



UNTANGLING

Problem Solving for Student Businesses

What is your business doing about rising food costs?

Your consultant has probably talked to you about the need to raise prices. They're telling the truth. According to the U.S. Department of Agriculture, food costs, on average, are expected to increase by up to 4.5% this year. This is almost double the 2.4% rise experienced in 2006 and 2005 and more than the general inflation within the economy.

To further illustrate this point, the Wall Street Journal shows that wholesale prices of key food items have risen dramatically over the past year:

- Butter prices are up 31%
- Cheddar cheese prices, up 65%
- Nonfat dry milk prices, up 117%
- Broiler chickens, up 17.5%
- Beef, select, up 12.8%
- Eggs, up 29%

Since food for resale accounts for 100% of your revenues and around 40% of your expenditures, you can't just raise prices by 4.5%. This won't cover the increases in wages, fuel, supplies, etc. Your business's prices should probably be about 10% over prices last year (assuming your business's prices were correctly priced last year). That's the reason YCMP went up to \$7.25 this year.

If your business hasn't raised prices this year, you're probably under-priced. Even if your business has raised prices, you still should check the accuracy of your prices. On average your prices should be about 40% of what you charge. For instance, if a chicken breast costs \$1, then you should charge \$2.50 ($\$1.00 / .4 = \2.50) for it.

Take a few minutes and figure out what the actual food costs are for a few of your most popular menu items. Your purchaser, consultant and the CSB staff can help with this. Then see if your prices accurately reflect your costs.

NOW is the time to make the necessary changes! It's easier from a marketing standpoint to change prices while customers are away for winter break than to change them mid-semester.

All five food-serving student businesses lost money last fiscal year for a combined loss of \$24,911. Three of those businesses lost money the prior year as well. Rising food costs and pricing are two of the main contributing factors. **What can you do to help your business make money this year?**