5

Controlling Food Costs in Purchasing

INSIDE THIS CHAPTER
• Developing Purchase Procedures
• Implementing the Ordering System
• Improving the Ordering System

CHAPTER LEARNING OBJECTIVES
After completing this chapter, you should be able to:

• Explain the purchase process and determine who should make purchasing decisions.
• Describe the parts of a purchase specification and of a purchase order.
• Describe the importance of par levels and how to establish them.
• Explain the importance of maintaining an ordering system.
• Explain different types of purchasing methods and their uses.
KEY TERMS
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CASE STUDY

Chef Bob Schmidt and Chef Linda Wiley were discussing Bob’s new position at the Polo Bistro restaurant during a recent Chef Association meeting. Chef Smith had just moved to the area, and was hoping Chef Wiley could help with contacts for vendors and suppliers.

“Foodservice Meats and Betty Poultry are two very good sources,” Linda said. “I use B&B Broadline Suppliers for most of my goods.”

“What about local produce or specialty houses?” asked Bob.

“My sales guy with B&B takes good care of me, and I really look forward to baseball tickets he gives me each year,” Linda replied. “So, I don’t really shop around much. Besides,” she said in a low voice, “the chef before you used only B&B.”

1. Chef Smith has an employment contract that includes a bonus if he meets specific food cost targets. Should he be concerned that B&B has had a long-term vendor relationship with the Polo Bistro? Why or why not?

2. Do you think that the salesperson with B&B Broadline Suppliers believes his accounts are partnerships? Explain why or why not?
DEVELOPING PURCHASE PROCEDURES

Purchasing is one of the key areas in the cost control process of the restaurant and foodservice industry. When a customer orders an item from the menu, he or she has certain expectations. If size, shape, color, grade, or portions are mentioned, then those food characteristics are what the customer should receive. The person responsible for purchasing items for the operation must be aware of these customer expectations and procure exactly what is stated on the menu (see Exhibit 5.1).

In addition to the correct item, the buyer must also purchase the correct amount. If too many goods are purchased, not only is the operation’s capital tied up in inventory, but if the goods are perishable, they might spoil. This is one way for operations to lose money. However, if too few goods are purchased, there is the danger of running out and disappointing guests. Purchasing, like every other section in the operation, is an area where costs can get out of line. Controls and procedures must be instituted to prevent this from happening. The purchasing procedure consists of the following steps:

1. Designating a purchasing person
2. Determining which products to buy by establishing product specifications
3. Estimating how often and how much to order
4. Choosing purchasing methods based on organizational needs
5. Selecting vendors

Who Should Buy

The first step in the purchasing process is designating who will do it. It could be one or several people, depending on the size of the operation. In very large restaurant or foodservice operations such as major hotels, hospitals, and college foodservices, a purchasing agent will do the buying. In smaller operations, it could be the general manager, production manager, or chef. Regardless of who does it, this person is referred to as the buyer and is the sole person responsible for purchasing particular goods.

While the buyer’s responsibility may be shared, clearly designating who will be the buyer for which items eliminates confusion and minimizes the risk of running out of a product or having too much of it on hand. For example, in a larger operation, the chef might purchase meat, seafood, and produce, while the sous chef orders dairy, baked goods, dry goods, and supplies. Although two people are purchasing, only one person is the buyer in each category.
Buyers need to possess a variety of skills:

- **Balanced communication skills:** They must be able to listen to the needs of stakeholders in their operation (*Exhibit 5.2*), including the preparation staff, accounting staff, receiving and storing staff, ownership, and management. They must also be able to articulate those needs to vendors.

- **Excellent math skills:** Math is basic to all of the primary functions of the buyer and storeroom staff: buying, receiving, storing, and issuing.

- **Computer skills:** Computers are widespread in purchasing. Tracking inventory is the heart of control and purchasing, and is mainly done with computer software.

- **Product knowledge:** Buyers can develop their food knowledge by spending time at trade shows, farmer’s markets, and food distributor’s warehouses. Attending food shows is an efficient way to keep up on the latest food and equipment developments.

While it is common for managers to delegate purchasing, it is extremely important that the person selected to purchase products is trained and knowledgeable about the subject. Only by following correct purchasing procedures and having controls in place can the establishment get the right item at the right price. For this reason, if the manager is going to delegate this responsibility, it must be passed on to someone who has been trained in the operation’s purchasing procedure.

**What to Buy**

To know what to purchase, a buyer must work with a number of variables. The buyer needs to know the growing seasons for produce and that beef prices are lower in the spring than in the fall. The buyer must be familiar with varieties, grades, and forms in which the products can be purchased. And the buyer needs to be able to judge if a distributor quotes, or offers, a fair price. An experienced buyer can “read the market” for signs of supply, demand, and price fluctuations and does not rely on supply-and-demand information received from suppliers. Suppliers, also called vendors, are the companies that provide products purchased for use in restaurant and foodservice operations. Some examples for products provided by suppliers are meat, dairy, vegetables, fruit, utensils, and paper products.

The buyer also needs to organize product specifications by vendor. That is, products that will be ordered from the same vendor should be grouped together. The buyer must also have a working knowledge of grading terminology, labeling terms, and standards used to judge quality. A buyer’s responsibilities go beyond getting the best price and ensuring that sufficient quantities are available; standards of quality must be upheld as well.
Product Specifications

The second step in the purchasing process is determining which products to purchase by establishing product specifications. Because there is such a wide variety of food available, the specification (or spec) is an important control device. Through this device managers set policy as to which brands, grades, and variety of food products will be ordered for the operation. A specification ties together what is written on the menu and what is called for in the standardized recipe. It also controls the purchasing and receiving procedures.

Everyone uses specifications in their everyday lives. If someone wanted to buy some clothes, for example, he would have a specific size, preferred style, and color in mind. In contrast, the specifications used in the restaurant and foodservice industry are much more formal.

A specification explains or describes the desired product name, its intended use, grade and size, and other product characteristics. It also includes general instructions regarding delivery, payment procedures, and other pertinent data. Basically, it tells the supplier exactly what the buyer wants. A specification should be documented so that both the buyer and the supplier are clear on the buyer’s purchase requirements.

