



Unit 5: Cost Control for Hospitality Supervisors

Delivery guidance

This is a largely practical unit, which allows your learners to investigate how to control costs by developing a thorough understanding of the principles of goods selection, costing and pricing.

Learners will be initially required to familiarise themselves with the purchasing cycle and the documents used in the purchasing of goods. They will then move onto exploring different types of cost and will carry out pricing and costing activities which will allow them to complete tasks to industry standard. Finally, learners will learn how to use different financial information and be able to measure the success of a hospitality business in financial terms.

To complete this unit, your learners will need access to a range of research materials, which could include sources of information and tools on the internet, journals or magazines, and books.

You can use a range of delivery methods in this unit, such as:

- discussions, e.g. class and small group discussions on types of cost and cost accounting
- individual or group presentations, e.g. elements of the purchasing cycle
- case studies, to allow learners to apply their knowledge
- videos, to illustrate categories of cost

This unit will benefit from the involvement of local hospitality businesses in providing an insight into how their businesses work. You can involve local employers by inviting them as:

- guest speakers
- members of the audience for learner presentations
- contributors to case study material
- mentors for learners.

Approaching the unit

Learning aim A is an introduction to the purchasing cycle and the documents used. Learners will learn the importance of each stage in the purchasing cycle and how it can be applied to help a hospitality business achieve its organisational goals. Learners will explore the criteria that need to be taken into account when selecting goods and how to control and record the movement of stock within the business.

Learning aim B is an introduction to the types of cost and ways that these can be controlled within the hospitality industry. Learners will be able to practice methods of costing and pricing that can be applied to different goods and services within the hospitality industry.

Learning aim C introduces learners to the different sources of financial information. Learners will be able to extract information from these sources to determine the success or otherwise of a hospitality business.

Assessment model

Learning aim	Key content areas	Recommended assessment approach
A Investigate the principles of goods selection in hospitality	A1 The purchasing cycle A2 Goods selection criteria A3 Controlling and recording the movement of stock	Using a case study, learners will investigate the goods selection process in the hospitality industry.
B Carry out costing and pricing activities for hospitality products and services	B1 Calculating and controlling costs B2 Methods of pricing	Learners will carry out a range of costing and pricing activities for both simple and complex hospitality products and services.
C Use financial information to measure hospitality business performance	C1 The purpose and use of financial information C2 The sources of financial information C3 Financial information	Learners will evaluate the performance of a hospitality business using a variety of financial information, making recommendations for improvement.

Assessment guidance

This unit is internally assessed using a Pearson set assignment. The brief is issued in two parts: one task will require the research and collection of information; the other will be a task based on a case study. Your learners are required to complete both tasks under monitored conditions.

Your learners are required to carry out their research independently during monitored sessions. Monitored sessions are where learners are being directly observed producing materials that are to be used in any formal supervised session. Learners may have, where specified, access to their own outcomes from preparation, access to the internet and use of appropriate resources. At the end of the monitored preparation centres will retain the notes which should then be given to learners during the supervised Part B Set Assignment.

It is important that your learners collate their class notes and the outcomes of any class activity to assist them with their preparation for the assessment.

Part B of the set assignment will include an extended writing activity. To prepare your learners for this extended writing activity, give them plenty of time to practise in class. Learners could complete any planned activities individually, in pairs or small groups, and present their campaign to a group of peers who could test their depth of knowledge by asking questions about their ideas.



Getting started

This gives you a starting place for one way of delivering the unit, based on the recommended assessment approach in the specification.

Unit 5: Cost Control for Hospitality Supervisors
Introduction Begin by providing an overview of the unit, what your learners will study and how they will be assessed.
Learning aim A: Investigate the principles of goods selection in hospitality
<ul style="list-style-type: none">● Ask learners to get into groups and discuss 'what costs are' and why it is important that costs are controlled. Discuss learners' answers.● Explain that one of the biggest costs to a hospitality business is the goods and raw ingredients that need to be purchased. Explain that all businesses need to have procedures in place for making purchases to keep costs under control and to prevent waste. A worksheet would help to consolidate this knowledge.● Ask learners to consider the processes they go through when purchasing foodstuffs for the home. Discuss learners' answers and explain that the purchasing cycle applies to all goods and not just raw ingredients.● Use a presentation to explore the purchasing cycle, including the requirements and the importance of each stage of the purchasing process, and the ability of a hospitality business to achieve its organisational goals.● Discuss each stage of the purchasing cycle including:<ul style="list-style-type: none">○ how needs are established○ how goods requirements are specified○ how suppliers are selected and prices negotiated○ how orders are placed○ how goods are inspected and put into stock following delivery○ how invoices are checked and goods paid for.● Use real examples of the documentation used by hospitality businesses to manage the purchasing cycle. Explain how each document is completed and used within hospitality businesses. If possible, allow learners to complete/fill in documentation using information you provide. Documents should include:<ul style="list-style-type: none">○ purchase orders○ delivery notes○ invoices○ goods received notes○ credit notes○ goods returned notes.

