RESTAURANT INSIDER
STANDARDS & BENCHMARKS

Knowing industry standards and benchmarks is critically important to contemporary restaurant owners and operators. **Chadi Chidiac**, managing partner of hospitality management consultancy, PROTOCOL, breaks down the management approach for implementing best practices at best cost

Prime cost index

Prime cost is one of the most telling key performance index (KPI) on any profit-and-loss statement. Prime cost is the yield of cost of sales in addition to the payroll costs; it reflects those costs that are generally the most volatile that deserve the most attention from a control standpoint. It's very easy to lose money due to lax of control in this department. Many successful restaurants understate the prime importance of this controllable expense and they calculate and evaluate their prime cost at the end of each week.

- **Full-service** 65 percent or less (total sales)
- **Table-service** 60 percent or less (total sales)

When looking at a restaurant's cost structure, prime cost is a meaningful factor, whereas there are restaurants, such as steak or seafood restaurants that may carry very high food costs and yet still be extremely profitable.

Food

Food cost should range between 27 percent and 32 percent for full and limited-service operations.

Alcoholic beverage

Alcohol costs is correlated with the type of drink served.

- Liquor should range between 17 percent and 20 percent
- Draft beer should range between 16 percent to 19 percent
- Bar consumables between 3 percent and 5 percent
- Wine should range between 34 percent to 46 percent related to the origin (local or imported)
- Commercial beer bottle between 24 percent to 28 percent

> *“Among other factors and indicators, sales per square meter is the most reliable indicator of a restaurant's profitability and potential for success”*

Nonalcoholic beverage

Standard practice is to record nonalcoholic beverage sales and costs in 'food sales' and 'food costs' accounts

- Soft drinks between 10 percent to 15 percent

- Specialty coffee between 12 percent and 20 percent
- Regular coffee between 15 percent and 20 percent
- Iced tea between 6 percent and 10 percent
- Mineral still water between 5 percent and 10 percent
- Sparkling water between 15 percent and 25 percent

Paper

In LSR (limited-service restaurants) paper cost should be classified as a separate line item in "cost of sales." Historically, paper cost has run from 2 percent to 5 percent of sales. Whereas in full-service restaurants, paper cost is usually considered to be a direct operating expense included into the COGS (cost of goods sold) and normally runs between 1 percent and 2 percent of total sales.

Payroll and salaries

Payroll cost is a ratio calculated by default as a percentage of sales including the cost of both salaried and/or hourly employees plus NSSF (national social security funds) employee benefits, which includes payroll taxes, group, life and disability insurance premiums, workers' compensation insurance premiums, education expenses, employee meals, parties, transportation, and other such benefits. Total payroll cost should not exceed 29 percent to 36 percent of total sales for full-service operations and 26 percent to 30 percent of sales for limited-service restaurants.

Generally, management salaries should not exceed 10 percent of total sales in either a full- or limited-service operations. This would consist of all salaried personnel.

As for the hourly employees payroll cost, a full-service operation ranges between 17 percent and 21 percent as for the limited-service it runs between 16 percent and 19 percent. Limited-service restaurants generally are labor cost effective thus have lower hourly payroll cost than full-service restaurants. In limited-service restaurants, managers often multitask and perform the work of an hourly position in addition to being a manager. In some cases, however, hourly workers may also perform management roles on some shifts, which could lead to higher hourly payroll costs in these restaurants.

Employee benefits

- Employee benefits 4 percent to 7 percent of total sales
- Employee benefits 19 percent to 22 percent of gross payroll

Employee benefits can vary somewhat depending on the social and marital status of employees. Restaurants that have more single workers in their crew may have lower benefits costs due to their exemptions of the family allowances that could cause their employee benefits to be lower than the standard.

Profitability standards

Among other factors and indicators, sales per square meter is the most reliable indicator of a restaurant's profitability and potential for success. To calculate sales per square meter, divide annual sales by the total interior surface in square meters including kitchen, dining, storage, rest rooms, etc. This is usually equal to the net rentable or leasable square meter AKA gross leasable area (GLA) in the financial jargon.

For full-service operations generating under USD 45/square meter = little chance of making a profit, when at USD 45 to USD 75/square meter = break even up to 5 percent of sales. At USD 75 to USD 100/square meter = 5 percent to 10 percent of total sales. As for limited-service restaurants, an income under USD 60/square meter = little chance of averting an operating loss where at USD 60 to USD 90/square meter = break even up to 5 percent of sales. At USD 90 to USD 120/square meter = 5 percent to 10 percent of sales (before income taxes and VAT).

Rental fees and occupancy cost standards

As for the occupancy standards, rent should not exceed 6 percent to 8 percent of total sales. Generally, the goal is to limit rent expense at 6 percent to 8 percent of sales or less, exclusive of related costs such as common area maintenance expenses (CAM) and other occupancy expenses.

When rent should not exceed 8 percent, occupancy should be limited to 10 percent or less as well. Occupancy cost includes rent, CAM, insurance on building and contents, real estate taxes, personal property taxes and other municipal taxes. When occupancy cost should be kept at 8 percent or less of sales, however, 10 percent is generally viewed to be the point at which occupancy cost starts to become excessive and begins to seriously impair a restaurant's ability to generate an adequate profit.

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SUMMARY OF INDUSTRY STANDARDS

Prime cost
- **Full-service** 65% or less of total sales
- **Limited-service** 60% or less of total sales

Food cost
- **Generally** 27 to 32% of total food sales

Alcoholic beverage costs
- **Liquor** 17 to 20% of sales
- **Bar consumables** 3 to 5% of sales
- **Bottled beer** 24 to 28% of sales
- **Draft beer** 16 to 19% of sales
- **Wine** 34 to 46% of sales

Nonalcoholic beverage costs
- **Soft drinks** 10 to 15% of sales
- **Regular coffee** 15 to 20% of sales
- **Specialty coffee** 12 to 20% of sales
- **Iced tea** 6 to 10% of sales
- **Still water** 5 to 10% of sales
- **Sparkling water** 15 to 25% of sales

Paper cost
- **Full-service** 1 to 2% of total sales
- **Limited-service** 2 to 5% of total sales

Rent and occupancy
- **Rent** 8% or less of total sales
- **Occupancy** 10% or less

Payroll cost
- **Full-service** 30 to 35% of total sales
- **Limited-service** 25 to 30% of total sales

Management salaries
- **10% or less** of total sales
- **Hourly employee** gross payroll
- **Full-service** 17 to 21% of total sales
- **Limited-service** 16 to 19% of total sales

Employee benefits
- **4 to 7%** of total sales
- **19 to 22%** of gross payroll

Sales per square meter
- **Losing money full-service** USD 45 or less
- **Limited-service** USD 60 or less
- **Break-even full-service** USD 45 to USD 75
- **Limited-service** USD 60 to USD 90
- **Moderate profit full-service** USD 75 to USD 105
- **Limited-service** USD 90 to USD 120
- **High profit full-service** More than USD 105
- **Limited-service** More than USD 120