



Introduction Slide

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JAMES BURKE
& ASSOCIATES

James Burke Introduction

- ❑ Born in West Cork
- ❑ Started in Retail with Supervalu
- ❑ Moved to Dublin 1982
- ❑ Retail Management in College of Marketing
- ❑ Completed MBA in Stirling University



James Burke

James Burke Introduction

- ❑ Joined Superquinn in 1983
- ❑ Held Key Senior Positions
 - ❑ Business Development Manager
 - ❑ Purchasing Manager (Fresh Foods)
 - ❑ Group Purchasing Manager
 - ❑ Trading Manager (Fresh Foods)





Why Are We Here?

What the Market is Saying

- ❑ Price inaccuracy is #1 buyer grievance
- ❑ Distributors regularly site inaccurate pricing as a stumbling block
- ❑ Continuous confusion over price accuracy versus efficient production
- ❑ Price accuracy is #1 challenge stated by many food producers
- ❑ Live examples during the EI programme where price cost a producer a contract

What are the elements that make up a Product Cost?

- ☐ Prime cost or full cost?
- ☐ What elements should be included?
- ☐ What elements are excluded?
- ☐ What are the cost drivers for these elements?



Prime Cost v Full Cost

Why use prime costs in product costing calculations?

- ☐ Prime costs are those costs directly attributable to the creation of a product
- ☐ They should represent the incremental costs borne by the business through producing
- ☐ They are costs that can quickly/immediately be eliminated if there is no production
- ☐ Fixed costs, such as rent, rates, company cars, management salaries, legal fees, accountancy fees etc. do not adhere to these 3 rules
- ☐ Such costs should be treated as overheads and excluded from the product costing process

Product Cost Elements

	Raw Materials	Packaging	Labour	Consumables
Explained	Component materials used to create the finished product Defined by the recipe/bill of materials	Materials used to 'carry' a product to the end consumer	Labour directly involved in the production of the end product	Resources used in the production process or transportation of products that are not covered by Raw Materials or Packaging
Inclusions	1) Ingredients Flour, Fat, Meat, Gravy = A Pie!!!	1) Primary Can, Bottle, Carton, Inserts (e.g. Sachets), Film, Tamper Evident Seal, Cap, Lid, etc.	1) Line Operative Direct responsibility for making product or part of product	1) Production Filter Sheets, Bags, etc.
		2) Secondary Case, Tray, Shrink-Wrap (Cases & Pallets)	2) Line/Team Leader Responsible for co-ordinating production	2) Finished Goods Adhesive, Corner Posts, Layer Pads, Pallet Wrap, Ink/Thermal Ribbon, etc.
		3) Tertiary Stickers, Case Labels, Promo Labels, Packaging Levy, etc.	3) Support Labour Example: Sauce Room, Batching, FLT Operatives, QA, Co-Pack or Rework Labour	3) Shippers or other store presentation materials
Drivers	Recipe / Usage	Recipe / Usage	Crewing	Recipe / Usage
	Shrinkage / Waste	Shrinkage / Waste	Labour Rate	Shrinkage / Waste
	Yield	Yield	Line Speed	Yield
	Price	Price	Efficiency	Price

Example structure – not exhaustive

What other costs could be included within Prime?

- ☐ Utilities such as gas, water and electricity will have both fixed and variable cost elements
- ☐ The fixed elements (annual service charges) should be treated as overheads
- ☐ With metering of utilities, the variable element can be identified/included in product costing
- ☐ Logistics costs can be incorporated within prime if meeting the criteria of being
 - ☐ Attributable to specific products
 - ☐ Incremental based on production
 - ☐ Eliminated where production is cut
- ☐ In most instances, we would recommend logistics costs are not incorporated in product costings

What are the key principles in product costings?

- ☐ **Each business should have:**
 - ☐ Clear and easily understood policy for what is/is not included in product costs
 - ☐ A clear and robust process for calculating product costs
 - ☐ A consistent approach for calculation of product costs
- ☐ **With these criteria met, product costings become**
 - ☐ Transparent
 - ☐ Understandable
 - ☐ Easy to maintain and amend

Buyer Reaction is Consumer Driven

“The small newsagents, I find them a lot more expensive than Supermarkets.”

“Lidl is great. Great choice, great parking, great price.”

“Good for both price and quality.”