- Use a class discussion to explore what factors should be considered when selecting goods for use in a hospitality business. Discuss learners' responses and use a presentation to explore the factors that need to be taken into account when selecting goods.
- In pairs, learners can mind map how goods (stock) are controlled within a hospitality business. Discuss learners' responses. Explore the ways hospitality businesses control and record the movement of stock, explaining the methods and the documentation used.
- Invite a guest speaker from a hospitality business or visit a large kitchen to help learners understand the processes used in establishments to manage the procurement of goods, and control and record the movement of stock.

Learning aim B: Carry out costing and pricing activities for hospitality products and services

- Introduce learners to the learning aim, including the types of cost and ways these can be controlled within the hospitality industry, the methods of pricing that can be applied to different goods and services within the hospitality industry and the factors that need to be taken into account when costing and pricing a range of goods and services.
- Start by explaining the categories of costs:
 - fixed: costs do not change in relation to how much output a business produces
 - variable: change in proportion to the amount of output produced or amount sold
 - semi-fixed: a cost that contains both fixed and variable elements.

Explain that most fixed costs cannot be controlled by staff and supervisors within the business, but variable costs can.
- Design a worksheet that lists different costs e.g. rent, insurance etc., and ask learners to determine if they are fixed, variable or semi-variable costs. Check learners' answers.
- Ask learners for their ideas on how to control different costs. Give learners a list of examples of costs and ask them to take it in turns to select a cost. The other learners should explain how the chosen cost can be controlled. Discuss learner's suggestions and discuss how to control costs and identify lost profits.
- Use a presentation and YouTube videos (see below for examples) to fully explore the different ways in which costs can be controlled:
 - setting and managing budgets
 - correct storage
 - waste reduction
 - stock taking and valuation, LIFO FIFO
 - forecasting, sales, labour, room occupancy
 - checking portions/monitoring proportions
 - monitoring food cost prices.
- Use a presentation to explain indirect costs (costs that cannot be matched against each product because they need to be paid whether or not the production of goods or services takes place) and apportioned costs (the distribution of various overhead items, in proportion, to each department on a logical basis). Design a quiz to test knowledge.

- Introduce learners to the different methods of pricing. Use a range of pricing and costing activities/case studies to help learners master the skills. You could design these yourself and/or use examples from textbooks. Ensure they progress from simple dish costing to the costing of complex products and services.
- Explain that menu pricing needs to ensure the caterer makes adequate profits and the customer feels they are getting value for money. Explain each of the terms in the specification and design individual activities that allow learners to better understand how pricing models work. Examples of menus from a range of businesses will help to add interest and understanding. Develop worksheets that will allow learners to practise simple cost-plus and gross profit margin costing and which cover the following:
 - market rate
 - full/marginal costing
 - discounts
 - subsidised pricing
 - service charges.
- Use a presentation to introduce learners to the main types of menu. Specifically, for this unit: table d'hôte, à la carte and buffet. Explain the approaches that should be taken towards the pricing of each type of menu. Examples of menus from a range of businesses will help to add interest and understanding. Ask learners to consider ways to reduce the cost of ingredients and discuss their ideas. Include:
 - cross utilisation of ingredients
 - buying in bulk
 - using seasonal ingredients
 - using specials for slow selling or surplus ingredients.
- Explain how the menu sales mix can impact on profit.
- Create an activity that allows learners to work in pairs or small groups to investigate different pricing strategies (e.g. price discrimination [Early Bird], price bundling, added value packages and discounting) and how these can impact on sales, the menu mix and profit. Each pair or group could investigate a different pricing strategy and learners could present their findings to the class for discussion.
- Introduce learners to the concept of break even by explaining its importance and by setting some simple break-even scenarios that will allow learners to calculate a break-even point.
- Move on to introduce learners to dish costing, starting with standard recipes. Explain the purpose of standard recipes and how they contribute to profitability. Give examples if possible. Discuss standard yields of products. This is easy to explain in terms of beverages. Explain shrinkage of raw materials, such as joints of meat, to allow learners to realise that raw weights and cooked weights impact on yields.
- Design a series of basic dish costing exercises, including simple and more complex dishes, and adding gross profit and any sales tax to realise a selling price. As learners master the skill, introduce more complex costing exercises covering:
 - applying a range of gross profit margins to different dishes
 - calculating realistic selling prices for a range of dishes
 - calculating complex banquets/functions.

- Introduce learners to beverage costings. Discuss how beverages are purchased in standard purchasing units, e.g. wines and beers by the bottle, and how they are usually served in standard measures (check measures locally). Produce beverage costing activities giving learners the opportunity to cost/price a range of beverages. Include a range of beverages so learners can also consider yields.
- Move to costing accommodation, starting with accommodation fixed and variable costs and their effect on costing and pricing. Discuss adding profit margins to determine a room price. Design a series of activities to allow learners to master the skills of accommodation costing. You may wish to add breakfast and other items as an extension. Follow on with an explanation of calculating occupancy rates, ADL and RevPAR as a measure of success.
- Hold an assessment workshop to allow learners time to collate their class notes and the outcomes of any class activities to assist them with their preparation for the assessment.

