Purchasing

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Evaluating Food Service Establishments...Key Check Points

Purchasing

The manager of a food service establishment and/or the manager and his superior need to take the time to make an overall analysis to determine the results that the organization is actually obtaining. This should be done several times a year. The evaluation should determine how well the food service operation is doing and where improvements should be made. Then some priorities, objectives, methods, and deadlines for improvements can be established.

This is one of a series of pamphlets describing how a person can fairly comprehensively, yet in less than a day, provide an overall evaluation of a food service operation. The key items, or food service conditions, to evaluate under each major category are described. Taken together, the key indicators of general conditions measure the degrees of efficiency (minimal costs) and effectiveness (optimal organizational satisfaction). A major category that has a deficient key indicator should be investigated further, and corrective adjustment should be considered and/or made where appropriate. A discussion of facts by management with the operating personnel is perhaps most needed to develop mutual understanding of the problems. Attainable performance objectives should be jointly established and reviewed at a later date.

If all key indicators are satisfactory in a major category, other aspects of that category are probably being handled with similar care. If all of the key indicators are high, but the profit is not adequate, then it will be necessary to examine the operation for inefficient purchasing and receiving practices, improper menu pricing, inaccurate records or financial statements, inventory method and method of computing the value, production waste, plate waste, security and pilferage, and so forth.

These operational analysis guidelines may be used by the manager of a single food service establishment for self-analysis, or by the unit manager’s supervisor.

1. Management Planning, Organizing, and Controlling (HE-202)
2. Personnel (HE-203)
3. Purchasing (this publication)
4. Receiving, Storage, Issuing, Inventory (HE-205)
5. Food Preservation (HE-206)
6. Food Presentation and Service (HE-207)
7. Maintenance of Building and Equipment (HE-208)
8. Sanitation and Housekeeping (HE-209)
9. Statistical and Ratio Analysis (HE-210)
10. Consumer Satisfaction (HE-211)

3. Purchasing

The purchasing function can make a substantial contribution to a profitable operation, as food is the major expense of most food service operations. The objectives of purchasing are the acquisition of the right quality food, supplies, equipment, and service at the right place, at the right time, and at a price that you wish to pay. Purchasing is a complex activity. Its well-defined procedures must be followed to achieve good results. An effective food buyer must have knowledge of food grades and prices, quality specifications, market fluctuation and must have time to properly do the job. The key indicators are food purchasing specifications, determination of purchase quantities, competitive purchasing, a written purchase order, purchasing procedures and records, purchase for immediate needs, and value considerations.

Food Purchasing Specifications

The actual use of thoughtful written food specifications designed for the food preparation methods of the operation is one of the most important phases of good food purchasing. Without purchasing specifications, it is impossible to obtain true competitive bids from suppliers because there is no assurance that all bids refer to identical products.

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Food purchasing specifications are a set of standards which clearly define the products as you wish to purchase them. All specifications should contain basic information such as:

- Name of the product.
- Federal grade, brand, trade, or other quality designation.
- The buy unit, box, case, pounds, carton, etc.
- The container size, fill, and perhaps number of pieces in a shipping container.
- The unit on which prices are to be quoted (by case of 24/2's, 6/#10's, pounds, dozens, gallons, etc.).
- The specification factors needed to obtain the exact item (geographical area of production, variety, type, style, size, percent of mixture, weight tolerance, condition upon receipts, etc.).

Quantities
Quantities to order need to be based on the menu choices, the volume of business, quantity inventory, and the amount of food on order. To accurately determine purchase quantities, the food buyer must have access to records of past purchases, yield studies, recipes providing portion size information, and sales forecasts.

Competitive Purchasing
The source of supply is usually comprised of wholesalers, institutional suppliers, salespersons of manufacturers of food products, truck jobbers, brokers, and cooperatives. Foods can be purchased by 1) open market buying from distributors; 2) sealed bid; 3) cost-plus purchasing (a fixed percentage above the actual supplier's cost); 4) co-op buying; and 5) total food and supplies from one supplier.

How many sources of supply for each purchasing category is a matter of judgment, depending partly on the importance of the item, on competitive conditions in the supplier industry, and on the quantities involved. However, at least two supply sources for each purchasing category is necessary for competitive bidding.

