Inventory Management Best Practices

Countless times, Food Buyers Network has been engaged by food service operations of all sizes to help uncover the reasons behind apparent food cost control and profitability issues. When we begin to investigate potential causes, however, it often becomes quickly apparent that the primary problem is not with restaurant cost control practices, but rather with the restaurant inventory data and food cost accounting methods used to generate the restaurant cost accounting figures. Unless restaurant inventory best practices and proper restaurant cost accounting methods are being observed, food cost control figures will not be able to provide any accurate picture into restaurant performance and profitability. The following article will examine some of the critical restaurant inventory and food cost accounting best practices to ensure reliable restaurant cost control figures.

Deciding What to Count & Remaining Consistent
One of the most important best practices in creating accurate food cost figures is remaining consistent with what items are counted during each restaurant inventory. When it comes to making the determination of what should be counted, there is a wide range of industry practices. Some operators believe in counting every item in the restaurant, whereas others focus only on high dollar and sensitive products, such as meats, seafood and poultry. Regardless of your particular inventory methodology, the important thing to remember is that the decision must be consistently executed during each inventory. In other words, make a decision about what gets counted each inventory, and stick to it. Altering what gets counted will create anomalies in your inventory value delta between two consecutive periods, skewing the actual food cost figure.

The Right Time & Date
Achieving accurate restaurant inventory figures is greatly dependent on ensuring the correct date and time of the physical restaurant inventory. Specifically, it is critical that inventory is valued prior to the use or consumption of any product for revenue attributable to the next food cost accounting period. Further, it is equally critical that inventory is valued after all product has been consumed for all food revenue that will be attributed to the current food cost period. For example, if a restaurant manager wanted to calculate a food cost for the month of August, then inventory should occur once all food production has ceased on the last day of August, but before any food is consumed on September 1. Simply put, this means that the inventory should be either taken after the close of business on the last day of the period, or before the start of production on the first day of the following period. Unfortunately, this typically means late night or early morning counts.

There are additional benefits, as well, to executing inventory during non-operating times. Counting during these times, while not enjoyable, typically enables those executing the restaurant inventory to focus on the task at hand, which is ensuring that an accurate restaurant inventory is executed. Attempting to take an inventory during operating hours means trying to manually adjust and contend with products being
removed from storage as needed or put back into storage during end of shift procedures. Further, if a manager is involved in the counting process, it is very likely that there will be frequent interruptions to the inventory process because of other operational needs that require attention.

**The Right Tools & Technology**
The days of the black inventory ledger used to manually count product, update pricing and calculate extended values is gone. At least, they should be. Today, restaurant managers and operators have access to a wide range of food cost control and restaurant inventory tools: from the ultra-expensive and complex food cost control and restaurant inventory software programs, to the do-it-yourself Excel spreadsheet program. With the relative ease of creating a restaurant inventory program in excel, this should be the bare minimum for restaurant operators. To save some time, restaurant managers and operators can download either these spreadsheets from our website.

<table>
<thead>
<tr>
<th>Inventory Date:</th>
<th>Inventory Time:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counted By:</td>
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</table>

<table>
<thead>
<tr>
<th>Starting Inventory</th>
<th>Purchases</th>
<th>Ending Inventory</th>
<th>Food &amp; Beverage Sales</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>$0.00</td>
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</tr>
</tbody>
</table>

Usage: 0

Food Cost %

**Signatures**

*I fully participated in this inventory and attest that all information and figures are true and accurate*

![Table](image-url)
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Using Proper Inventory Count Sheets
Accurate inventory figures begin with count sheets that are designed properly. First, inventory count sheets should be in storage shelf order. This eliminates the need to shuffle around looking for the right product on the count sheets. This not only saves time during the inventory process, allowing for a more concentrated focus on the task at hand, but also helps to ensure that inventory is being counted in a shelf-to-sheet fashion, which will be discussed shortly. Second, inventory count sheets should display not only the product name, but also the inventory unit of measure and the price associated with that unit of measure. This information enables the counter to ensure that they are counting product by the correct unit of measure.

Often times, products will be stored in various locations. In such cases, these products should be listed multiple times on the inventory count sheets. Again, this will help ensure the critical process of counting in shelf-to-sheet fashion.

Organizing the Storage Areas Prior to Inventory
One of the best ways to ensure accurate counts is to spend about an hour prior to starting the inventory organizing all storage areas. Specifically, products should be grouped together in "zones" and organized with labels facing forward and in a straight line, as much as possible. For those highly motivated operators, we recommend labeling these zones to make it easier for others to store product, organize shelves and take inventory. Taking the time to organize storage areas prior to beginning the inventory process will not only expedite inventory and ensure more accurate counts, but affords the opportunity to "touch" each product and get a feel for what is on the shelves—a critical component to ongoing product management.

Further, product should be stored on shelves in the unit in which they are removed from storage during operations. For example, unless entire cases of #10 cans of tomato sauce are used at once during prep procedures, they should be stored on the shelf in cans, not in the original case. The same methodology should be applied to all products in storage. Storing product in these smaller units will ensure that proper inventory and product orders are taken and will make it much easier for operators to quickly look at shelves and notice any anomalies or potential shortages.

Two People Completing the Inventory
As inventory values are used for the calculation of financial figures, it is always recommended that two people work together to execute an inventory. This helps avoid the temptation of manipulating inventory figures to gain advantageous results, as well as helps avoid any counting oversights.

Following the Proper Order: Shelf-to-Sheet
To ensure that all inventoried products are counted, we highly recommend that operators start at the top left of a storage area and work their way to the bottom right,
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using what is on the shelf to determine what gets counted next, rather than using the product order on the count sheets to determine this. If the inventory count sheets are in order of shelf storage, then this should be a relatively easy process. This is the number one cause for counting errors, in our experience.