Managers, with input from the chef or production manager, must write the specifications for all the food needed to produce the standardized recipes of the menu items. It is important to match product specifications to the desired use. One example of a mismatch might be ordering Grade A tomatoes for spaghetti sauce, when Grade B tomatoes would suffice and save the operation money. Large operations typically write formal specifications; smaller operations might use verbal specifications. A detailed formal specification includes the following information:

- **Product name**
- **Intended use**: the component of the standardized recipe the item will be used to make
- **Grade**: U.S. Department of Agriculture (USDA), brand name, trade association endorsement
- **Product size**: could include portion size; weight ranges for food items such as roasts, ribs, whole chickens, or whole fish; size of produce
- **Packaging**: size of pack, type of packaging material
- **Product characteristics**: color, amount of trim, type of preservation, degree of ripeness, point of origin
Developing Purchase Procedures

- **Acceptable substitutions ("or equal")**: substitutions previously agreed upon by both buyer and vendor
- **General instructions to bidders**: Restaurant and foodservice establishments receive bids from several vendors on the same product in order to purchase at the best possible price. These vendors are competing with each other for the operation's business.

To understand the importance of clear specifications, imagine if a buyer were to order simply "a case of fresh apples" from a produce company. The company could possibly ship any type of apple. Purchasing the correct fresh apples requires buyers to know the following:

- What is the intended use? Are the apples for baking, puree, or eating raw? Red Delicious apples are among the most popular apples, but they are the wrong variety for cobbler, pie, or applesauce.
- What are the grade standards? Do they need to be U.S. Fancy or U.S. No. 1?
- What varieties are available? Produce companies may carry as many as 18 to 20 different varieties of apples.
- How are they packed, by count or by weight? Generally, vendors refer to apples by count. The higher the number of apples per case, the smaller the apple.
- When are they in season? Most apples are available year-round, but some varieties, such as Gravenstein, are seasonal.
- Are there any additional considerations? Should the apples be organic? Should they be fresh cut in order to reduce labor costs and waste? Should they be unwaxed?
- Should they be sourced locally, and if so, what is the distance they may be shipped?

A specification for apples might look like *Exhibit 5.3*.

Developing quality standards is time-consuming and tedious. It is also one of the most important ways to consistently get the quality desired by any operation. Tools exist to help buyers and managers develop specifications, such as *The Meat Buyers Guide*, published by the North American Meat Processors Association (see *Exhibit 5.4* on the following page). Specifications identify exactly what the buyer should purchase.

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**Exhibit 5.3**

**PRODUCT SPECIFICATION**

<table>
<thead>
<tr>
<th>Type</th>
<th>Water content: 85%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variety</td>
<td>Cultivation type: Organic</td>
</tr>
<tr>
<td>Maturity</td>
<td>Grade: Fancy</td>
</tr>
<tr>
<td>Weight (lb)</td>
<td>Color: Red</td>
</tr>
<tr>
<td>Style</td>
<td>Packaging: Cases (15-lb)</td>
</tr>
</tbody>
</table>
CHAPTER 5  Controlling Food Costs in Purchasing

PRODUCT SUBSTITUTIONS
Acceptable substitutions (“or equal”) are an important part of purchasing specifications. An operation’s vendor may experience shortages or “outs,” which is a product that has not been delivered. Establishing acceptable substitutions, “or equal,” allows the vendor to fulfill an order with previously agreed-upon substitutions. Vendors can do a thorough review of the products an operation uses and provide the buyer with other options. Substitutions also help the buyer. For example, fresh seafood fluctuates in price. Allowing the buyer to purchase an acceptable substitute can result in a lower price.

Once the specifications are written, they are circulated to suppliers to determine which suppliers will provide each product. Acceptable substitute products should be written into the specifications. In addition to the supplier, specifications are used by the buyer, the receiving clerk, the kitchen, and accounting. Remember, specifications are an internal communication tool, as well as one for outside vendors.

How Much and How Often to Buy
The third step in the purchasing process is estimating how often and how much to order. This is also one of the controls in purchasing. Consider that the act of purchasing costs money, not only in product, but in organizational costs as well. It takes time and labor to receive bids, complete purchase orders, phone in or electronically transmit orders, receive the goods, store the goods, and pay the invoices.

To obtain the best prices for products and to decrease the time spent on researching prices, restaurant and foodservice operations often use a bidding process. The first step in bidding is a request for proposal (RFP) that is prepared by an establishment. An RFP is a document that shows the amount, variety, and specification of products that an operation needs. The RFP is distributed to solicit bids from suppliers, who then can submit their bids or proposals to an operation. Then the manager selects the bid that offers the best prices for the desired specifications. The bidding process is important, but can be time-consuming to both the operation and the supplier.

Every time a supplier’s truck stops, the costs to the supplier, and consequently the restaurant or foodservice operation, go up as well. It would stand to reason, then, that less-frequent orders would be best for the organization. However, this is not always true for two reasons. First, if fewer orders are being placed, the inventory level must be higher. High levels of inventory tie up cash, not only in the cost of the food but also in the cost of the storage space. Storage space, while necessary,
does not generate sales, costs money to build and maintain, and may take space away from other functional areas such as dining space. In addition, some storage, such as cold storage, requires cooling and ventilation equipment that runs on electricity, thereby increasing utility costs. All of these costs associated with storage space must be covered by the sales brought in by the operation. Finally, some goods cannot be stored for an extended length of time and may need to be ordered frequently. Consequently, the buyer needs to create an order guide that identifies vendors that best satisfy the needs for specific products.

To optimize the timing of purchases, goods are broken down into two categories. **Perishable goods** are products that have a relatively short shelf life—usually one to three days, as shown in Exhibit 5.5. Some perishable goods might last a few days longer, but their quality and yield may be considerably diminished. Perishable goods should be purchased as often as possible. In larger restaurant or foodservice operations, perishable goods could be purchased daily. In smaller operations, purchasing perishable goods every two to three days is considered reasonable. However, even smaller operations should not put off purchasing perishable goods such as cream and milk longer than three days.

**Nonperishable goods** are products that have a relatively longer shelf life. Nonperishable goods can last for a few months to a year if stored and handled properly. Nonperishable goods should be purchased as seldom as possible for reasons previously given. The size of the storage area, the operation’s cash flow, and location such as urban versus rural are all factors that the buyer must consider when determining how often to order nonperishable goods. Some operations purchase nonperishable food weekly, some bimonthly, and others monthly.

**DETERMINING PRODUCT USAGE**

Every server dreads having to tell a guest, “We just ran out of the filet mignon about 10 minutes ago. Would you like to try the red snapper?” With guest expectations increasing every day, managers cannot afford to disappoint them on any level. Purchasing the correct amount of product at the correct time for the correct price is the goal of every restaurant or foodservice manager.