There is need for a written record of all competitive bids and for verifying the recorded bids with suppliers on a regular basis.

Purchase Orders
A purchase order is the commitment by the food service establishment for goods, equipment and services ordered. It is also the supplier's authority to charge the buyer for them. It becomes a contract when accepted by the seller.

A purchase order should contain the following basic information:

- Name and address of purchasing organization.
- Date of issue.
- A purchase order number for identification purposes.
- Name and address of supplier.
- The delivery date and time.
- Item and description.
- Brand.
- The order unit (no./unit).
- Quantity.
- Price and discount (terms and conditions).
- General instruction.
- Signatures of persons authorized to purchase.

Purchasing Procedures and Records
A good purchasing procedure for food supplies, equipment, and services includes: (1) determining exactly what is needed, (2) developing a written specification, (3) a systematic market search, (4) sampling, (5) selecting the right source, (6) limiting ordering times, (7) control of purchase orders, (8) maintaining good relations with suppliers, (9) obtaining accurate information from suppliers relative to market trends and new products, and (10) evaluating purchasing performance. Are there well thought-out and understood purchasing procedures in the following areas? (1) checking requisitions or developing amounts to order, (2) obtaining price quotations, (3) analyzing quotations, (4) choosing between contract or open market purchase for various food groups such as meat items, fresh fruits and vegetables, processed fruit and vegetables, dairy items, baked goods, beverages, convenience entrees, specialty items, (5) scheduling purchases and deliveries, (6) interviewing sales personnel, (7) negotiating contracts, (8) issuing purchase orders, (9) checking legal conditions of contracts, (10) following up for delivery, (11) seeing that food and supplies are properly received, (12) verifying invoices, (13) corresponding with vendors, and (14) making adjustments with suppliers.

Basic records that need to be maintained include: (1) purchase records or orders, (2)
price or bidding records, (3) inventory and consumption records, (4) supplier records, (5) specification files, and (6) catalog files. Copies of the specifications should be given every supplier. Specifications should be discussed with each supplier so there is a crystal-clear two-way understanding of what is wanted and needed.

Purchase for Immediate Needs
Many of the most successful food service operators purchase for immediate needs only, holding inventories and money invested in the food and supplies in inventories at a minimum. The more rapid the turnover of all items in storage, the more efficient use is made of operating capital. An inventory policy of four turnovers per month allows the use of the supplies money four times over before you pay for the goods received, if you pay bills once a month. Costs of receiving increase, however, for four deliveries compared to a single delivery.

Each organization should determine a rock-bottom minimum inventory based upon storage space available, frequency of deliveries, cost of deliveries, minimum size order required by suppliers, and ability to obtain interest on short-term investments. A food establishment that has a $130,000 gross income per month and a 40 percent cost of food consumed figure would purchase $12,000 worth of food a month. If management expects four inventory turnovers a month, $3,000 of merchandise, on the average, should be on hand. Inventory control may be further refined by setting objectives for the percent to have in inventory for various food categories, as this example shows:

<table>
<thead>
<tr>
<th>Item</th>
<th>% Inventory</th>
<th>Projected inventory total</th>
<th>Projected amount to have in inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>50</td>
<td>$3,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Dairy</td>
<td>12</td>
<td>3,000</td>
<td>360</td>
</tr>
<tr>
<td>Produce</td>
<td>10</td>
<td>3,000</td>
<td>300</td>
</tr>
<tr>
<td>Grocery</td>
<td>23</td>
<td>3,000</td>
<td>690</td>
</tr>
<tr>
<td>Bakery</td>
<td>5</td>
<td>3,000</td>
<td>150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td></td>
<td><strong>$3,000</strong></td>
</tr>
</tbody>
</table>

Suppliers sometimes offer "specials" of increased discounts on purchases of larger quantities. The saving from a special discount should equal at least 6 percent interest on the total value of the order over the period the merchandise will remain unused. If the total saving is less than 6 percent, you are money ahead by purchasing a few standard units and turning them over quickly. Large deliveries tie up interest and principle, increase chances for spoilage, deterioration and pilferage. Sometimes more is used when there appears to be an unlimited amount on hand. Purchasing large quantities is not a good buy, of course, if you can't store it properly or if using it up means monotonous meals.