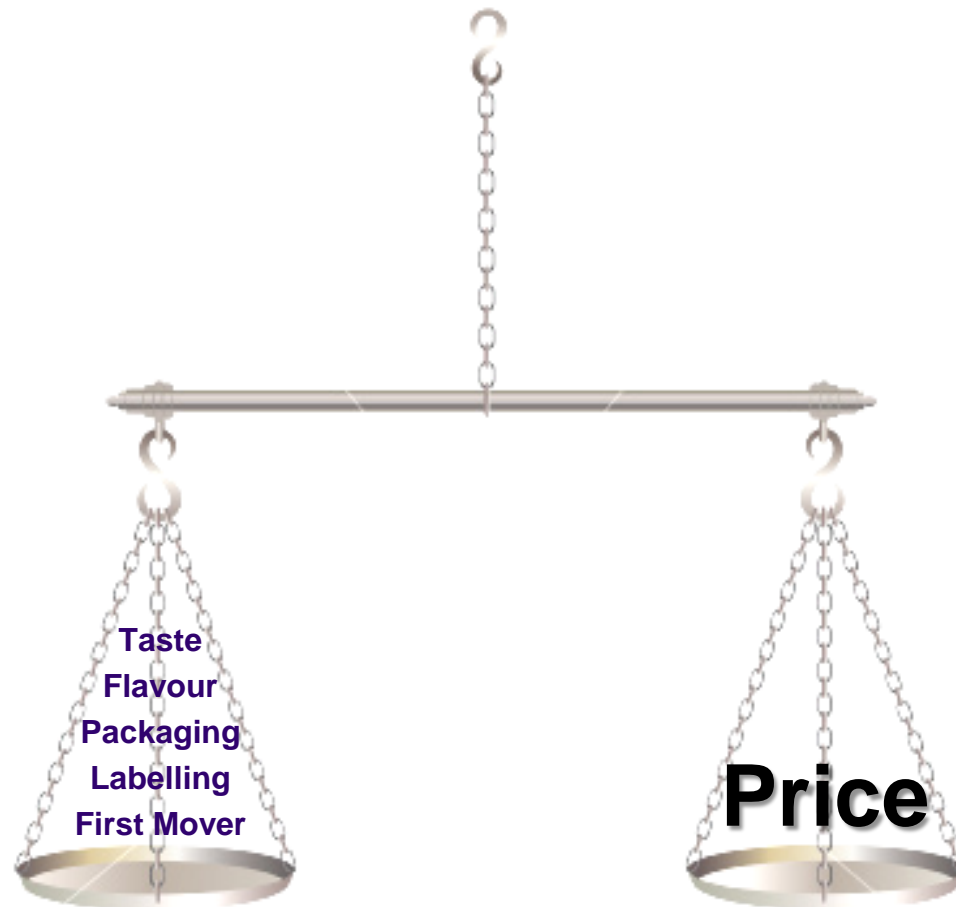


Why Price Accuracy??

- ❑ Prevents loss making situations
- ❑ Facilitates competitive tendering
- ❑ Prevents over pricing to the consumer
- ❑ Highlights promotional thresholds
- ❑ Insures full cost/investment recovered
- ❑ Gives you the competitive edge



Price Tipping Point



The Cost of Error

- ❑ Volume = 200 cases per week.
- ❑ Case Size = 12 units
- ❑ Price Error = €0.08
- ❑ Annual Error Value = €9984





Data Maintenance & Standard Updates

Areas to cover:

- ☐ Version Control
- ☐ Yearly Updates

Data Maintenance & Updates

Why update standards?!

- ☐ Bad information results in poor/costly decision making
- ☐ The right information enables us to act quickly and be competitive

What can change?

- ☐ Products change...
- ☐ Materials, packaging and consumables prices change
- ☐ Cost of labour changes
- ☐ Processes change – we get smarter!



Lean Manufacturing

Key considerations:

- ☐ Ensure a link between recipe changes and costings
- ☐ Keep a hard copy file of all signed-off product costings
- ☐ Costings template contains unique product-date reference number
- ☐ Limit access to files and write-protect files to control
- ☐ Define set timeframes for review and update of standards – what is appropriate (minimum of annual)
- ☐ A robust process is needed to review and understand the impact of any changes

Ladybird Lean Manufacturing

What is Lean Manufacturing?

Lean manufacturing has its origins in the motor industry and its most famous pioneer is Toyota. A major factor contributing to Toyotas success is its highly efficient, incredibly well organised production system, the principles of which form the basis of lean manufacturing.



