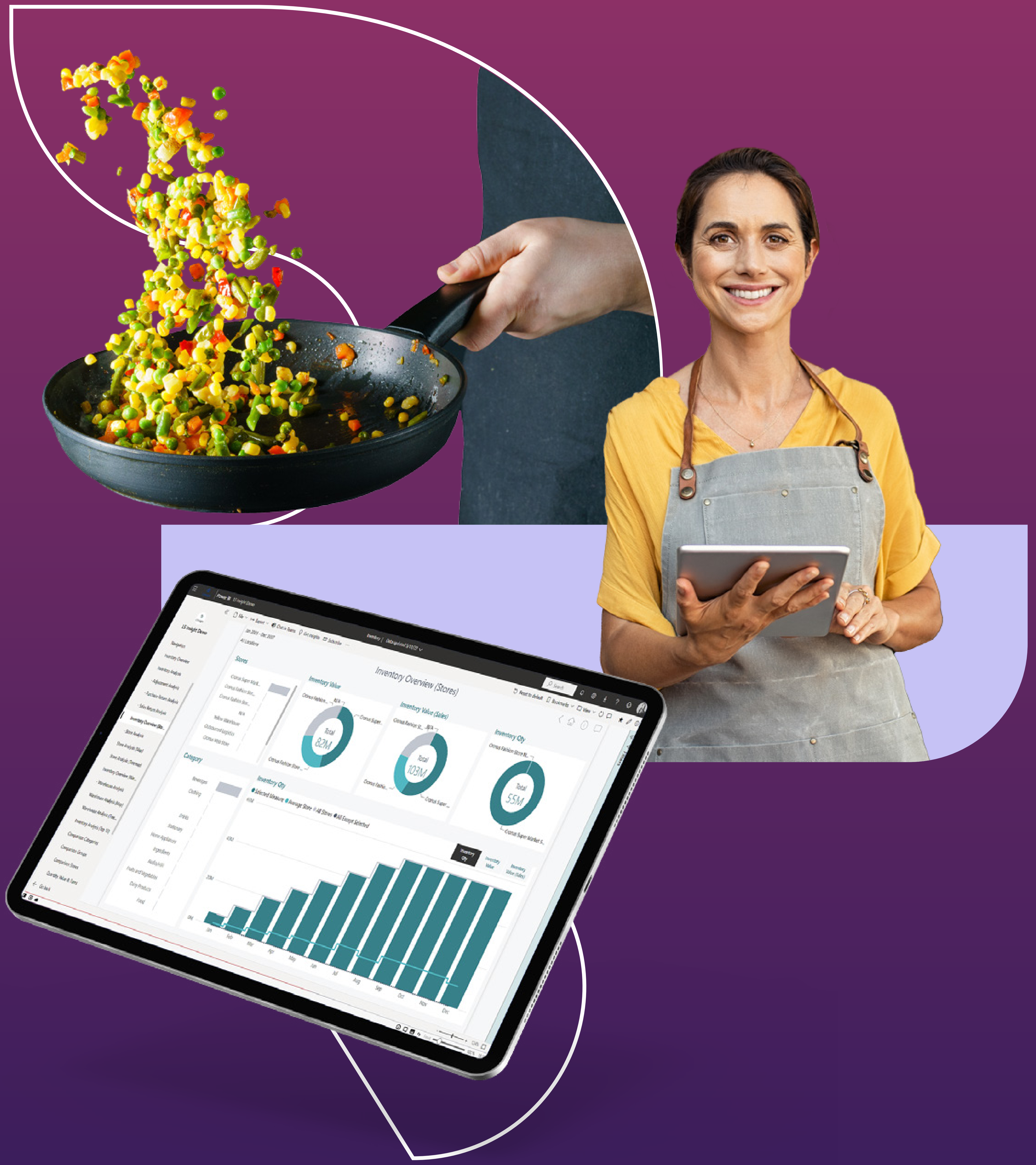
11 KPIs

every restaurant owner and CEO should track



LS Retail
an aptos company

The key ingredient for your restaurant brand's future success is data!

You must have heard this before. But once you have data, how are you supposed to tell if you're on the right path to success?

Key performance indicators (KPIs) use data to measure the progress of your business toward reaching actionable goals. While some performance goals are shared across all industries – profit, revenue growth, employee satisfaction – others are specific to food and beverage (F&B) enterprises. Your dining room, kitchen, and back office will have **area-specific performance targets**, based on industry averages and desired profitability.

Once these targets have been established, KPI tracking will provide you with **data-driven measurements** of your restaurant's efficiencies, staff performance, and finances. This white paper examines some of the KPIs that can help you identify opportunities for improving your restaurant's long-term financial success.

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1. The basics

In an industry characterized by numerous fluctuations of customers, staff, stock, and operational overhead, it can be challenging to choose which data to track to determine the success of your business. Activity-specific performance indicators for your various processes are important, but it's best to start with the fundamental KPIs that take into account the broadest view of your F&B enterprise.