These are the steps used in accurately estimating the amount to purchase:

1. Determine the amount of product needed until the next delivery.
2. Check inventory to determine what is on hand.
3. Subtract what is on hand from the amount needed and add 5 percent as a safety measure.
4. Use the result of this calculation as the amount to purchase.

By following this method, the operation is assured of having the right amount of the freshest product available for service to the customer.
As purchased (AP) amount and edible portion (EP) amount also come into play when determining how much to purchase. These are covered in depth in chapter 3. Because most products will lose volume when cooked, for some managers EP becomes as served (AS), which is the amount available to serve to the customer. In this book, the term EP is used and it includes cooking loss.

**ESTABLISHING PAR LEVEL**

Today in the restaurant and foodservice industry, the most common method used for determining the quantity of nonperishables to purchase is the par stock method. **Par level** means an operation has enough stock on hand to get the kitchen through until the next order is delivered. This method works well in operations that have a relatively steady flow of business and a menu that does not change frequently. The key to this method is assigning a level that should be constantly on hand to every item in the storeroom. When it is time to order, inventory the item as shown in Exhibit 5.6 and subtract that count from the par level. The resulting number is the amount to order. Par levels are normally created using the counting unit for the product, such as 100 pounds of onions or two cases of frozen green beans.

For example, an establishment famous for its fried chicken serves green beans seasoned with smoked ham chunks and onion as one of its side dishes. It uses 1 case of canned green beans each day, except on Saturdays and Sundays when it uses 2 cases per day. Therefore, its usage is 9 cases a week. The manager has decided to add a safety factor of three cases. Consequently, its par stock for green beans is 12 cases. The operation receives a grocery delivery weekly. When taking inventory of the green beans, the manager finds 4 cases on the shelf. She subtracts 4 cases (stock on hand) from 12 cases (par level) and orders 8 cases of green beans:

\[
\begin{align*}
12 & - 4 = 8 \\
\text{Cases par level} & \quad \text{Cases in stock} & \quad \text{Cases to order}
\end{align*}
\]

To determine a par level, follow these steps:

1. Determine the amount of time between deliveries—for example, daily, weekly, bimonthly, or monthly.
2. Determine the estimated amount used during this period. This should be done for each item in the storeroom.
3. Add a safety factor to cover any unexpected sharp increases in business or to cover the possibility of shortages from the supplier.
4. Add the estimated amount of product used and the safety factor together to get the par stock.

5. Set par levels for all ingredients and supplies so that they can be easily tracked and nothing is overlooked. Adjust pars by season, and order enough to get through the next delivery, not just until the next delivery.

6. Include the par level numbers on the order guide and place a label with the amount on that item’s shelf in the storeroom.

In larger operations, such as a hotel food and beverage department, requisitions are used to retrieve items from the storeroom. In this case, the storeroom manager has a spreadsheet called par sheet for every item in the storeroom and subtracts the requisitioned amount from the inventory on the spreadsheet. When placing an order, the manager looks on the par sheet to determine the quantity currently on hand. This is known as a perpetual inventory and is used rather than taking a physical inventory. Then the manager looks at the par sheet, which shows the quantity the operation currently has in inventory and the quantity the operation wants to have on hand to get it through until the next order. A sample par sheet for twice-weekly orders is shown in Exhibit 5.7.

| Exhibt 5.7 |
| SAMPLE PAR SHEET |

<table>
<thead>
<tr>
<th>Meat</th>
<th>Unit</th>
<th>Supplier</th>
<th>Monday</th>
<th>Thursday</th>
<th>Monday</th>
<th>Thursday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Rib</td>
<td>Each</td>
<td>Chef Meat</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Duck</td>
<td>Each</td>
<td>Betty Poultry</td>
<td>4</td>
<td>2</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>New York Strip Steak</td>
<td>Each</td>
<td>Chef Meat</td>
<td>24</td>
<td>6</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Beef Patties</td>
<td>Case</td>
<td>Chef Meat</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>WOG Chicken</td>
<td>Each</td>
<td>Betty Poultry</td>
<td>36</td>
<td>4</td>
<td>48</td>
<td>8</td>
</tr>
</tbody>
</table>

There are also software programs available that use the perpetual inventory approach to the par level method of ordering. These programs can be used for large and small operations alike. Some of the more sophisticated programs are tied into an operation’s point-of-sale (POS) system. When a customer orders a menu item, the software calculates the food used in preparing that menu item. The relevant product is automatically taken out of the inventory. When the inventory drops to a predetermined level, the software subtracts the amount on hand from the par level quantity and generates a purchase order (PO) for
that item. A purchase order is a form issued by the buyer and sent to the vendor that indicates the items and quantities to be purchased.

For example, when a customer orders a hamburger (Exhibit 5.8) and the server enters the order into the POS system, one hamburger bun, four ounces of ground beef, three pickle slices, and one-quarter ounce of ketchup are subtracted from inventory. As more hamburgers are ordered, more of these ingredients are subtracted from inventory. When the inventory for ground beef drops to a predetermined level of 50 pounds, the program subtracts the available 50 pounds from the par level of 150 pounds, and generates a purchase order for 100 pounds of ground beef.

Unfortunately, fully automated systems have one real drawback: Someone has to enter the information, and keep it up to date. This has a time and labor cost associated with it, sometimes a significant one. Either the programmers or the server must account for menu substitutions, which are products that are different from those that are ordered regularly, or the numbers will be off. For instance, if a customer substitutes a side order of baked potatoes with coleslaw, the server needs to reflect this substitution in the POS system. Any changes in the menu will also need to be programmed, including daily specials. Many large chains do use their POS system to generate order replenishment; however, the majority of those are quick-service restaurant chains with limited menus that do not change often.

How to Purchase

Once an operation knows what to purchase, managers need to know how to purchase those items. Step 4 of the purchasing process is choosing purchasing methods based on organizational needs. There are various ways to purchase products, and some are more economical than others, which contributes to a lower food cost. However, some are misused and end up costing the organization money. Effective purchasing procedures should include a consideration of purchasing methods required by the vendor and the effect of these methods on the organization. Employees responsible for ordering should be trained about several aspects such as deadlines when purchase requests need to be submitted, ordering frequency, and order minimums required by each vendor.