There are two principles to lean manufacturing:

- ☐ Changing the supply chain from a push to a pull system which means only manufacturing what is needed, when it's needed and the amount needed.
- ☐ Eliminating waste in company's processes is the other lean principle.

Other Elements of Lean

- ❑ Everything that fails to provide value either through the process or the customer is a waste of time, effort and resources and should be removed.
- ❑ Many savings are achieved through employing techniques to map processes, material and information flows.
- ❑ Waiting / down time in the production and supply chain is a key cost factor.
- ❑ Defects and errors in the process also need to be eliminated.
- ❑ Products or their components that are not yet required but take up floor space also need to be removed.
- ❑ Minimising the movement of people or their equipment should also be part of the process.

Other Elements of Lean

- ❑ The tool which is of greatest benefit is value stream mapping. It is the first step in the implementation of lean. It involves mapping all activities required to design, order, produce and deliver products and services.
- ❑ Another lean tool is incorporating quality control into every step of the supply chain instead of a final check at the end. This enables savings to be made by catching defects early.
- ❑ The objective of lean is not to make employees redundant but to make the production flow more efficient and produce more products in a shorter time. Employee morale rises as a result of lean.

Other Elements of Lean

- ❑ The word D.O.W.N.T.I.M.E summarises lean; defects, over production, waiting, non value added processing, transportation, inventory (excess), motion (excess) and employee knowledge and skills (not utilised).
- ❑ Lean must have buy in with everyone from top level managers to production line employees.
- ❑ The Five S is also a lean definition; sort, straighten, shine, standardise, sustain (i.e. keeping the work place clean and organised is pivotal to success).

Lean Concepts and Definitions

Two critical concepts:

- ☐ Flow
 - ☐ Seamless, no queues, no disruption, no disconnects, no back tracking.
- ☐ Pull
 - ☐ Consumption driven, when required, just in time, minimal inventory.

☐ Three lean definitions:

- ☐ Muda; non value added working
- ☐ Muri; over burden
- ☐ Mura; unevenness

The Lean Toolbox

- ☐ Value Stream Mapping
- ☐ Takt Time
- ☐ The 7 Wastes
- ☐ 5S
- ☐ Kaizen events - Planning & Executing
- ☐ Error Proofing (Poka Yoke)
- ☐ Single Minute Exchange of Dies (SMED)
- ☐ Implementing pull systems / just-in-time / Kanban
- ☐ Design of Experiments (DOE)
- ☐ Failure Mode and Effects Analysis (FMEA)
- ☐ Statistical Process Control
- ☐ Total Productive Maintenance
- ☐ Standard Work
- ☐ Team Building



Lean Getting Started

- Understand the concept
- Observe production process
- Map the supply chain and production process
- Create KPIs
- Get on the floor yourself
- Get Help...Enterprise Ireland Lean

Questions??



The Foodservice Cost Model

Presented by
Jacinta Dalton

Contribution to the Economy

Category	€m	%
Fast Food Outlets	1,210	22
Hotels	990	18
Pubs/Bars	500	9
Restaurants/Cafe	550	10
Sandwich/Coffee Shops	50	1
Other*	2,200	40
Total	5,500	100

Other comprises contract catering, education, government, health care, tourist attractions.

