising costs with prices changing on a nearly daily basis.

Direct Costs

This is the cost of the ingredients that go to compiling your dish. Everything that goes into a recipe needs to be taken into account including seasoning, deep fat oil and herbs. If you miss any component you are under costing the dish. Portion size is also critical and keeping an eye on the pricing of incoming ingredient costs on a particular day.

Gross Profit

This the most important figure. Gross profit is the mark up that you have from selling the the dish before other costs. Gross profit is usually measured as a percentage to get the selling price of a dish. So if a dish costs £3.00 and sells for £10.00 then the gross profit is £7.00 and when measured as a percentage is 70%. This is considered to be the most important measurement in the profitability of a restaurant in the industry.

Your gross profit needs to be high enough to sustain all your indirect costs of running the business such as rent, business rates, utilities, wages, consumables and then making a profit on top. With a broad brush approach it is woth adopting the 30% x 3 approach. Food costs 30%, wages 30% and overheads 30%. This leaves you with a 10% operating profit. But beware if the 30% food costs creep to 35% and the wage costs rise to 35% then you are left with no operating surplus. One crucial figure to remember is VAT, to subtract VAT you can't just take off 20% off the selling price, the formula you will need to use is , divide the selling price by 1.2. As an example a dish selling at £10 would come out at £8.33 after VAT. Another indirect cost is energy bills whch can be significant. It is acknowledged that for a restaurant to be profitable its GP needs to be an average of 70% across the menu whilst balancing out the menu with cheaper dishes at 80% and with more premium dishes at 60%. Also look at cash earned per dish for instance a pasta dish priced at £15 and costs £3 to produce might have a higher margin of 80%, but a beef dish priced at £40 that costs £16 to produce might have a lower margin 60% but will gross £24 double the amount of the pasta. Whilst a 70% gross profit is the aim tailor your gross profit to your specific circumstances, It is not a one size fits all.

Things to remember:

- Get the front of house team to encourage high gross profit items
- Have a mix of high and low gross profit items on your menu
- Keep control of portion sizes
- Measure plate waste
- Reimagine kitchen waste into soups or dried garnishes
- Consider a purchasing platform
- Have a firm favourite on your menu with a high gross profit and work on the costs
- Keep an eye on price increases
- Have you negotiated your best prices for ingredients?
- Factor in wastage which can be 4-5% in a full service outlet
- Benchmark your competitors selling prices for similar dishes
- Target one ingredient each week to negotiate with your suppliers
- Work to standardised recipes

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