Learning aim C: Use financial information to measure hospitality business performance

- Introduce learners to the learning aim including the purpose and source of different financial information that can be interpreted to determine the success or otherwise of a hospitality business. The aim of learning aim C is to get learners to explore the different types of financial information available in a hospitality business and to be able to 'read' these so that they can be used to determine where there are issues.
- Discuss the purpose and use of financial information. Ask learners why they think businesses need to examine financial information and what they can determine from the data. Discuss each of the following:
 - measuring the performance of the business
 - comparing actual with forecasts
 - judging the effectiveness of different departments and managers
 - highlighting necessary changes
 - enabling funds to be raised
 - satisfying statutory requirements.
- Introduce learners to different types of financial information, starting with a profit and loss (P&L) statement (see appendix for a P&L template). Using a simple P&L account, explain the purpose of a profit and loss and the information it contains. Develop a simple P&L example for learners to use. Provide set of figures to be inserted into a profit and loss account. Ask learners to insert these figures to familiarise them with compiling a P&L.
- Demonstrate how the information contained within the P&L allows for the calculation of average spends, average room rates, room occupancy and average sleeper rates. Give sets of data to allow learners to calculate these.
- Describe and explain the use of cash flow statements, operating statements and balance sheets. Give real examples or develop simple versions of these financial documents for learners to refer to. Explain each of the entries on a cash flow statement, an operating statement and a balance sheet. Learners need to be able to 'read' these documents rather than produce them. Describe and explain the use of budgets, sales statistics and sales forecasts, food and beverage cost reports, costed issue sheets and wage reports. If possible, give examples of sample budgets so that learners are able to fully understand how these are used.

- Describe and explain the use of different financial information, sharing real examples where possible:
 - sales income
 - sales mix
 - cost of sales ratios
 - variable (controllable) expenses actual and ratios
 - wages actual and ration
 - net profit
 - gross profit actual and gross profit ratio.
- Set learners a case study activity that asks them to identify the different financial information in the P&L example they have been working with. Discuss learners' findings as a class.
- Describe and explain the use of different financial information:
 - room occupancy
 - sleeper occupancy
 - average spends
 - seat and table turnover
 - liquidity ratios
 - acid test.
- Using a range of data, design an activity to allow learners to calculate liquidity ratios and acid test.
- Hold an assessment workshop to give learners time to collate their class notes and the outcomes of any class activities to assist them with their preparation for the assessment. You may wish to produce a series of revision worksheets to test knowledge. A class quiz will also help to assess knowledge.
- Issue the assignment brief and allow supervised time for learners to complete the assignment.

Details of links to other BTEC units and qualifications, and to other relevant units/qualifications

This unit links to:

- Unit 1: The Hospitality Industry
- Unit 15: Front Office Operations
- Unit 16: Accommodation Operations
- Unit 19: Events in Hospitality.

Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC International in Hospitality. Check the Pearson website at <http://qualifications.pearson.com/endorsed-resources> for more information as titles achieve endorsement.

Textbooks

Asch, A., *Hospitality Cost Control*, Pearson, 2005, ISBN 9780131116009. This book provides an overview of cost control and discusses the technology available for controlling costs. It covers controls in purchasing, receiving, production, forecasts in sales, and controls in sales and revenue.

Davis, B., Lockwood, A., Alcott, P. and Pantelidis, I. *Food and Beverage Management* (6th Edition), Routledge, 2018, ISBN: 9781138679313. An introductory textbook that provides coverage of financial aspects of food and beverage management, including forecasting and menu pricing with examples of costings.

Dopson, L., *Food and Beverage Cost Control* (7th Edition), Wiley, 2019, ISBN 9781119524991. This textbook provides students and managers with a wealth of comprehensive resources and the specific tools they need to keep costs low and profit margins high.

Feinstein, A., Hertzman, J. and Stefanelli, J., *Purchasing: Selection and Procurement for the Hospitality Industry* (9th Edition), Wiley, 2017, ISBN 9781119398233. This covers management of the purchasing function and how it relates to a successful operation. It also acts as a comprehensive reference guide to the selection and procurement functions within the hospitality industry.

Guidling, C., *Accounting Essentials for Hospitality Managers* (3rd Edition), Wiley, 2013, ISBN: 97870415841092. This book provides a comprehensive overview of the most relevant accounting information for managers. It demonstrates how to organise and analyse accounting data to help make informed decisions with confidence.



Websites

The Caterer is a weekly UK trade magazine and its website contains useful articles on cost control and menu costing.

The Institute of Hospitality is a UK-based professional body for hospitality managers, and its website contains useful articles about all aspects of hospitality management.

The Waste Resources and Action Programme or 'WRAP' has a website that focuses on the prevention of waste.

Videos

Visit YouTube and search for the following videos:

- 'How one hotel is reducing food waste': this is about waste reduction and is useful for learning aim B.
- 'Managing Waste In The Hospitality Industry': this is also about waste reduction and is useful for learning aim B.
- '#1 Food Cost Control for Independent Restaurants': this relates to checking portions/monitoring proportions and is useful for learning aim B.

Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling students to access them through the school/college intranet.