Source: Mintel Report 2009, commissioned by Fáilte Ireland

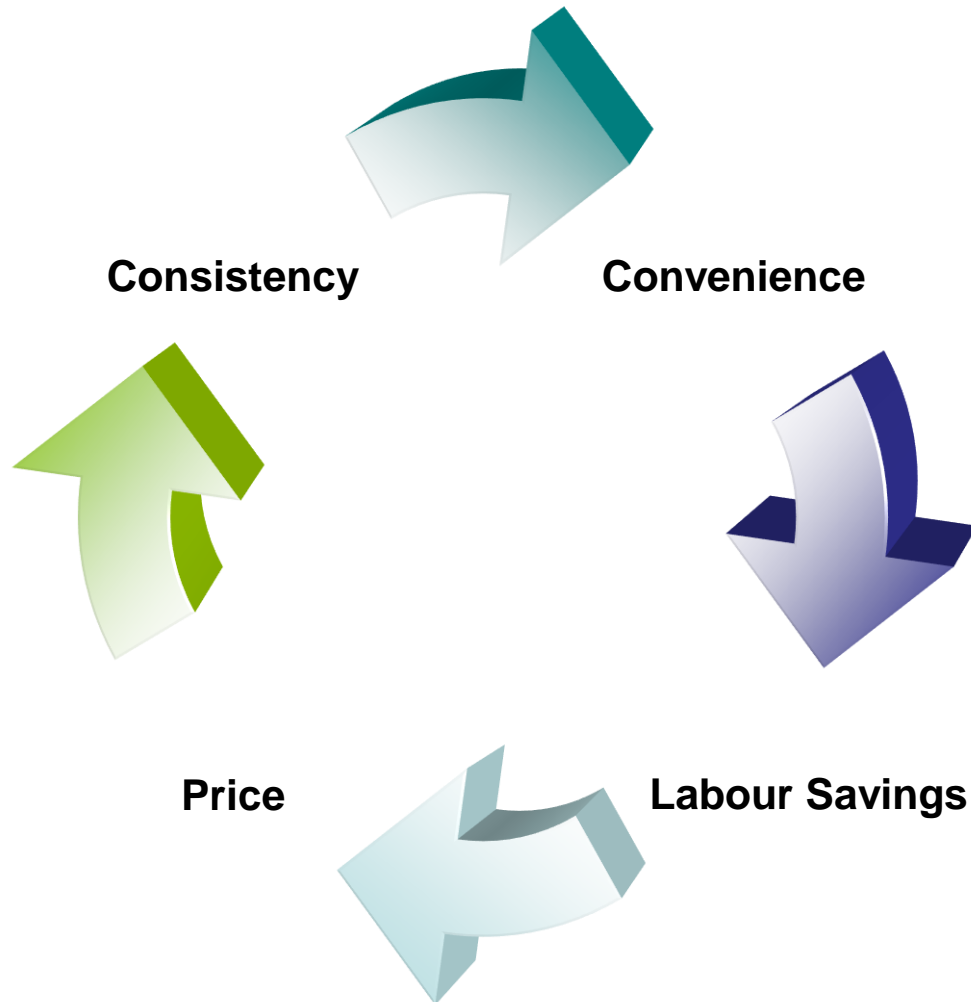


- **Keeping it real! – back to basics approach**
- **Food with benefits**
- **Global Flavour**
- **Safe Food**
- **Growing allergen awareness**
- **Simpler, greener, cleaner**
- **Casual & communal dining**
- **Interest in source of ingredients – strong emphasis on Irish provenance**
- **Small plates or platters to share**
- **“Ecolution” – A new interest in eco friendly food products**
 - **Opportunities for local, sustainable food producers**



A collage of kitchen items including a frying pan, a chef's hat, a wooden spoon, and a chef's knife, with a 'GUEST CHECK' form in the background.