DEFINING ORGANIZATIONAL NEEDS

Before managers decide on the purchasing method, it is best to define the organization’s needs. This allows vendors to customize a purchasing program that makes sense for the specific business. For example, some operations may
choose to use a prime vendor, which will provide most of the operation's goods. Managers should examine:

- **Level of service needs**: Does the sales representative need to meet with the buyer each week to take an order? Or can the buyer order online, via fax, or by a phone call? Based on space and storage limitations, does the operation need frequent deliveries or will one delivery per week work? If the operation requires a high level of service, is there an additional cost associated with that level?

- **Quality specifications needs**: Will the operation's concept allow the buyer to purchase the majority of meat, seafood, produce, and so on from a broadline distributor that provides multiple products such as meat, produce, food supplies, and utensils? Or does the operation need a dedicated supplier for specific products?

- **Prime vendor relationship needs**: Does the operation do enough volume to increase the primary vendor's drop size—minimum amount that a supplier can deliver—for the establishment, thereby making the operation a more profitable stop for the vendor? Will the efficiencies the vendor gains be passed along to the operation in the form of lower prices?

**PURCHASING METHODS**

Once the organizational purchasing needs have been defined, managers can determine which purchasing method will work best for their operation. Most operations will use one or more of the methods shown in Exhibit 5.9.

### Exhibit 5.9

<table>
<thead>
<tr>
<th>PURCHASING METHODS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive Quotes</strong></td>
</tr>
<tr>
<td>Independent establishments, smaller operations</td>
</tr>
<tr>
<td><strong>Primary Use</strong></td>
</tr>
<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Lack of specs could lead to lesser-value shipments</td>
</tr>
</tbody>
</table>
COMPETITIVE QUOTES  This is a common purchasing method used by independent establishments and smaller operations. The buyer completes a market quotation sheet with the items and item specifications that the operation needs. This sheet is a standardized form that is given to two or more suppliers who are then asked to provide a price quote for the items needed. The quotes are analyzed, and the order is then placed with the chosen supplier. For this method to be successful, specifications must be established. If they are not, then anything could be shipped and not necessarily be the best value for the restaurant or foodservice operation. If specifications are used, the lowest price would be the best value because all suppliers are bidding on an identical product.

STANDING ORDER  This method is used primarily for bakery, coffee, and dairy products, and particularly for perishable items and for linens. In this purchasing method, the vendor works closely with the establishment to replenish stock on a regular basis. This method is quite satisfactory as long as the supplier removes the unused stock and gives proper credit. If proper stock rotation does not occur, the operation is using product that is not as fresh as it should be, which could result in substandard product. For the standing order method to be successful, the delivery person needs to show the manager the items being removed and those being brought in.

PRIME VENDOR  This method, also called the one-stop shop, is becoming the most popular in purchasing goods today. It involves purchasing most, if not all, of an operation’s goods from one supplier. Independent managers and chains both use this method. It came about when restaurant and foodservice suppliers began merging with meatpackers, produce houses, bakeries, and dairies to form giant super-suppliers. In theory, it works well. Delivery costs are reduced with one truck stopping instead of several. Purchasing can be done online with the operation’s specifications and par levels loaded into the program. The downside of this method is that if the supplier is out of something, the operation may not have a backup supplier for that item. Also, because the buyer relies on a single supplier’s pricing rather than getting price quotes, the pricing might not be the most competitive for the restaurant or foodservice organization. Managers should make sure that audit privileges are included in any prime vendor agreement. This will serve as the compliance check. Managers should clearly understand how a distributor defines costs, and must be aware if there are additional charges incurred for splitting cases or for stocking proprietary products. Finally, managers should make sure there is an “escape” clause in the agreement.

COST-PLUS  This method is used primarily by chain operations, as independents do not have enough volume for suppliers to offer it to them. In this method, the chain purchases 100 percent of a particular product line, like meat for example, from one supplier. That vendor sells the product at the
vendor’s invoice price plus an agreed-upon percentage for handling, delivery, and the vendor’s profit. Although this system could be used in conjunction with a one-stop shop, it most often is used with several sources; for example, one source for meat, one for produce, one for dairy, one for groceries, and so on. Chains that use the cost-plus method of purchasing are normally paying the lowest possible price for their goods even though the vendors do not bid against each other.

**SEALED BIDS** Large foodservice units such as schools, colleges, hospitals, and government agencies primarily use sealed bids. In this method, foodservice operations calculate the amount of a product such as dairy that they will need over a period of time, normally a year. Then suppliers will bid on that amount. Usually, the lowest bidder is selected as the supplier for that product. The supplier delivers the entire order amount at one time, or spreads out the deliveries over a specific time period at the agreed-upon price for the duration of the contract. If the price of the product goes up, the vendor must sell at the lower agreed-upon price.

**COMMISSARY** This method is used almost exclusively by chains and franchised units. Quite often 100 percent of that operation’s supplies will come from the commissary. In the commissary method, orders from individual units are consolidated. The commissary then purchases the consolidated quantity from the preferred suppliers. Normally these products include refrigerated, frozen, or packaged premade items that are produced to the company’s standards. For instance, some chains may have a commissary where dough is prepared and then distributed to individual stores. Any paper supplies printed with the company’s logo will also come from the commissary. Frequently, the commissary is owned by the parent company of the chain or franchise.

**Vendor Selection**
The fifth and final step in the purchase process is selecting vendors. The chef or purchasing manager knows what to buy, when to buy it, and in what size and packaging. The manager has decided on the method used for purchasing. Once these variables are known, the purchasing manager must decide from whom to buy the product. This begins by compiling a list of all of the reasonable potential suppliers that meet the operation’s needs. Management may then begin to shorten it into an approved-supplier list by reviewing each supplier’s quality, consistency, variety, and price. These will then be ranked according to the type of establishment being run, the menu being served, and customer expectations. Consistency in quality, delivery time, and labeling are also important factors when choosing a vendor. And finally, managers should consider using Hazard Analysis Critical Control Point (HACCP)–engaged vendors. HACCP is a system used to control risks and hazards. If a customer
has an issue with an operation’s food, having only HACCP-approved vendors that can share liability is critical. The best suppliers work as partners to reduce costs, maintain quality, and ensure guest satisfaction. It is in their best interest to help their customers’ businesses grow.

**CHOOSING A VENDOR**
The criteria for vendor selection should always include quality, price, and service. Managers should ask for references and check them out by talking to other restaurant and foodservice operations. Managers need to treat the supplier like a prospective employee. Is the vendor rep motivated? Is he or she passionate about the work? Is the vendor rep conscientious and dedicated to making the partnership work?

