Seven Secrets to Managing Supply Chain Costs

Whether you operate a multi-unit enterprise or a single hotel or restaurant, these core principles will improve purchasing and receiving processes and reduce supply chain expenses

In the hospitality industry, balancing priorities like guest satisfaction with costs is a constantly top-of-mind. Whether you're responsible the overall purchasing strategy of a large multi-unit organization, or the day-to-day buying decisions of a restaurant, you can continuously challenge yourself to do more to lower costs and increase the bottom line while still providing quality products your guests will love.

Here are seven secrets to managing costs in your supply chain. These methods are effective and straightforward. The key is checking in on each of them, staying current on market prices and following up with your teams to ensure implementation and coordination—that's what will enable you to save money.

1. Stay Up-to-Date on Pricing Changes and Market Dynamics

To understand the factors influencing pricing, it's important to follow trends in the global economy. Tracking price fluctuations is one way to start lowering your costs. Understanding supply and demand, as well as seasonality, is another; it's essential for every product in your pipeline. It's also worth tracking some specific ingredients even more closely.

For example, the price of meat can vary widely depending on the type of protein and the specific month. Take chicken wings, for example: the best pricing occurs in April and July, with moderate pricing in February and March. The rest of the year is when you'll pay the most. So, while you may serve chicken wings year-round, knowing when those higher costs kick in should prompt you to place a large order, adjust your menu pricing or vary the portion size to maintain profitability.

2. Consider Alternate Brands and Suppliers in your Food & Beverage Operations

While a strong relationship with your suppliers is critical, never be shy about making changes to the products you currently use—rotating in new items can quickly and dramatically reduce your costs. Of course, you may have relationships with some suppliers that you don't want to disrupt. You may also have products that purchasers know their members and guests love—items too valuable to your operation to consider changing. But keep an eye out for other opportunities; alternate suppliers may offer more benefits, better products, and lower costs.

3. Increase Drop Sizes

Aspire to as few deliveries as possible. One delivery of $4,000 means less transportation and labor cost than eight deliveries of $500—and that adds up to a lot of savings across the supply chain. Always consolidate your deliveries. If you increase drop sizes, thereby making the distributor more efficient, you should expect them to share in the cost savings. Think about reducing the number of deliveries you request in a week. If you pre-plan, you can consolidate orders from different departments, thereby increasing your average delivery size. The result should mean a more efficient process for your suppliers, and additional discounts for you.

4. Carefully Plan the Timing of Your Orders

The timing of orders can make a huge difference in your bottom line. Allowing plenty of lead time for your order can help ensure availability, along with reducing the stress of not having a product available. Talk to your suppliers—they may offer discounts during specific times of the year, due to seasonality or lower demand (e.g., chicken wings as noted above). Capitalize on that, even if it's far in advance. If you expect prices to jump on essential products, order them now.

Try to avoid letting the fiscal month/year drive when you order. The end of the fiscal year often brings an increase in spending to "use up" the budget, then spending again when money becomes available. Instead, be proactive in your planning. Suppliers are more likely to work with you to achieve cost savings if you are proactive. Remember: unexpected hurdles can impact your order— so the earlier you begin the process, the easier it is to jump those hurdles.

5. Consider Total Cost of Ownership

The cost of a product is just one consideration in your purchasing plan, but it's an important one. Cutting corners up-front may cost you more in the long run; the upfront price is not the only number you should consider. In procurement, total cost of ownership (TCO) is a vital consideration. TCO is the purchase price of a good or an asset plus the total cost of operation over the lifetime of that purchase. When choosing between items, purchasing should consider the long-term costs as well as the original price.

The key to TCO is in understanding how all the pieces work together. Consider all factors related to the item you are looking to purchase to make an educated and informed decision for your property. In the end, the purchase with the lower TCO will make for a better value over time. Some key considerations include: *preparation time, brand, durability, warranty, customer expectations and waste.*

6. Calculate Rent vs. Own and Outsource vs. In-house

Knowing if you should rent a piece of equipment or outsource a service can be difficult. Consider both options and undertake a detailed analysis of procurement, maintenance, repair, and replacement costs. Renting can save you the up-front capital outlay and reduce operational costs, but owning offers a lower long-term cost and constant availability. Outsourcing offers more flexible scheduling, while in-house labor gives you more control over your labor force. Consider the decision between ordering pre-cut steak vs. cutting in-house. If your staff is skilled and your chef can use trimmings in stews and soups, then you should consider cutting protein products in-house. But if there's no use for the trimmings, then pre-cut steaks may be the more cost-efficient option.

7. Implement Receiving Guidelines

Confirming the accuracy of your orders is critical to lowering your costs. Check all receivables to ensure you're getting exactly what you asked for. Check the weight, temperature, count, shelf life, and condition of goods. If you see any visible signs of damage to a box or crate, open it and inspect. If there's any damage—or any spoilage—you must refuse the delivery.

Monitoring costs is never a simple process. Successful management takes staying on top of both trends in the global marketplace as well as day-today tracking of orders and activities. But with these seven tips, you'll be well positioned to make the changes that can springboard your organization to new heights of cost efficiency.

About Avendra:

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