**The role of the manufacturer is no longer to
sell products but to sell solutions!**

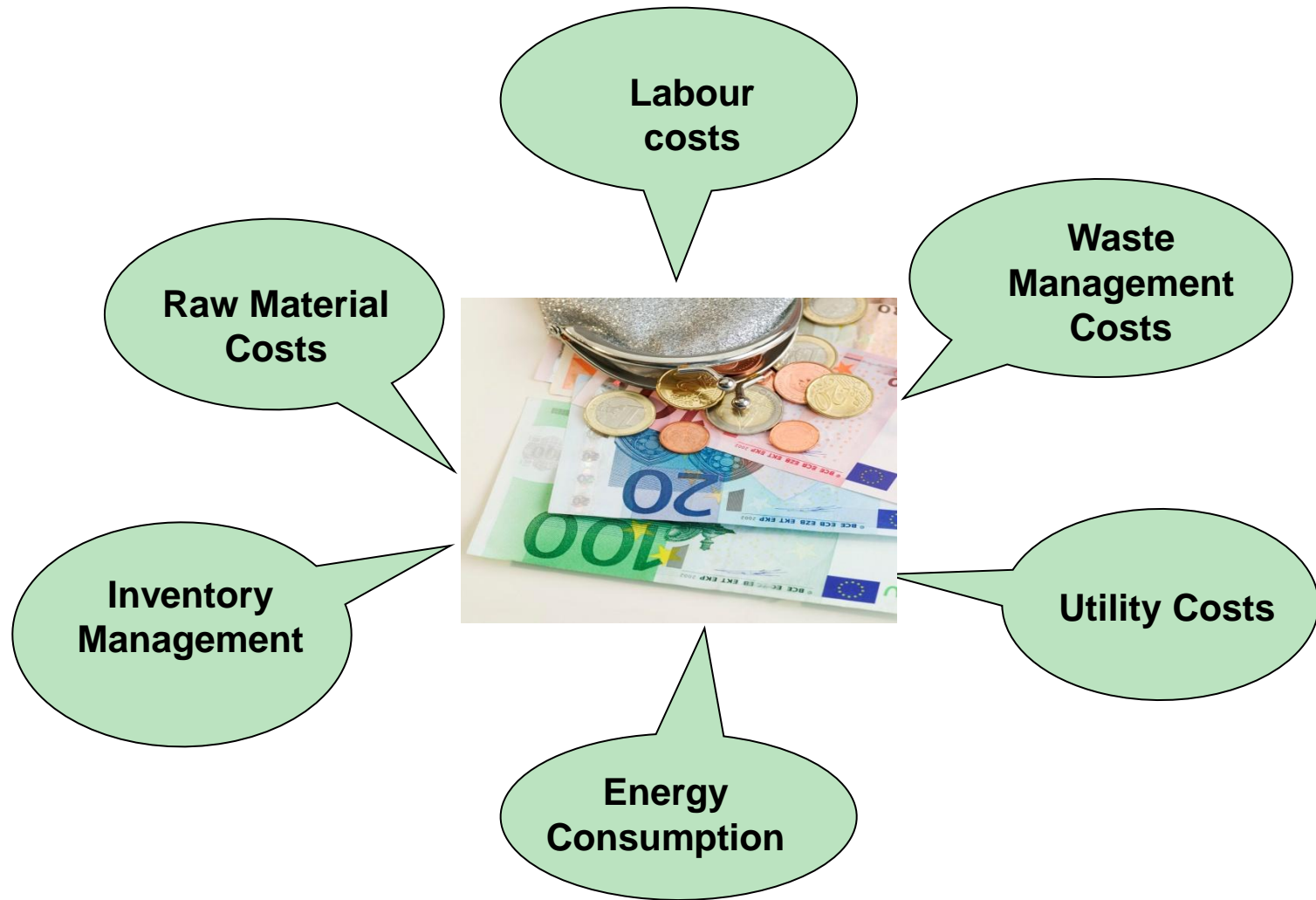




Most Common supplier related
issues
experienced by your Customers?

Common problems with supply

- Suppliers do not understand business needs
- Little or no face to face interaction
- Poor communication regarding new product ranges/innovation
- No partnership approach
- Slow to respond to queries/invoice errors
- Penalises the small buyer
- Artisan suppliers too expensive
- Frequency of price change & frequency of delivery
- Packaging
- Consistency



Cost factors of a typical meal

Raw materials costs	
Labour costs	
Utility and operational costs:	
VAT & Excise	
Other costs	

Cost factors of a typical meal

Raw materials costs	31%
Labour costs	25%
Utility and operational costs:	14%
VAT & Excise	17%
Other costs	13%

Source: Fáilte Ireland commissioned study by Howarth Bastow Charleton 2009

Setting a menu selling price

Cost Price of 10oz Sirloin Steak meal €6.20

Gross Profit Margin Target 70%

Cost price / Cost price% = Net Selling Price

$$6.20 / 30\% = €20.66$$

Net Selling Price + Vat at 13.5% = Gross Selling Price

$$20.66 + 2.79 = €23.45$$



Question?

If a chef could sell one more item before
Restaurant closed today, which would he prefer it to
be?

Pasta cost € 2
Selling Price €10



Steak cost € 8
Selling Price €20



WHY...a business toolkit in food costing?

To encourage consistency in food product

Promote value for money to the customer

Demonstrate potential profitability in food

Make food costing discipline easy

Allow quick recalculation of recipe costs if ingredient price changes

Allow easy substitution of ingredients in dish costing to reflect availability or seasonal price changes

Value on Price – NOW EXPECTED!



Price alone – no longer enough!

VALUE

will be judged on experience!

VALUE FOR MONEY MODEL



- **Seek out a better understanding of the business you are supplying**
- **Don't deal exclusively with the chef**
- **Be willing to discuss pricing options particularly for SME's**
- **Study consumer dining trends**
- **Understand the demands that the end consumer is making**
- **Make regular contact with client regarding new products/innovation**
- **Look at ways in which win win cost saving measures can be implemented.**
- **Be able to add value to the products you supply**
- **Be consistent**