Managers should meet with the sales manager and the *sales representative*, the supplier’s salesperson who would be assigned to the operation. If possible, visit the prospective vendor’s business. Tour the warehouse. Look for an organized, clean storage space, free of debris and litter. If it is a seafood, meat, or poultry vendor, check out the cutting and packing room. Walk through the coolers and freezers. These vendors should meet all regulatory requirements, and the area should be clean and sanitary. The best suppliers will welcome interest in what they are selling and how they are handling the product. Often vendors believe that their high operating standards are a point of difference from their competitors.

Once vendors have been identified, it is essential to establish operational ground rules, such as the company’s delivery days, drop size, minimum order amount, payment terms, and the cutoff times for ordering for the next day. Buyers need to establish a delivery window, such as 8 a.m. to 10 a.m. or 2 p.m. to 4 p.m., with no deliveries during peak times such as lunch service. Managers will need to review ordering specifications and any other key information that needs to be shared with vendors. Once both parties have agreed to terms, it is very important to keep to the bargain.

**MAINTAINING POSITIVE VENDOR RELATIONSHIPS**
Restaurant and foodservice operations and their suppliers are critically dependent on each other. However, too often one party has little empathy for the other. Managers deal with a continuous stream of changing prices, quantity and quality, late deliveries, or drivers showing up at peak times. On the other hand, some managers treat suppliers very poorly. They may be rude to delivery drivers, or abuse the sales representatives and run them ragged with last-minute, high-priority demands. Or managers may ignore the invoice terms and pay when they feel like paying.
Building a positive relationship with vendors is more important now than ever. As companies merge into larger distributors, the selection of vendors continues to shrink, making it very hard to find new options if a manager is not happy with a current vendor. Consequently, it is important to view suppliers as partners in the business. However, vendors should also remember that a given restaurant or foodservice operation is their customer. That is, if management of an operation is not happy with a vendor, they may pursue another vendor that better serves the company’s needs.

**IMPLEMENTING THE ORDERING SYSTEM**

Every restaurant and foodservice operation needs an effective ordering system. Proper ordering procedures help keep fresh product in stock. Ordering too much of a product simply because the kitchen keeps running out may result in product that is past its prime. Management does not want excess inventory, which may increase waste, allow for product theft, and encourage overproduction. A proper ordering system helps ensure that the amounts purchased make culinary and financial sense.

Better ordering control can also keep cash from being tied up in excessive inventory levels. Too much physical product kept in storage means less cash available for the operation as a whole. That is, operations with lighter inventory may have available cash to spend on other things such as new menus, laundering linens, and so forth. It is recommended that inventory levels for food products turn over from four to six times a month. For example, if an operation spends $25,000 per month in food purchases, then the food inventory value should range from a low of $4,166 to a high of $6,250 at any given moment within that month. These formulas show the calculations:

\[
\begin{align*}
\text{Food cost} & \div 6 = \text{Food cost turns per month (high)} = \text{Inventory value (low range)} \\
\$25,000 & \div 6 = $4,167 \\
\text{Food cost} & \div 4 = \text{Food cost turns per month (low)} = \text{Inventory value (high range)} \\
\$25,000 & \div 4 = $6,250 \\
\end{align*}
\]

Compare that with an inventory that turns over only three times a month because the operation has purchased too much:

\[
\begin{align*}
\text{Food cost} & \div 3 = \text{Food cost turns per month (excessive)} = \text{Inventory value} \\
\$25,000 & \div 3 = $8,333
\end{align*}
\]
This would result in an inventory value of about $8,333 and a negative cash-on-hand difference of $2,083 to $4,167:

\[
\begin{align*}
\text{Inventory value} & - \text{Inventory value} = \text{Cash-on-hand difference} \\
\text{(excessive)} & \quad \text{(high range)} & \quad \text{(low range)} \\
\$8,333 & - \$6,250 = \$2,083 \\
\$8,333 & - \$4,166 = \$4,176
\end{align*}
\]

The Order Guide

It is critical in tough economic times to combat rising costs. One tool for this is the consolidation of purchasing. Consolidation results in greater buying power with suppliers, which results in lower overall costs. Reducing the number of delivery trucks arriving will also result in staff spending less time ordering and receiving products.

To facilitate this process, an order guide should be used by all employees involved in ordering products for an operation. The order guide form is a tool for counting and tracking all the products an operation uses and must reorder. It should contain all or some of the following information:

- **Item description:** The description should be brief but identifiable. The pack and size may also be shown in the description. It is recommended that managers use the description that is on the vendor’s invoice. For example, the order guide might say only “Beef Cubes for Stewing.” But the specifications have already been established as “USDA inspected select or better. 1–1 ¼˝ cubes, fairly uniform in size and shape; fat trimmed, fat not to exceed ½˝, all gristle and connective tissue removed. Packed 5/10 lb or 4/5 lb, poly packages, inside NSF approved boxes.”

- **Pack and size:** The pack means the number of units in the case, box, or carton. The size describes the type of container or weight of the product. In the previous example, it shows that the stew meat is delivered in either five 10-pound poly packages (50 pounds) or in four 5-pound poly packages (20 pounds).

- **Purchase unit:** The purchase unit represents the unit of measure that the price is based on. Some items are sold and delivered by the case. Items like meat, seafood, and some produce can be priced by the pound but delivered in cases. The stew meat would be priced by the pound but sold either in 50- or 20-pound cases.
• **Count unit:** It is not always feasible to use the delivery or purchase unit when counting product for inventory and reorders. Canned goods, for example, are often sold in a case of six #10 cans. The cases are opened and the cans stored on shelves (*Exhibit 5.10*). So counting the number of cans makes more sense than calculating the number of cases.

---

**Exhibit 5.10**

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• **Price:** The price column is used to show the current purchase price of items. The price should be updated as often as necessary.

• **Vendor:** This column shows the preferred vendor for each product.

• **Vendor item code:** If possible include the vendor’s item code. This helps ensure the correct product is ordered and reduces mistakes.

• **Par level:** As noted earlier in this chapter, par level indicates the quantity the operation wants to have on hand to get it through until the next order so that it can be checked against inventory. It is important to note that when products are ordered weekly, managers need to place an order that will carry the operation through the next delivery, even if current inventory is above established par level.

• **Order history:** Include as much order history as the form will allow. This allows managers to adjust the pars if necessary. At least three weeks of history is recommended to get an accurate product usage.

