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– Chapter 10 – Commissary vs. On-site Preparation

Many companies start a commissary as a way to solve problems. Along with computers, central order-taking, and conveyor ovens — commissaries have been heralded by pizza companies as the key to quality control and labor cost reduction. But it doesn't always turn out the way it was expected. This chapter describes the types of commissary systems and explains the advantages and drawbacks.

Types of Commissary Systems

There are two types of commissary systems:

1. Distribution Commissary
2. Production Commissary.

With a *distribution* commissary the pizza company buys directly from the manufacturer, stores the goods, and ships them as needed to the pizzerias. In effect, the commissary replaces the wholesaler, thereby presumably saving on the wholesaler's mark-up. With this system no food preparation is involved.

With a *production* commissary, ingredient preparation that normally would be done in the pizzeria is performed in the commissary. Prepared ingredients are then shipped to the units daily, or else 2 to 3 times per week. In effect the commissary replaces the kitchen prep staff.

Most commissaries are either distribution or production. However, it's possible for a commissary system to be both — that is, to buy and distribute packaged goods and also to do ingredient preparation.

Of the two systems, a distribution commissary is the simplest. It basically involves warehousing and trucking. Companies start distribution commissaries for two basic reasons. First, they intend to reduce food cost by “pocketing” the wholesaler's mark-up. However the savings are often not as big as first imagined. Oftentimes the pizza company incurs more operating cost per unit of food than does the large wholesaler; with the net result being little or no savings in total cost. The second reason some companies start distribution commissaries is to control the supply of ingredients. By knowing what's being used, the company execs feel they have better control over store operations and franchisees. They also sometimes believe that they can increase their profit by charging a higher price on goods going to franchisees.

A production commissary is more complex than a distribution commissary. The remainder of this chapter deals with the production commissary.

Production Commissary in Perspective

To a growing pizza company a production commissary can appear to solve a host of problems. We will examine the potential advantages of such a commissary, then look at the potential drawbacks.

Advantages

When considering a production commissary most companies foresee the following *potential* advantages:

- More consistent quality through centralization and automation — i.e., reduced chance of mistakes from “human error.”
- Reduced overall labor cost due to automation and economies of scale.
- Reduced managerial complexity in pizzerias — that is, fewer people to be managed and, so, less hiring, training, and supervision.

- Reduced kitchen space needed in pizzerias, resulting in the chance to operate in smaller places.
- Reduced equipment needed in pizzerias, hopefully resulting in less start-up investment.
- Easier to protect secret formulas and methods.

Drawbacks

However, the advantages must be balanced against certain drawbacks, many of which, unfortunately, aren't fully understood until a few years after the commissary is operating. The drawbacks are:

- Additional costs such as (1) occupancy cost for the commissary, (2) machinery, refrigeration, and vehicle investment, (3) payroll cost in management, production, and distribution labor, and (4) trucking costs such as vehicle maintenance, insurance, gas, oil.
- Added management positions in a commissary without always reducing management positions in the pizzerias.
- When a piece of commissary equipment goes down, the entire system is paralyzed.
- When a mistake occurs, the effect often impacts every pizzeria.

Key Questions

The two main questions regarding a production commissary are:

1. Will a commissary result in *cost savings*?
2. Will a commissary result in *more consistent quality*?

Unless the answer is “yes” to both questions, a commissary should probably not be opened.

The Cost Issue

Many companies assume that a production commissary will result in lower operating costs. But that's not automatic. In comparing the operating cost of commissary vs. on-site preparation, be sure to consider everything including the following items.

Operating Costs of a Production Commissary

Consider the following:

1. Building rental.
2. Building utilities, insurance, taxes, maintenance.
3. Total payroll cost, including benefits for management, production, distribution, and maintenance labor.
4. Distribution expenses — vehicle insurance, maintenance, gas, oil.
5. Amortization (or lease payment) of equipment, including any additional equipment that might be needed in the pizzerias, such as larger freezers or refrigerators.

Operating Costs of On-site Preparation

Consider the following:

1. Labor cost to prepare ingredients. (With efficient equipment and good management, labor cost to prepare ingredients runs about **3 percent** of food sales for a typical delivery/carry-out pizzeria.)
2. Amortization (or lease payment) of equipment needed to process food in the pizzerias. In calculating this number, include only equipment that would be eliminated by having a central commissary.
3. Cost of space for ingredient preparation. Include this only if, in fact, lower unit rentals would occur from having a commissary.

In conclusion, the main cost of on-site preparation is *labor cost*. However, with efficient equipment (e.g., cutter-mixer) and proper production planning, the cost of labor to prepare dough, sauce, cheese, and toppings runs about 3.0 to 3.9 percent of food sales for a typical delivery/carry-out pizzeria. This means, if the total cost to operate the commissary exceeds 3.9 percent of pizzeria food sales, the commissary might not be cost effective. How many commissaries are operating that efficiently?

Proof that commissary efficiency may be more myth than reality is realized by observing the long-range trends of some commissaries. Oftentimes a production commissary that starts out doing total preparation — that is, mixing dough, blending sauce, chopping cheese, slicing toppings, etc. — evolves over time into nothing more than a distribution system for private label products purchased ready-to-use

from manufacturers. If, indeed, the commissary were an efficient production system it seems that it would be able to process ingredients more cheaply than can the manufacturer. In effect, by selling ready-to-use products the manufacturer has become the production commissary.

In defense of a commissary some proponents point out that additional savings are obtained from volume purchasing. However, the argument is invalid when one considers that the same savings can be achieved through collective volume purchasing from a wholesaler.

The Quality Issue

In addition to cost savings, companies also assume that a commissary will produce more-consistent quality. However the materialization of this assumption depends on the type of food being processed. Foods with long storage life, such as pepperoni or IQF cheese, are ideal for commissary or ready-to-use systems.

But what about fresh dough? To make a quality pizza, dough must be optimally proofed. If it's under- or over-proofed, pizza quality goes down. Of course we can slow down the fermentation process by retarding the dough, but that doesn't eliminate the need for having optimally proofed dough at the time it's used. We can also extend the usable life of dough by making fancy formula and temperature adjustments. But, still, for top quality it must be optimally proofed at the time it's used. So a commissary that ships fresh or retarded dough faces some tough questions and problems.

The best system for achieving optimum uniformity in dough proofing is to make and deliver dough *daily*. This way the pizzeria handles all dough the same way each day. However, daily delivery creates maximum shipping costs, especially when trucking more than a few miles. To reduce this cost, commissary management is under pressure to reduce the number of deliveries. By going from seven to, say, three deliveries per week, a commissary can slash trucking expense by over 50 percent. That's strong inducement to eliminate daily deliveries. However the result is inevitably lower product quality resulting from a higher percentage of pizzas being made with under- and over-proofed dough.