

# Making The Proper Make-Buy Decision

By Mark Kelnhofer, CFBE, MBA, President & CEO of Return On Ingredients®  
 Prepared for Graffiti Foods Ltd. ■ www.GraffitiFoods.com ■ 614.759.1921



Too many times restaurants are not making informed decisions in regard to proper make or buy decisions. The primary reason is that the operator does not take in consideration all of their costs and factors that should be reviewed before the decision is made. Taking a manufacturing approach to costs assists us in making a proper and comparable analysis. There are three components for the true cost of the product that we should consider: ingredients, direct labor, and overhead. Use the guideline below to see how accurate your recipe costing is.

## INGREDIENTS

All recipe processes should be accounted for no matter how simple. Things to consider in proper recipe costing are:

- Processing Yields—Review all the processes that occur in the operation. Conduct yield tests to determine associated losses or gains. In most cases operators experience losses and they should be accounted for. Review all the processes that happen (chopping, dicing, julienned, blanching, etc.).
- Density of Products—When writing recipes with utilizing portioning control tools (i.e. Tablespoon, teaspoon, etc.) we should know the density and proper weight of the ingredient (i.e. a cup of granulated sugar is 85% dense calculating 6.8 oz. as the accurate weight).



## DIRECT LABOR

All recipes should have established labor prep times assigned. This is the amount of time that we expect to spend on the production of the recipes. Things to consider are:

- Labor Rates—When developing labor rates for a location, it will eventually be an historic average for



- the location. The rate should also be developed to not only include the base wages paid but also all associated payroll taxes and fringes.
- Prep Times—When creating the prep times for the recipes, it should be developed in the heat of the battle at the restaurant location and not in an R&D environment. It should also be based on the staff who will actually be responsible for the recipe execution.

## Overhead

Overhead comprises all other costs incurred other than ingredients and direct labor costs (i.e. utilities, supplies, landscaping, janitorial, etc.). An hourly overhead rate can be developed based on direct labor hours spent to produce the products. Things to consider are:

- Overhead Rates Are Estimates—when calculating overhead on a recipe keep in mind that it is an estimate. Although not perfect, they still should be accurate.



- Overhead Rates Differences—Rates are typically calculated by store. Stores do not have the same operating costs as differences in building designs and space will cause the rates to be different.

TOTAL COST				
INGREDIENTS		DIRECT LABOR		OVERHEAD
Food	Beverage	Chef	Bartender	
↓		↓		↓
\$1.12/#		\$1.68/#		\$0.60/#

### Proper analysis and comparison:

Total made in house cost: **\$3.40/#**, Vendor Quote: **\$3.25/#**

## OTHER FACTORS

Other factors other than financial to consider are:

- Quality
- Consistency
- Flavor Profile
- On Time Deliveries
- Training Costs



**For more assistance in accurate recipe documentation, costing and menu engineering:**  
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## BIOGRAPHY



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*President & CEO of Return On Ingredients®,  
International Speaker, Author  
& Hospitality Educator*

### HOSPITALITY EDUCATOR

The Ohio State University  
Georgetown University

### QUICK FACTS

Total Speaking Events: 115  
U.S. Cities: 45  
U.S. States: 20  
International: 2  
Books Authored: 5  
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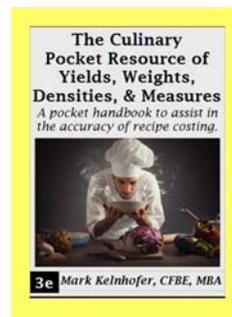
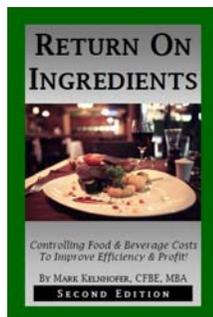
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Mark Kelnhofner, President and CEO of Return On Ingredients® LLC, is an international speaker and author on recipe costing and menu engineering. He has more than 20 years of experience in bottom line-boosting accounting. After graduating from Ohio Dominican University with his undergraduate degree (1993) he immediately went into manufacturing accounting. He spent eight years in a variety of industries including plastic injection molding, lighting equipment, transit buses and tire repair products.

In 2002, Mark was brought into the Bravo/Brio Restaurant Group (NASDAQ:BBRG) to implement a cost control system based principles learned from his past industry experience. After implementation, BBRG experienced five consecutive years of cost reductions resulting in millions of dollars in savings. Mark started Return On Ingredients® LLC in January 2009 based on those same principles including accurate recipe costing, effective menu engineering, and process improvements.

The Return On Ingredients® methodology is proven to mitigate loss and increase profits. He spent 20 years in managerial cost accounting refining his methods including more than a decade in restaurant cost management. When these two areas of expertise are combined, his one-of-a-kind methodology was born. Return On Ingredients® is a leading software and consulting company servicing the restaurant industry in accurate recipe costing, effective menu engineering, benchmarking and improving the overall profitability of the operations.

Mark holds a Masters in Business Administration (2005) and a Bachelor of Arts majoring in Accounting and Business Administration (1993) from Ohio Dominican University in Columbus, Ohio. Mark is an international speaker addressing over 100 different tradeshow, expos and events in the United States and Canada. Mark also is currently a Lecturer for The Ohio State University and Adjunct Faculty for Georgetown University instruction food, beverage, & labor cost controls. He also sits on several hospitality advisory boards including Ohio University (Athens, Ohio) and Hocking College (Nelsonville, Ohio). He has published articles in industry publications including *Catering*, *Foodservice Equipment and Supplies*, *FSR*, *Today's Restaurant News*, *Entrepreneurial Chef*, *Sunbelt Foodservice* and *Las Vegas Food & Beverage Professional*. He is also the author of *The Culinary Pocket Resource of Yields, Weights, Densities & Measures* and *Return On Ingredients: Controlling Food & Beverage Costs To Improve Efficiencies & Profits!*



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