

Managing Packaging Costs in the COVID-19 Era

By Tobin Perrill, CPA, &
Dustin Minton, CPA, MBA



In the uncertain times that have occurred as a result of the COVID-19 pandemic, there has been one certain outcome for nearly all restaurants that have either been fortunate enough to stay open throughout the pandemic or, reopened at some point since March 2020. That is the increase in delivery and carryout orders. Given this increase in delivery and carryout orders, one of the cost categories that restaurant operators are keeping a watchful eye on is their paper and packaging costs. In most cases, there are paper and packaging costs associated with delivery and carryout orders that are not associated with sit down dining which can reduce and put a strain on margins and cash flow if not properly identified, costed and tracked.

As a result of the increase in packaging costs, best practices on how to evaluate optimal packaging costs for your business has become a topic of utmost importance. There are many qualitative and quantitative considerations that should be made when identifying the best packaging costs from a cost and benefit perspective which include, but are not limited to, the following:

- What are the ideal packaging costs as a percentage of your total prime costs? In general, a commonly used benchmark is that prime costs (food, paper and labor) should approximate 60% or less of total food and beverage net sales.
 - Packaging costs should approximate 3-4% of net sales for limited service (quick service or fast casual).
 - Packaging costs should approximate 1-2% of net sales for full service (casual/upscale casual).
- Are design and branding important to your location and/or concept? Collectively, they can make packaging pop and stand out; however, this results in a greater cost.
- What are the packaging alternatives (i.e. eco-friendly, cardboard, plastic, Styrofoam, etc.) that can be offered, and the costs and benefits of each? Two benefits that should be considered when evaluating packaging type include 1) the in-transit quality preservation and 2) the damage protection offered by each type.

Remember that product quality and repeat business is the goal. Packaging decisions can vary based on your concept; there is not a “one size fits all” approach that can be modeled in these scenarios. However, questions and considerations above should be made in any modeling scenario.

As noted previously, establishing ideal costs for packaging costs as a percentage of total product costs is crucial from a budgeting and forecasting perspective. One way to accomplish this is by purchasing in bulk through a purchasing cooperative or by enhancing your relationship with a trusted supplier. In many cases, these supplier relationships can result in rebates or reduced product pricing with bulk orders as well as per piece discounts predicated on meeting certain volume thresholds. Storage costs need to be taken into consideration when evaluating whether or not to purchase in bulk, especially for smaller restaurant groups and franchisees that may not have the warehouse or real estate footprint to accommodate bulk purchases. In this scenario, it may make more sense to pick and choose items to bulk order based on the size of the item as well as the per unit savings by ordering in bulk.

There are also internal controls and best practices that should be implemented in order to keep overall packaging and paper costs down.

- A three-way match between the purchase order, vendor invoice and inventory received should always be performed to ensure you are receiving the negotiated price and the volume ordered.
- Inventory your product. All items should be counted weekly with key items (those with higher unit values or more susceptible to misuse or theft) being counted daily. Any variances over a certain unit quantity or dollar threshold should be investigated to determine the cause.
- Evaluate shrink and loss prevention costs on a weekly basis in comparison to budgeted totals and thresholds, and investigate any variances that are outside of a normal range.
- Packaging should be based on the portion size of the off-premise sales. Avoid using larger packaging for smaller portion sizes as this tends to cost more.
- Set standards for the amount of napkins, condiments, and utensils provided to avoid waste.

The importance of all of these measures may be enhanced as a result of COVID-19, but an emphasis on evaluating, budgeting and controlling packaging costs should be in place regardless of the economic environment.

Dustin Minton, CPA, MBA is the Director of Restaurant Services for GBQ and can be reached at dminton@gbq.com or https://gbq.com/author/dustin_minton/. Tobin Perrill, CPA is the Senior Manager, Assurance and Business Advisory Services for GBQ and can be contacted at tperrill@gbq.com or https://gbq.com/author/tobin_perrill/.

F I F T H A N N U A L

FOOD, BEVERAGE, & LABOR COST MANAGEMENT SUMMIT

Come hear Dustin Minton, CPA, MBA speak on **Monday, 04/26/2021!**
Nationwide Hotel & Conference Center | Columbus, OH

“Best Practices to Control Restaurant Costs”

Register at www.RestaurantInstitute.com/events/