Fourth

Guide to Reducing Waste

Reduce waste to help the planet and your bottom line.

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Introduction

With climate change top of mind, reducing waste is a recurring theme across industries. In the hospitality business, waste has a huge environmental impact but a direct effect on your profit. While great strides have been made and hospitality busineses are more mindful than ever before of the waste they produce, we still have a long way to go.

Research from WRAP estimated that the cost of food waste in the UK hospitality and foodservice sector would hit £3 billion in 2016, with 45% of this food being wasted during food preparation. Imagine what you could do with even a tiny fraction of that sum.

Food and drink is typically the highest cost after labour in a hospitality business' P&L. Every business must run inventory to know what it has bought, returned and sold, because the cost of over ordering stock adds up quickly in the form of waste as well as money. Yet, operators continue to lose multi-billions of pounds through food waste, either because it's simply overlooked or because they can't accurately track waste. Fortunately, the right technology can help.

Waste must be monitored from the ingredient level through to recipe creation and day-to-day operational waste. With technology, operators can simplify and automate from sourcing to the guest experience. Waste-tracking technology uses just one set of accurate data for precise comparisons, and which enables better decision-making to avoid over-ordering. It can also show the costs of over-portioning in recipes and track supplier deliveries to catch waste in the delivery process.

It is imperative for operators to take action: preventing waste helps the planet, attracts environmentally conscious consumers, and directly impacts your bottom line. The right technology can help restaurants run more efficiently, predict stock needs and manage inventory more accurately, while reducing wasted time — which also adds up.
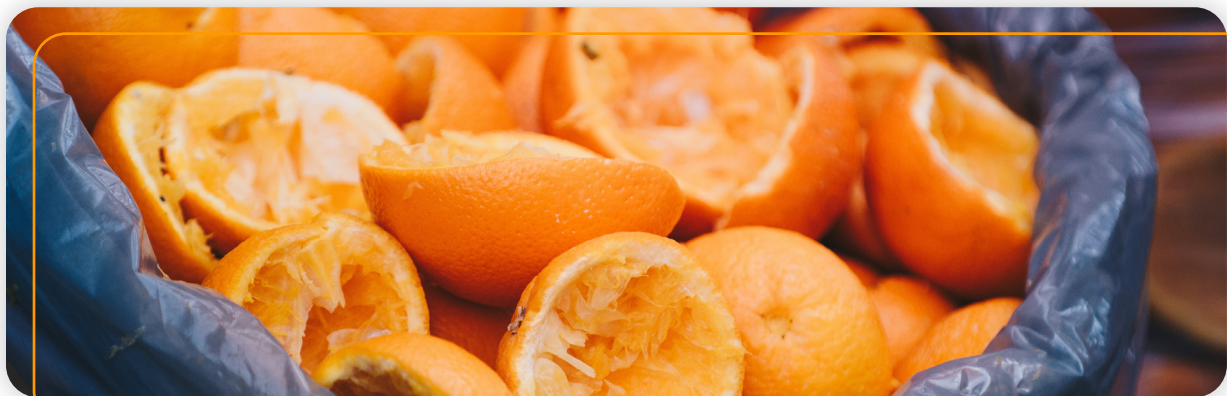
What Is Waste?

In simple terms, waste is the difference between what you think you're going to use and what you actually use. There are two categories of waste:

Recorded waste

Includes inventory that gets thrown out because it is expired; food that's been spoiled in the cooking process; food that's been spilled, dropped or otherwise lost through human error; and products delivered by suppliers that aren't usable and can't be returned. Often the cost of waste (or yield) is included at the recipe creation stage, too.

Unrecorded waste

Exactly that: unexplained shortfalls in inventory or food that the customer leaves on their plate.

These categories can be split into avoidable and unavoidable waste:

Avoidable waste

Includes over ordering, spoiling food during cooking, human error, bad inventory rotation and over portioning.

Unavoidable waste

Most waste can be managed, but will include unexpected spoiling due to something like a fridge malfunction, or customers leaving food on their plate either because they can't finish it or didn't like it.

What's the Issue?

As the second-highest cost in a hospitality business, food and beverage is also the basis of your menu pricing, as you set and work towards target margins. Waste eats away at these margins. Without a properly integrated end-to-end system and the relevant processes and controls, you can't accurately measure waste, nor set accurate theoretical margins. Comparing actual food and beverage use in recipes against the theoretical numbers is also impossible.

In turn, this means that you can't identify the source of problems, whether this is individual products, recipes, suppliers, members of staff, or specific locations. The result? Until a cause is identified and a solution put in place, waste will continue to eat away at your profit margins.

What Can You Do About It?

The good news is that there is plenty of evidence that you can take control of your waste management. Companies without effective waste management systems usually lose between 1 and 6% of sales potential because their costs increase. But when they implement an integrated end-to-end system, on average they see at least 2% increase in gross profits.

So how do you start? Some companies will look to their POS provider to reduce waste. However, it's important to note that these generally have poor recipe management, which makes it hard to understand true theoretical margins, which of course affects actual gross margins.

This is because POS solutions that don't have detailed analytical reporting or aren't integrated with finance systems, can't show the true cost of waste. Every hospitality business must run inventory to know what it has bought, returned and sold, because the cost of over-ordering inventory adds up quickly: both in waste generated, and through the invoice payment process. For example, there is often a difference between what goods are actually received and what the supplier invoices. Hundreds, even thousands, of pounds aren't claimed back when goods are returned because of short shelf-life or damage on delivery. Individual sites just pay up without realising, or only catch the error after the invoice has been paid in full. This cost can represent up to 1% of sales.

