



Restaurant Numbers

What Every Operator Should Know About
Managing the Financial Side of the Restaurant

Part 1:

Introduction – How to Evaluate
Your Restaurant's Profitability

About the Author

Jim Laube



Jim Laube works with independent restaurant operators who want practical advice to improve their business management practices to build a more profitable restaurant and valuable business.

Jim began his restaurant career at the age of 15 working for a quick-service restaurant and earned his way through college as a server and bartender. After earning his degree, he worked for a regional restaurant chain and an independent fine dining restaurant. In these organizations he held positions in both the operational and financial areas as a restaurant manager, controller and chief financial officer.

As an author, Jim is a contributor to Restaurant Startup & Growth, Restaurant Hospitality, Nations Restaurant News, Foodservice.com, Pizza Today, the Society for Foodservice Management's "SFM Source," and American Express' Briefing newsletter.

Jim is also the creator and publisher of **RestaurantOwner.com**, an extensive web site specifically for independent restaurant operators. It features business management resources in the form of streaming, Flash-animated, multimedia training programs as well as articles, business tools, downloadable forms, report templates, checklists, sample restaurant business plans and a wide variety of restaurant operating procedures. It is one of the most popular restaurant sites on the World Wide Web.

During the past 10 years, Jim has conducted over 500 presentations to thousands of restaurant professionals in the U.S., Canada and Europe. His clients include Red Lobster, Papa John's Pizza, KFC, Marriott, Hard Rock Café, Cornell University, Aramark, the National Restaurant Association and many state restaurant associations.

RestaurantOwner.com

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CASE STUDY:

Bay Street Grill



Bay Street Grill has been a loyal customer since it opened around a year and a half ago. It is a full-menu table service restaurant located near the central business district in close proximity to a number of other popular dining spots, museums and specialty retail stores. It features a varied, American style menu and is open for lunch and dinner 7 days a week.

Recently the restaurant completed it's first full calendar year of operations.

Additional information:

Total square feet - 4,500

Total seating - 180

Land & Building - 10 year lease with 2-5 year options

You're a good friend of the chef and owner. Because of your experience in the restaurant business, he wants to get your perspective on how his restaurant is doing financially?

Where would you begin?

"The difference between well managed companies and not so well managed companies is the degree of attention they pay to the numbers."

-- Harold Geneen, Former Chairman IT&T

Evaluating & Assessing Restaurant Profit Potential

Begin by calculating and comparing . . .

Sales Per Square Foot

$$\text{Sales Per Square Foot} = \frac{\text{Annual Sales}}{\text{Total Square Footage}}$$

Restaurant Industry Guidelines:

	Full Service	Quick Service
Losing Money	_____	_____
Break-even	_____	_____
Moderate Profit	_____	_____
High Profit	_____	_____

Also consider the potential impact of -

- Participation and compensation of owners
- Days & hours of operation
- Occupancy costs - lease terms, property taxes

BAY STREET GRILL
PROFIT AND LOSS STATEMENT
For The Year Ended December 31

SALES		
Food	\$1,302,156.00	
Beverage	298,407.00	
TOTAL		1,600,563.00
COST OF SALES		
Food	417,992.08	
Beverages	83,113.21	
TOTAL		501,105.28
GROSS PROFIT		1,099,457.72
EXPENSES		
Advertising	12,943.80	
Bank charges	458.80	
Building repairs	3,485.00	
Cash (over)/short	755.28	
Cleaning supplies	9,215.70	
Complimentary meals	10,574.82	
Coupon discounts	7,849.00	
Credit card charges	26,889.12	
Depreciation	29,761.90	
Electrical	28,101.60	
Equipment repairs	5,348.47	
Exterminating	1,258.47	
FICA & other taxes	40,824.91	
Gas	6,578.50	
Group insurance	9,474.00	
Interest	43,430.80	
Kitchenware	9,941.80	
Laundry	13,415.58	
Miscellaneous	5,949.60	
Music & entertainment	10,458.80	
Other operating expenses	9,463.68	
Paper supplies	15,215.74	
Payroll	420,875.40	
Postage	938.84	
Printing & office supplies	5,487.10	
Professional fees	11,582.60	
Promotions	3,689.40	
Property insurance	27,859.00	
Real estate taxes	48,258.80	
Rent	149,589.04	
Royalties to ASCAP	3,915.80	
Serviceware	7,305.69	
State franchise taxes	8,439.00	
Telephone & fax	5,881.80	
Trash removal	6,576.00	
Uniforms	5,124.80	
Workman's compensation	21,885.52	
TOTAL EXPENSES		1,028,804.17
NET INCOME BEFORE TAXES		\$ 70,653.54