• **Usage rate:** As an alternative or a supplement to order history, some operations may prefer to establish a usage rate, which is a number or amount of items used in a given period, in order to ease the ordering process. This is because historical usage rate may sometimes prove more reliable than order history.

• **On-hand count:** Before an order quantity can be determined, an actual count must be taken to know how much product is on hand.
It is essential that the order guide show par levels, on-hand count (beginning inventory), and amount that needs to be purchased. As noted, when ordering frequency is weekly or biweekly, managers need to carefully analyze both order history and sales history in order to determine the amount that needs to be ordered.

As can be seen in Exhibit 5.11, duck is normally ordered on Wednesdays. Even though the establishment has established daily par levels, the manager still needs to estimate weekly sales of duck for the establishment. This is because the operation places its order once per week. After analyzing weekly sales for duck, the manager finds that the operation goes through 30 to 35 cases a week. As a result, on Wednesday the manager places an order of 36 cases. On the other hand, when products are ordered daily, weekly sales history may be less critical. This is because if the establishment runs out of prime rib, say on Thursday, the manager needs to order six pieces of prime rib on Friday.

### Exhibit 5.11

**SAMPLE ORDER GUIDE**

<table>
<thead>
<tr>
<th>Item</th>
<th>Purchase Unit</th>
<th>Supplier Price</th>
<th>Count Unit</th>
<th>Ordering Frequency</th>
<th>Date:</th>
<th>Month</th>
<th>Mon</th>
<th>Tue</th>
<th>Wed</th>
<th>Thu</th>
<th>Fri</th>
<th>Sat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Rib, Oven Ready</td>
<td>Each</td>
<td>Chef Meat</td>
<td>1 each</td>
<td>Daily</td>
<td>PAR: 2 2 2 6 6 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$48.00</td>
<td></td>
<td></td>
<td>INVENTORY: 1 2 1 2 0 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BUY: 1 1 4 6 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duck: 4 ct, 1 cs</td>
<td>Each</td>
<td>Betty Poultry</td>
<td>1 each</td>
<td>Weekly</td>
<td>PAR: 4 4 4 4 10 10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$24.00</td>
<td></td>
<td></td>
<td>INVENTORY: 16 10 6 35 24 15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BUY: 36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New York Strip Steak: 12 oz each</td>
<td>Each</td>
<td>Chef Meat</td>
<td>1 each</td>
<td>Daily</td>
<td>PAR: 24 24 24 48 48</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$8.50</td>
<td></td>
<td></td>
<td>INVENTORY: 12 6 6 6 24 12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BUY: 12 18 18 18 24 36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beef Patties: 10 lb ground 80/20: ¼ lb</td>
<td>Case</td>
<td>Chef Meat</td>
<td>1 case</td>
<td>Weekly</td>
<td>PAR: 1 1 1 1 3 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$48.00</td>
<td></td>
<td></td>
<td>INVENTORY: 6 5 4 12 9 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BUY: 10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOG Chicken: 2 ½ lb</td>
<td>Each</td>
<td>Betty Poultry</td>
<td>1 each</td>
<td>Daily</td>
<td>PAR: 12 12 12 12 36 36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3.75</td>
<td></td>
<td></td>
<td>INVENTORY: 12 0 3 2 2 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BUY: 12 9 10 34 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Purchase Order
The order guide informs managers when a certain item needs to be ordered and the amount that needs to be ordered. As a next step, managers prepare a purchase order (PO), which is sent to the vendor (see Exhibit 5.12). Purchase orders are legal documents that communicate the buyer’s intention. Because a purchase order clearly spells out the conditions for the sale, it protects both the seller and the buyer. If the buyer refuses to pay, the seller can sue for the amount of the payment due using the PO as evidence. If it is a large or complicated purchase, a seller may request that a buyer create a PO so that both parties understand the transaction. An invoice, which is the receipt for the items delivered, is another legal document that will reinforce the terms of the purchase order. The buyer can match the purchase order to the invoice to make sure that all of the items were delivered and prices are correct.

Exhibit 5.12
SAMPLE PURCHASE ORDER

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Unit</th>
<th>Item</th>
<th>Price</th>
<th>Per</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Case</td>
<td>Pineapple chunks, fancy</td>
<td>16.39</td>
<td>Case</td>
<td>49.17</td>
</tr>
<tr>
<td>3</td>
<td>Case</td>
<td>Pineapple slice mini, fancy heavy syrup</td>
<td>18.62</td>
<td>Case</td>
<td>55.86</td>
</tr>
</tbody>
</table>

The purchase order is a primary control used throughout the purchasing, receiving, and payment process. Even small operations should consider using some form of purchase order. One of the benefits of ordering products electronically, which is becoming increasingly common, is that after submitting an order, the manager can automatically print out the PO or receiving report to use at the back door. Managers can compare the prices quoted on the PO with the prices actually charged on the invoice. Without a purchase order system it is virtually impossible to verify prices, which means a manager is at risk of losing money if the invoice price is higher than the quoted price because of a mistake or oversight.
In other words, without a PO, many things can, and usually do, go wrong, as shown in Exhibit 5.13. Here, the buyer ordered 100 pounds of beef tenderloin at $9.50 per pound. The supplier shipped 200 pounds. The receiver, not knowing what the buyer ordered, signed for 200 pounds, which was the quantity on the invoice. Without a purchase order, accounting paid the supplier’s invoice for 200 pounds of tenderloin at $11.00 per pound. What do you think happened to this operation’s standard food cost for this month? It is important that the receiving person always checks in orders using the PO and not the invoice.

Preparation of the Purchase Order

A purchase order specifies the products to be purchased, their price, their delivery date, and other important information. It includes the following features:

- Unique number to identify the purchase order
- Name of the ordering restaurant or foodservice operation, with address and phone number
- Date of the order
- Signature of the person placing the order
- Supplier’s name, address, phone number, and contact name
- Date of delivery, terms of payment, and any special instructions
- Each item to be purchased, the quantity and unit of the item, the item’s unit cost, and the extended cost of the item
- Total cost of the order
A standard purchase order is usually used for companies with whom the buyer does infrequent business. If buyers plan to frequently purchase products or services from a seller over time, they often establish a blanket purchase order. This type of PO allows the buyer to purchase a certain amount of goods, usually indicated by a dollar amount, at the stated terms within a given time period. This approach speeds up the purchasing process since a separate PO is not needed for each transaction. The buyer merely needs to call the supplier on the phone, send an electronic order, or submit a formal bid request to place an order with the company. As items are purchased, the seller will invoice the buyer for goods received. Blanket purchase orders are very common among restaurant and foodservice managers and allow for the immediate request and delivery of goods or services.