Value Consideration
A food buyer should try to obtain more value for the price paid. Here are some questions to ask to learn if the buyer is purchasing the most suitable food and supplies at the least cost for specific use:

- Can a different product do a better job?
- Is cost of the product balanced to usefulness? Is it overvalued? Are all features of use and value?
- Can a better or lower quality be used?
- Can another dependable vendor supply the product? At what cost?
- Can a different food item be used and/or supplied?
- Can a different procedure be used?

The best cost is determined by the actual cost per serving and the value of any by-products.
Purchasing Performance
The answers to the following questions will accurately evaluate the buyer’s performance. Does the food buyer—

-- have knowledge of the needs of the establishment? The menu provides the food items, recipes provide lists of ingredients, customer forecasts indicate how many portions need to be produced or the gross amount of the raw materials needed. The inventory on hand and the amount on order (if any) should be subtracted from the gross amount needed to determine the net amount to order. Some items (frequently staple items) may be purchased on a par stock basis where a maximum amount to carry in stock is determined. This is the amount to build back to when the inventory has fallen to a minimum point. The minimum point is the smallest number of units which will carry you over between the time you order and the delivery, plus a factor for safety to insure against running out of the item completely if there is an unexpected demand for it. Other items, such as perishable items, are ordered as needed or, perhaps, several times a week. Standing orders are also used for certain products.

-- have knowledge of the market? This involves knowing the sources of food available, type of foods available from each supplier, the qualities available, brands and price range, and a well thought-out basis for deciding which food items best meet the needs of the organization at a given time.

-- have knowledge of the products purchased? This includes such factors as federal standards and writing food specifications.

-- have knowledge of good purchasing procedures? This includes use of specifications, ordering procedures, and adequate records. Clear, written specifications are a key factor in any good purchasing system.

-- purchase food, supplies, repairs, and services at the optimum combination of quality, price, delivery, and service?

-- keep management informed on the current and long-term availability of required food and supplies and anticipated price trends?

-- actively participate in cost reduction and recipe improvement programs?

-- perpetuate a program of maintaining minimum inventory consistent with forecasts based on menu choices and the volume of business?

-- develop and retain highly qualified personnel?

-- maintain an “open-door” policy for suppliers to furnish assistance in applying new and improved products and processes?

-- establish and maintain good relationships with suppliers through fair and ethical treatment?

-- conduct all purchasing activities in a manner that will build and maintain good consumer and community relationships?

-- dispose of used equipment, furnishings, test products, etc., in the manner most beneficial to the organization?

Summary
Food purchasing has much influence on the success of the food service establishment as food is the major expense for most food service operations. A food service organization becomes successful by meeting the expectations of the consumer. The food buyer helps provide consumer satisfaction by accurately interpreting the consumer’s desires and representing the consumer’s interest in proper quality, uniformity, consistency, and price.

References

General Purchasing Textbooks

Quantity Food Purchasing Books
Quantity Food Purchasing Pamphlets


United Fresh Fruit and Vegetable Association. Buying, Handling, and Using Fresh Fruit; Buying, Handling, and Using Fresh Vegetable Container Net Weights; Selection and Care of Fresh Fruits and Vegetables; Serving Costs; U.S. Department of Agriculture Official Visual Aids; Grade Requirements for Florida Citrus. 1019 19th Street N.W., Washington, D.C. 20036.


Government Publications


National Provisioners, Inc. Meat Service Report, 15 West Huron St., Chicago, Ill. 60610. (weekly, 4-page pamphlet).

Other Publications, Catalogs, Correspondence Courses

National Restaurant Association
One IBM Plaza, Suite 2600
Chicago, Illinois 60611

Educational Institute of the American Hotel and Motel Association
Stephen S. Nisbet Building
1407 South Harrison Road
East Lansing, Michigan 48823

Cahners Books International, Inc.
221 Columbus Avenue
Boston, Massachusetts 02116

Other Sources of Information Are:
Radio and newspaper
Farm reports
County Extension Offices
Monthly lists of new government publications
Brochures from suppliers

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