**SALES PER
SQUARE FOOT**

**NET INCOME
PERCENTAGE**

Industry Standard P&L Format

BAY STREET GRILL

PROFIT & LOSS STATEMENT

For The Year Ended December 31

SALES

Food	\$ 1,302,156	81.4%
Beverage	298,407	18.6%
TOTAL SALES	1,600,563	100.0%

COST OF SALES

Food	417,992	32.1%
Beverage	83,113	27.9%
TOTAL COST OF SALES	501,105	31.3%

GROSS PROFIT

1,099,458 68.7%

CONTROLLABLE EXPENSES

Salaries & Wages	420,875	26.3%
Employee Benefits	72,184	4.5%
Direct Operating Expenses	70,941	4.4%
Music & Entertainment	14,375	0.9%
Marketing	35,057	2.2%
Utilities	41,256	2.6%
General & Administrative Expenses	57,943	3.6%
Repairs & Maintenance	8,833	0.6%
TOTAL CONTROLLABLE EXPENSES	721,466	45.1%

CONTROLLABLE INCOME

377,992.09 23.6%

OCCUPANCY COSTS

Rent	149,589	9.3%
Property Taxes	48,259	3.0%
Other Taxes	8,439	0.5%
Property Insurance	27,859	1.7%
TOTAL OCCUPANCY COSTS	234,146	14.6%

INCOME BEFORE INT. & DEP.

143,846.25 9.0%

Interest	43,431	2.7%
Depreciation	29,762	1.9%

INCOME BEFORE INCOME TAXES

\$ 70,654 4.4%

THE NATIONAL RESTAURANT ASSOCIATION

UNIFORM SYSTEM OF

ACCOUNTS

The National Restaurant Association's Uniform System of Accounts is the recognized standard for the presentation of financial information in the foodservice industry. It provides a foodservice industry-specific approach to the . . .

- **preparation**
- **presentation**
- **interpretation**

. . . of financial information in a foodservice environment.

Every foodservice operation has problems. "THE NUMBERS" should tell you where your problems are, and how worried you should be.

Critical P&L Check Points

BAY STREET GRILL

PROFIT & LOSS STATEMENT

For The Year Ended December 31

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Restaurant Industry: Operating Standards & Averages

CONTROLLABLE PROFIT

$$\text{Controllable Profit \%} = \frac{\text{Controllable Profit}}{\text{Total Sales}}$$

<u>Full Service</u>	<u>Quick Service</u>
_____	_____

"Controllable Profit" is a good indicator of how well management is managing. There is generally a direct correlation between management's operating abilities and "Controllable Profit".