**SUBMITTING THE PURCHASE ORDER**
Advances in technology mean that today most orders are submitted electronically. However, there may still be some suppliers that require phone or fax orders. When placing phone orders, it is important to ask the supplier to verbally confirm the items and quantity ordered. That way, misunderstandings between buyer and supplier will be minimized. In addition, the buyer will get confirmation of product availability. In some situations, the buyer may ask the supplier to send an e-mail confirmation of the order. When ordering by fax, the buyer should call or e-mail the buyer and request an acknowledgment of order receipt. In some rare cases, the fax machine of the supplier may run out of paper, which can cause order delays.

More and more suppliers use online ordering systems that show real-time inventory availability. This is a great benefit for buyers because they can immediately verify the availability of product. In addition, when an operation places multiple orders with the same supplier online, the operation does not have to deal with multiple paper copies of these orders. Also, when orders are received electronically, the supplier does not have to manually record these orders into its inventory system. By submitting online purchase orders, both the buyer and the seller reduce the amount of paperwork and also save time and labor.

**IMPROVING THE ORDERING SYSTEM**
The ordering system should be taken very seriously because incorrect ordering can result in food-production delays, excess inventory, or lower-quality meals and dissatisfied guests. One of the main considerations in ordering is to designate a person or position responsible for ordering. The responsible person needs to review order sheets for different vendors periodically. He or she needs to identify any past ordering problems and work with involved parties to resolve them. The final step in the ordering system is to evaluate the success level of remedies to ordering problems. Generally, there are three key areas that can help improve the ordering system: record keeping, security, and training. Each of these areas is discussed here in more detail.
Record-Keeping Basics

In all but the smallest restaurant and foodservice operations, purchasing responsibilities are divided up to gain stronger control. Coordination of the various purchasing tasks is achieved using five basic documents, as shown in Exhibit 5.14:

1. **Purchase requisition**: A par sheet or order guide is used to assemble a purchase requisition for each department or category.

2. **Purchase order**: A PO is created for each vendor.

3. **Invoice**: An invoice is prepared by the supplier and is simply an itemized listing of the goods or service delivered. Generally, a completed invoice with prices and totals accompanies the shipped goods to the receiving department. Often the supplier will periodically send a statement of invoices to the accounting department.

4. **Receiving report**: Since an operation may have multiple deliveries, a receiving report is used to verify that the goods being received are the goods that were ordered. The receiving report resembles a combination of several purchase orders. The receiving report is used to check every ordered item against the invoice for quality, quantity, weight, counts, and so on. The vendor should issue a credit memo for any shorts or returns. This should be stapled to the original invoice. This report should be completed and sent at the end of each day to the accounting office with accompanying invoices.

5. **Invoice approval form or stamp**: The accounting department will match the receiving report with a copy of the original purchase requisition, a copy of the purchase order, and the related invoice. Everything is then compared and verified. The invoice prices should be compared to the prices quoted and recorded on the purchase order. It is recommended that this be done when the product is delivered as well. The accounting department will also check the math on each invoice. If everything is correct, the invoice is approved for payment. Some organizations stamp the invoice or attach an approval form.

Security Concerns

Security begins with hiring trustworthy employees. In addition, by following the five-step record-keeping basics, an operation can eliminate many security concerns. Typical security issues may include paying a fictitious company, reprocessing and paying an invoice more than once, making math errors on the delivery invoice, or suppliers not issuing credit memos at the time of delivery.
It is a fairly common practice for suppliers in this industry to give “gifts” to managers, owners, and customers that make purchasing decisions on their products. As buyers build a positive relationship with suppliers, they may offer items of their appreciation, such as tickets to a ballgame, free boxes of ribs for the company cookout, or golf outings. It is important that buyers and managers have honest and transparent relationships with all sales representatives (Exhibit 5.15). Smart managers understand that the sales representatives are not their friends and that getting too close to suppliers can be dangerous. This does not mean managers should treat suppliers in an unfriendly manner; however, it does mean that they always need to respect the importance of keeping a business relationship first.

Every operation should have a straightforward and well-communicated policy regarding what’s appropriate and not appropriate to receive from suppliers in the form of gifts. For example, some large retail stores bar employees from accepting anything from a supplier, even a free cup of coffee. If they do, and the company finds out, the employee can be terminated. If a manager suspects someone is receiving kickbacks, he or she should check prices for any excessive increases. Another control is having someone outside of purchasing do some competitive bidding.

Another security issue managers face surrounds substitutions in orders. Lower-quality substitutions can cost an establishment serious money if they are not monitored at the time of delivery. Lower-quality substitutions could reduce both product yield and customer satisfaction.

Theft is also a real issue for managers. To combat purchaser theft, managers may want to rotate people out of the purchasing function occasionally. Doing so can prevent buyers or people working in the purchasing department from becoming so comfortable that they begin to engage in questionable behavior. There can be a benefit to not having the same people control purchasing decisions year after year. Additionally, buyers should place orders only with vendors on an approved list, and the same person should not do purchasing and receiving, since this eliminates any checks and balances.

Finally, the purchasing process should be evaluated on a regular basis in order to:

1. Measure the extent to which current purchasing goals are being met
2. Improve the system to more effectively achieve future purchasing goals and enhance performance
Employee Training
Managers should always provide new employees with complete and thorough training and an orientation to the departmental policy and procedures. An organization may want to consider using an order schedule, as shown in Exhibit 5.16. The order schedule lists the vendor's contract information and emergency phone numbers. The order schedule can be organized by the number of days each week that products are ordered and should result in a more organized and thorough purchasing process. Information to prepare an ordering schedule comes from the order guide. Use of this tool will quickly get any new employees up to speed with the current ordering frequency of an organization.