Instead, you'll need a fully integrated best-in-class solution that has been built specifically to meet the needs of the hospitality industry. This will ensure all data flows through the system and can be easily analysed to understand the true impact and cost of waste for your business.

What Does Good Waste Management Look Like?

The simple answer is that it doesn't stand out. It should be a normal and intuitive part of everyday processes. It starts by including margins and product costs in an integrated end-to-end system. Ingredients are confirmed with suppliers and all the relevant data, including best-by dates, nutrition and allergen information is loaded into your solutions. Suppliers can be approved so that each location and member of the team knows exactly which products to order from which supplier, and at what price, to cut down on rogue purchasing and to ensure optimal pricing. From there, recipes are designed, and pricing and margins can be set.

Obviously, the key to any improvement process is to understand where you currently are. You need to have a good grasp of exactly what food is being wasted, and why. For example, if you regularly have customers not finishing their meals, then there's an opportunity to refine this recipe and to slightly reduce the portion size. Similarly, if you keep throwing away a particular product because it goes past its use-by date, it could be a sign it's being consistently over-ordered, or under-utilised in your menu.

Start with Data

The key thing is to ensure you collect complete and accurate data. You can then isolate the problem and take the relevant action. Often, you can log waste through your POS solution, which can automatically feed back into your inventory solution to update the remaining quantities available. Managers should be able to order direct from business-approved suppliers, who can confirm or reject the orders almost immediately through Electronic Data Interchange (EDI). Suggested ordering functionality allows managers to order the right amount, based on inventory on hand and the items they're predicted to sell.

The system then manages other inventory movements through the business, such as inter-company transfers. It also compares actual and theoretical product use to measure wastage. By tracking use-by-dates, you can see which items to use up first. Reporting and analytical tools quickly identify variances, so you can follow up by reviewing product use or recipes, carrying out daily line checks and making sure you are only paying for what you receive at the right price and quality.

What Does Good Waste Management Look Like?

Roles and Responsibilities

As with many operational matters, it's vital to have clear roles and responsibilities across departments. In particular, employees need to understand the importance of accurate data and who's responsible for collecting it. The General Manager of each site should own the site's margin, the area manager should follow up on a weekly basis, and central departments should identify organisation-wide trends and issues.

For recorded waste, this can include pack sizes that are too large,with surplus goods expiring and going to waste, products that are fragile, and discrepancies among different units, which may indicate a need for training or even a problem with theft.

For unrecorded waste, this may include buying too much or holding too much inventory that then expires. If this is common across the organisation, maybe the recipe has an error. If it's isolated to a single site or area, you should consider that there may be some under- or over-portioning, theft, inaccurate inventory records, supplier problems or failure to receive credits for poor deliveries.

Goods Received

You may not immediately think of this as a waste issue but controlling the receipt of and payment for purchased goods has a direct impact on waste management. To minimise waste, you must only pay for what you ordered, and what's been delivered by your suppliers. It seems obvious that hospitality businesses should check that everything is delivered undamaged and within its use-by-date, but it's remarkable how often this doesn't happen.

Here are a few elements to consider:

• Set specific days of the week for deliveries, so they become part of a regular routine rather than ad hoc.

• Make sure a copy of the order is available to check items and quantities, ideally on a mobile device.

• Make sure the right items have been delivered, use-by-dates are acceptable, and nothing is damaged, and ensure that the products adhere to brand standards.

• Make sure discrepancies are recorded, including short deliveries or rejected items.

• Use three-way invoice matching, ensuring the invoice matches both the goods-received note and the original order to make sure you're not overpaying.

The right purchase-to-pay solution can automate this process, so you only have to deal with exceptions. This will save your team a lot of time — and the organisation a lot of money.

Beyond Profit

The amount of waste generated by the hospitality industry is largely optional. Some of this waste is made up of things like peelings and bones, other scraps, some is spoiled or outdated, and some — an estimated third — comes from guests and is otherwise perfectly good. Altering portion sizes, repurposing scraps for new, innovative menu items, utilising bones and peels for rich stocks, and composting can reduce this major source of waste — helping your profitability, and limiting the impact on our planet.

Conclusion

Of course, no kitchen is 100% efficient and some waste is inevitable. But smart operators use technology to plan recipes and the margins they achieve, taking predictable wastage into account. Considering all the costs leaves no room for bad surprises when you get to actual profit.

Managing production costs is vital, but you also need to know what's selling and what isn't — and you can't afford to rely on anecdotes or hunches. Reliable reporting is essential to understanding the relative popularity of menu items, so you can plot this against their profitability. Analytics can then reveal the sweet spots: the favorites that make customers happy and loyal, and make you money. You can also see when ingredients are being prepped for unpopular dishes, only to be thrown away when the dish isn't ordered. Having this deep, data-supported insight into trends helps you tailor your menu to what is selling, and helps you manage your inventory accordingly.

About Fourth

We provide end-to-end, best-in-class technology and services to hospitality industry. Our inventory and workforce management solutions, coupled with the industry's most complete data and analytics suite, give operators the actionable insights they need to control costs, scale profitability, improve employee engagement, and maintain compliance. Headquartered in Austin, Texas, we serve more than 7,000 customers across 120,000 locations globally.

Adaco, our inventory management platform and fully mobile applications power the world's leading brands, including Soho House, Hilton Worldwide, Public, Setai, Gaylord, Loews Hotels Service Company, Ritz-Carlton Hotel Company, IHG, Mandarin Oriental and Marriott.

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