Critical P&L Check Points

SALES		
Food	\$ 1,302,156	81.4%
Liquor	154,235	9.6%
Beer	108,411	6.8%
Wine	35,761	2.2%
TOTAL SALES	1,600,563	100.0%
COST OF SALES		
Food	417,992	32.1%
Liquor	40,872	26.5%
Beer	28,187	26.0%
Wine	14,054	39.3%
TOTAL COST OF SALES	501,105	31.3%
GROSS PROFIT	1,099,458	68.7%
CONTROLLABLE EXPENSES		
Payroll -		
Management	126,840	7.9%
Store Personnel	294,035	18.4%
Payroll Taxes & Benefits	72,184	4.5%
Total Payroll	493,060	30.8%
PRIME COST	994,165	62.1%
Direct Operating Expenses -		
Cleaning supplies	9,216	0.6%
Exterminating	1,258	0.1%
Kitchenware	9,942	0.6%
Laundry	13,416	0.8%
Other operating expenses	9,464	0.6%
Paper supplies	15,216	1.0%
Serviceware	7,306	0.5%
Uniforms	5,125	0.3%
Total Direct Operating Expenses	70,941	4.4%
Music & Entertainment -		
Professional entertainers	10,459	0.7%
Royalties to ASCAP	3,916	0.2%
Total Music & Entertainment	14,375	0.9%
Marketing -		
Advertising	12,944	0.8%
Coupon discounts	18,424	1.2%
Promotions	3,689	0.2%
Total Advertising & Promotion	35,057	2.2%
Utilities -		
Electrical	28,102	1.8%
Gas	6,579	0.4%
Trash removal	6,576	0.4%
Total Utilities	41,256	2.6%
Administrative & General Expenses -		
Bank charges	459	0.0%
Cash (over)/short	755	0.0%
Credit card charges	26,889	1.7%
Miscellaneous	5,950	0.4%
Postage	939	0.1%
Printing & office supplies	5,487	0.3%
Professional fees	11,583	0.7%
Telephone & fax	5,882	0.4%
Total Administrative & General	57,943	3.6%
Repairs & Maintenance -		
Building repairs	3,485	0.2%
Equipment repairs	5,348	0.3%
Total Repairs & Maintenance	8,833	0.6%
CONTROLLABLE PROFIT	\$ 377,992	23.6%

Restaurant Industry: Operating Standards & Averages

PRIME COST

$$\text{Prime Cost Ratio} = \frac{\text{Cost of Sales} + \text{Payroll Costs}}{\text{Total Sales}}$$

Full Service _____

Quick Service _____

"Prime Cost" reflects expenses where operators have the highest exposure for losses and the greatest opportunities to impact profitability in the short term.

Critical P&L Check Points

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TOTAL CONTROLLABLE EXPENSES	721,466	45.1%

INCOME BEFORE OCCUPANCY COSTS

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OCCUPANCY COSTS

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Property Taxes	48,259	3.0%
Other Taxes	8,439	0.5%
Property Insurance	27,859	1.7%

TOTAL OCCUPANCY COSTS

234,146 14.6%

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INCOME BEFORE INCOME TAXES

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Foodservice Industry: Operating Standards & Averages

OCCUPANCY COSTS

Occupancy costs include -

- Rent (fixed, minimum and percentage)
- Ground rent
- Equipment rental
- Real estate taxes
- Personal property taxes
- Other municipal taxes
- Insurance on building and contents

$$\text{Occupancy Cost Ratio} = \frac{\text{Total Occupancy Costs}}{\text{Total Sales}}$$

	<u>Bay</u> <u>Street Grill</u>	<i>Industry Guidelines *</i>		
		<u>Low</u>	<u>Average</u>	<u>High</u>
% of TTL Sales	_____	below 5%	7% to 8%	above 10%
\$ Per Square Foot	_____	below \$10	\$14 to \$20	above \$25
\$ Per Seat	_____	below \$150	\$250 to \$450	above \$700

- For Full-Menu Tableservice Restaurants

Industry Guidelines For Quick Service Restaurants

	<u>Low</u>	<u>Average</u>	<u>High</u>
% of Total Sales	below 5%	7% to 9%	above 11%
\$ Per Square Foot	below \$12	\$15 to \$25	above \$30

Recap: Troubleshooting the P&L

	<u>KEY INDICATOR</u>
ISSUE #1 How much money should we be making?	Sales Per Square Foot
ISSUE #2 How well is management managing?	Income Before Occupancy Costs % (Controllable Profit)
ISSUE #3 Are our most important cost areas out of line?	Prime Cost %
ISSUE #4 Are occupancy costs too high?	Occupancy Cost %, Per Seat, Per Square Foot

Only the numbers . . .

- can tell you how well (or how bad) you are doing
- show you where you need to focus your attention
- give you a tool to identify and solve problems
- let you see how everyone's day to day actions impact the restaurant's success



Restaurant Numbers

Ideas You Can Use

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

“The difference between well managed companies and not so well managed companies is the degree of attention they pay to the numbers”.

-- Harold Geneen