Accurately Counting the Inventory Unit of Measure
As we discussed previously, restaurant inventory count sheets should display the inventory unit of measure, as well as the associated cost, to ensure that product counts reflect these specific units and costs. For example, counting pre-portioned steaks by the "each" will have disastrous effects on food cost accuracy if the inventory unit of measure used to determine the inventory product value is "pound."

Further, it is important that operators accurately represent the on hand value of each product by accurately measuring the product based on the assigned unit of measure. This, of course, is relatively easy for those items whose inventory unit of measure can be visually identified, such as those counted by "each." However, if the unit of measure is a weight, then a scale should be used to create the on hand value. Every restaurant operator should have a heavy-duty scale that can be used during inventory to count such items. It is worth noting that ensuring accurate weight counts is critical not just for creating accurate food cost figures, but so that accurate product usage variances can also be calculated.

Price Changes
It is imperative that before valuing a current inventory, that product prices are updated to reflect current costs. While there are several pricing methods, such as first-in-first-out (FIFO), last-in-first-out (LIFO), and average price paid, our recommendation is to use the simplest method, last price paid. Using the last price paid pricing model for calculating inventory means that all products inventoried will be assigned a cost based on the most recent invoiced price for that product. To ensure that inventory values are correct, though, the cost of each inventoried product on the count sheets or inventory program must be adjusted to reflect the most recent invoiced cost of the product.

New Items
Prior to beginning the inventory process, new items should be added to the inventory count sheets. If they are forgotten, however, and those completing the inventory are following the "shelf to sheet" counting process, then these items should be detected during inventory, though they will need to be written down in margins until they can be added to the count sheets at a later time. We highly recommend that any new products are immediately added to the count sheets when they are brought into inventory, as it is not uncommon for us to look at historical inventory count sheets when doing operational audits and to find the same products written in the margins month after month because the time was never taken to update the inventory count sheets. This will often result in counting inaccuracies.
Determining the Inventory Unit of Measure

Determining the inventory unit of measure should be aimed at creating the most accurate inventory figures. Therefore, we recommend that product be counted in the smallest whole unit in which it is stored. So, in the previous example of the tomato sauce, an operator should use "can" as the inventory unit of measure, and ensure that the corresponding inventory cost for this product reflects this unit of measure. In other words, it is critical that the cost associated with tomato sauce is the cost per can, not case. It is not uncommon for us to find unit costs on inventory sheets that do not reflect the inventory unit of measure used for counting. For example, we often find items inventoried by the "each," but that have a unit of measure cost by the "case."

Obviously, issues such as these create huge inventory value issues, greatly skewing food cost.

As previously mentioned, specific products are often stored in multiple storage locations and in different storage containers. For example, the tomato sauce from the above example may be stored in cans in dry storage, but in plastic 1/3 pans in the walk-in. In cases such as these, we recommend using multiple inventory units of measure. As we already mentioned, products that are stored in multiple locations should be listed multiple times on the inventory count sheets, and the inventory unit of measure in each instance should reflect how the product is stored in that specific location.

Invoice Cut-Off Dates

Another critical mistake is the failure to assign invoices to the correct accounting period. More specifically, the amount of an invoice needs to be posted to the correct food cost accounting period based on the exact date that the product was physically received into inventory. Usually, this date is the date of the invoice, unless it was a drop-shipped item.

We often find problems with this at the beginning and end of food cost accounting periods. Rather than posting invoices to the correct food cost period based on the date the product was received into inventory, invoices are posted to the day they are recorded in the general ledger, accounting system or inventory program. Often times, we will find this is being inconsistently practiced--the accounting department codes the invoices correctly in the general ledger, but the inventory manager codes them incorrectly in the inventory system. In either case, these mistakes will lead to incredibly inaccurate food cost figures.

Proper General Ledger Account Coding

Another common restaurant cost accounting issue we run across when executing audits is the inconsistent coding of invoices to the correct general ledger/P&L account. While the actual number and methodology of these general ledger accounts will differ from operation to operation, the key to accuracy is ensuring that once they are established, invoices are coded accurately, month after month, to the established accounts.
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Often times, single invoices will contain products attributable to multiple general ledger accounts, such as food, paper and chemical. This is especially true for broadline invoices from suppliers such as Sysco and US Foodservice. Because of this, it is critical that operators review each invoice carefully and create coded sub-totals that reflect the specific general ledger accounts represented on the invoice. We often find that operators will mistakenly code the entire invoice to a single general ledger account, creating inaccuracies in the resulting income statement figures.

Reviewing & Verifying the Results
Once an inventory is complete, it is important to review the results to ensure their accuracy. There are a few red flags that may indicate possible errors.

1) The overall food cost percentage changed, in either direction, by a significant amount—usually by more than 1.5% without any known explanation.
2) A scan of the product extensions uncovers particular products that have an unusually high on-hand value. Often times, this will be due to data entry mistakes or improper costs assigned to the unit of measure.
3) A scan of the product extensions uncovers products with a zero value, indicating that the product may have been missed during inventory.
4) There are major on-hand dollar fluctuations in food cost categories, such as produce, meats, grocery, etc. Such shifts may indicate a counting error in an item within that category. Examining the category on-hand amounts makes it a bit easier to target possible counting mistakes.
5) There is a major shift in the total inventory on-hand value.

As a final take-away, operators should always be able to explain WHY a food cost figure changed during a given period, regardless of whether it was a positive of negative shift. It is not enough to get excited about a good food cost if the reason behind it is unknown. It is very possible that an unexplained shift in food cost is due to an inventory or accounting error, rather than improved food cost control practices. If the shift is accurate, it is critical to understand the underlying reasons so that behaviors can be altered or duplicated, depending on the direction of the shift.