**Exhibit 5.16**

**SAMPLE ORDER SCHEDULE**

<table>
<thead>
<tr>
<th>Supplier Information</th>
<th>Mon</th>
<th>Tue</th>
<th>Wed</th>
<th>Thu</th>
<th>Fri</th>
<th>Sat</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCE COMPANY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order method:</td>
<td></td>
<td>Phone #</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fax #</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order due by:</td>
<td>6:00 p.m.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency phone:</td>
<td>555-495-9000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ORDER/DELIVERY</td>
<td>ORDER/DELIVERY</td>
<td>ORDER/DELIVERY</td>
<td>ORDER/DELIVERY</td>
<td>ORDER/DELIVERY</td>
<td>ORDER/DELIVERY</td>
</tr>
<tr>
<td><strong>MEAT SUPPLIER</strong></td>
<td>Sales Rep Name</td>
<td></td>
<td>Phone #</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order method:</td>
<td></td>
<td>Fax #</td>
<td></td>
<td></td>
<td></td>
<td>Other</td>
</tr>
<tr>
<td>Order due by:</td>
<td>Midnight</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency phone:</td>
<td>555-445-2145</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ORDER</td>
<td>DELIVERY</td>
<td>ORDER</td>
<td>DELIVERY</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SUPPLIER NAME</strong></td>
<td>Order method:</td>
<td></td>
<td>Order due by:</td>
<td></td>
<td>Emergency phone:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SUMMARY

1. Explain the purchase process and determine who should make purchasing decisions.

The purchase process involves five steps. First, the manager must designate a purchasing person or buyer. The buyer is the sole person responsible for purchasing goods for an operation. Taking this approach eliminates any confusion about what was purchased and when. Then the organization must identify what is needed to produce the menu and develop product specifications. Order guides and par sheets tell buyers when and how much to order. Purchase methods are chosen based on the specific needs of a given operation. Finally, vendors and suppliers are identified and a preferred vendors list is established.

2. Describe the importance of par levels and how to establish them.

A par level is the amount of stock necessary to get the kitchen through until the next order is delivered. Establishing par levels is of critical importance to restaurant and foodservice managers. This is because they have limited storage space, some products have a short shelf life, and other products need to be served fresh. In addition, by determining the amount that needs to be on hand at all times, operation managers prevent customer dissatisfaction. When determining par levels, managers need to consider factors such as historical sales of a given item and the time it will take from placing the order until the delivery of goods.

3. Explain different types of purchasing methods and their uses.

There are different purchasing methods, and selecting a particular method depends on the size and type of an organization and the intended use of a product. For example, the competitive bidding method is the most appropriate method for small independent operations. On the other hand, chains prefer the cost-plus purchasing method. The commissary method works best for franchised chains, whereas for perishable items such as dairy and fresh seafood, operations use the standing order method.

4. Describe the parts of a purchase specification and of a purchase order.

Managers write the specifications for the food needed to produce the standardized recipes, with input from the chef or production manager. Product specifications should be appropriate for the desired use. Large operations typically write formal specifications; smaller operations might use verbal specifications. A purchase order (PO) is a form listing the products to be purchased, their price, their delivery date, and other important information. It will also show the total cost of the order.

5. Explain the importance of maintaining an ordering system.

A proper ordering system helps ensure that the amounts purchased make culinary and financial sense. In addition to determining par levels and preparing order guides, operations need to adhere to record-keeping guidelines that consist of five key purchasing and ordering documents. Developing strict rules about receiving gifts from suppliers also should alleviate security concerns pertaining to purchasing and ordering. Employees should be properly trained about the ordering schedule. Excess inventory may increase waste, allow for product theft or pilferage, and encourage overproduction.
CHAPTER 5  Controlling Food Costs in Purchasing

APPLICATION EXERCISE

Stormy’s Steaks and Seafood uses the following par sheet. The manager needs to prepare an order guide for next month, but first a par sheet for the next two weeks needs to be completed. Lobster tails are ordered weekly on Mondays, while rib-eye steaks and asparagus are ordered twice a week.

1. Par level for rib-eye steaks is 4 on Mondays. Par stock doubles on Thursdays. Calculate purchases for Mondays and Thursdays for rib-eye steaks.

2. The par stock for lobster tails is 14. How many lobster tails need to be ordered each week?

3. The par stock for asparagus is 24 cases for Mondays and 48 for Thursdays. Calculate the purchase amount for both weeks.

PAR SHEET FOR STORMY’S STEAKS AND SEAFOOD

<table>
<thead>
<tr>
<th>Meat</th>
<th>Unit</th>
<th>Supplier</th>
<th>Monday (Week 1)</th>
<th>Thursday (Week 1)</th>
<th>Monday (Week 2)</th>
<th>Thursday (Week 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rib-Eye Steaks</td>
<td>Each</td>
<td>Steakology</td>
<td>Par 4 Inv. 2 Buy 3</td>
<td>Par 4 Inv. 1 Buy 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Lobster Tails</td>
<td>Each</td>
<td>Betty Fisheries</td>
<td>Par 14 Inv. 3 Buy 14</td>
<td>Par 14 Inv. 5 Buy 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Asparagus</td>
<td>Case</td>
<td>Produce Products</td>
<td>Par 24 Inv. 9 Buy 48</td>
<td>Par 24 Inv. 14 Buy 48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

REVIEW YOUR LEARNING

Select the best answer for each question.

1. Proper purchasing involves
A. purchasing the highest quality available.
B. purchasing according to the specification at the lowest price.
C. purchasing as much product as possible in any given time period.
D. purchasing all goods from only one vendor.

2. When should perishable goods be purchased?
A. Every one, two, or three days
B. Every one or two weeks
C. Every day, no matter what
D. Twice a week
3. What is par level?
   A. The amount of an item ordered each week
   B. An item that an operation has on hand at all times
   C. The level that must be continually in inventory from one delivery to another
   D. A purchasing method where each item has a level at which it is reordered

4. An operation uses one case of tomato sauce per day and has a par level of three cases. Orders are made once a week. Today is order day, and there are three cases left. How many should be ordered?
   A. Three
   B. Four
   C. Seven
   D. Eight

5. To whom is a purchase order sent?
   A. The supplier
   B. The front-of-house manager
   C. The chef
   D. New employees

6. The standing order purchasing method is best suited for which product?
   A. Lettuce and tomatoes
   B. Fresh shrimp
   C. Heavy cream
   D. Ground beef

7. Which purchasing method is used primarily by franchised chains?
   A. Competitive bidding
   B. Prime vendor
   C. Commissary
   D. Cost-plus

8. Which document is used before preparing a purchase order?
   A. Order schedule
   B. Order guide
   C. Order approval form
   D. Standing order

9. An ordering system can be improved by
   A. increasing storage space and par stock.
   B. providing staff training about the order schedule.
   C. paying cash for orders.
   D. using fax orders only.

10. To bring new employees up to speed on the existing purchasing process, an operation should use which tool?
    A. A point-of-sales (POS) system
    B. An order schedule
    C. A par sheet
    D. An invoice