Cost of goods sold

If you track only one thing in your kitchen, make it this one. Cost of goods sold (COGS) is likely the **biggest expense for any restaurant;** knowing where you can reduce the costs is a key factor in increasing profitability:

(beginning inventory + purchases during specified period) – ending inventory = COGS

Here, having **accurate inventory** data is key. First, establish an evaluation period – weekly, monthly, quarterly, etc. Add the inventory your kitchen had on hand at the beginning of this period to the inventory purchased during the period. From the total, you then subtract the inventory left on hand at the close of the evaluation period. The resulting COGS figure should give you better insight into where you might be **over or under-ordering**, allowing you to optimize your future inventory purchasing practices.

For the most accurate COGS, your calculations will need to include both **direct and indirect costs.** Indirect costs include any ingredient transportation or storage fees, as well as interest. The various inventory costs might generate plenty of data, but the best restaurant management systems give you tight control over your inventory ordering and allow you to make prompt changes when needed so you can keep your COGS close to your goal.

Labor costs

Your menu items are important, but so are the people who prepare and sell these items. Total labor cost is a KPI that is **fundamental** to understanding what your restaurant spends to create and sell your products and services. This is the total of all hourly, salaried, and overtime wages for both **direct labor roles** (servers, cooks, bartenders) and **indirect labor roles** (management, shift supervisors, accounting, marketing), along with the costs of **employee benefits**, including vacation days, sick days, worker's compensation, employer-paid portions of insurance, and employer-paid portion of **payroll taxes**, such as social security and unemployment.

**direct labor wages + indirect labor wages +
employee benefits + payroll taxes = total labor cost**

This KPI shows how your labor costs are adding up compared to your labor budget and alerts you if these costs are **eating into your business's profitability.** If you find your restaurant is consistently over-budget, you can then adjust your processes to improve workplace efficiency and keep labor costs down.

Prime cost

Now that you have established your COGS and total labor costs, you can determine your restaurant's **principal key performance indicator,** known as prime cost. Prime cost represents the direct expense of creating your restaurant's menu items. It's calculated as follows:

cost of goods sold (COGS) + total labor cost = prime cost

It's important to regularly monitor prime costs for budgetary reasons, as menu item popularity can change, ingredient prices can fluctuate, and variable customer traffic can require staffing adjustments. By making inventory and staffing modifications in response to these changes, you can keep your prime cost close to your goal and know how much profit you can expect to generate.

Prime cost percentage

Once prime cost has been determined, you can calculate a prime cost percentage comparative to your total sales. This will show you how your business is managing its menu prices and staffing needs relative to the industry averages:

$$\frac{\text{prime cost}}{\text{total sales}} = \text{prime cost percentage}$$

Opinions vary depending on economic factors and which type of restaurant or chain you operate, but the healthiest prime cost percentages live between 55% and 65%. This percentage range indicates that your customers are receiving **fair menu prices**, and your staff is receiving **fair wages and work shifts.** The combination of these positive factors is essential for your long-term success.

2. Dining room

Understanding whether your restaurant is tending to guests in the dining room as efficiently as possible is incredibly valuable when determining what to change, maintain, or improve about your business. Not only do you want to be able to seat and serve your customers in a timely manner, but you also want to know what they're ordering. Having this information will allow you to uncover areas where you might be **losing out on key revenue**. Consider tracking the following front-of-house and staff-related KPIs:

Food and beverage sales per guest

Get a handle on which menu items appeal most to guests, and whether time or day impact your customers' total spend by tracking your food and beverage sales per guest KPIs. The formulas that can help you track these performance indicators are simple but effective: the following front-of-house and staff-related KPIs:

$$\frac{\textbf{total food sales}}{\textbf{number of customers}} = \textbf{average food spend per customer}$$

$$\frac{\textbf{total drink sales}}{\textbf{number of customers}} = \textbf{average drink spend per customer}$$

Once food and drink per head have been calculated, you can determine the **average spend per cover,** with "cover" meaning dishes ordered by a diner, plus sides and drinks:

average food spend per customer + average drink spend per customer = average spend per cover

Following food and beverage sales per guest KPIs will help you determine if you should be **taking action** to boost your margins. Popular menu items might need to be repriced to generate higher profit, while low-performing dishes might need to be removed from the menu completely. Low beverage sales can be improved with a drinks menu that changes seasonally or by offering non-alcoholic versions of your cocktails.

These KPIs can also help you determine which promotions to run – for example, happy hour to increase sales during slow periods. It can also be a good indicator of how comfortable your servers are with the details of the menu. Do they know which entrees are the **most profitable?** Can they engage in appropriate cross-selling? The more informed your staff are, the better they will be able to highlight high-profit items and make relevant add-on suggestions.

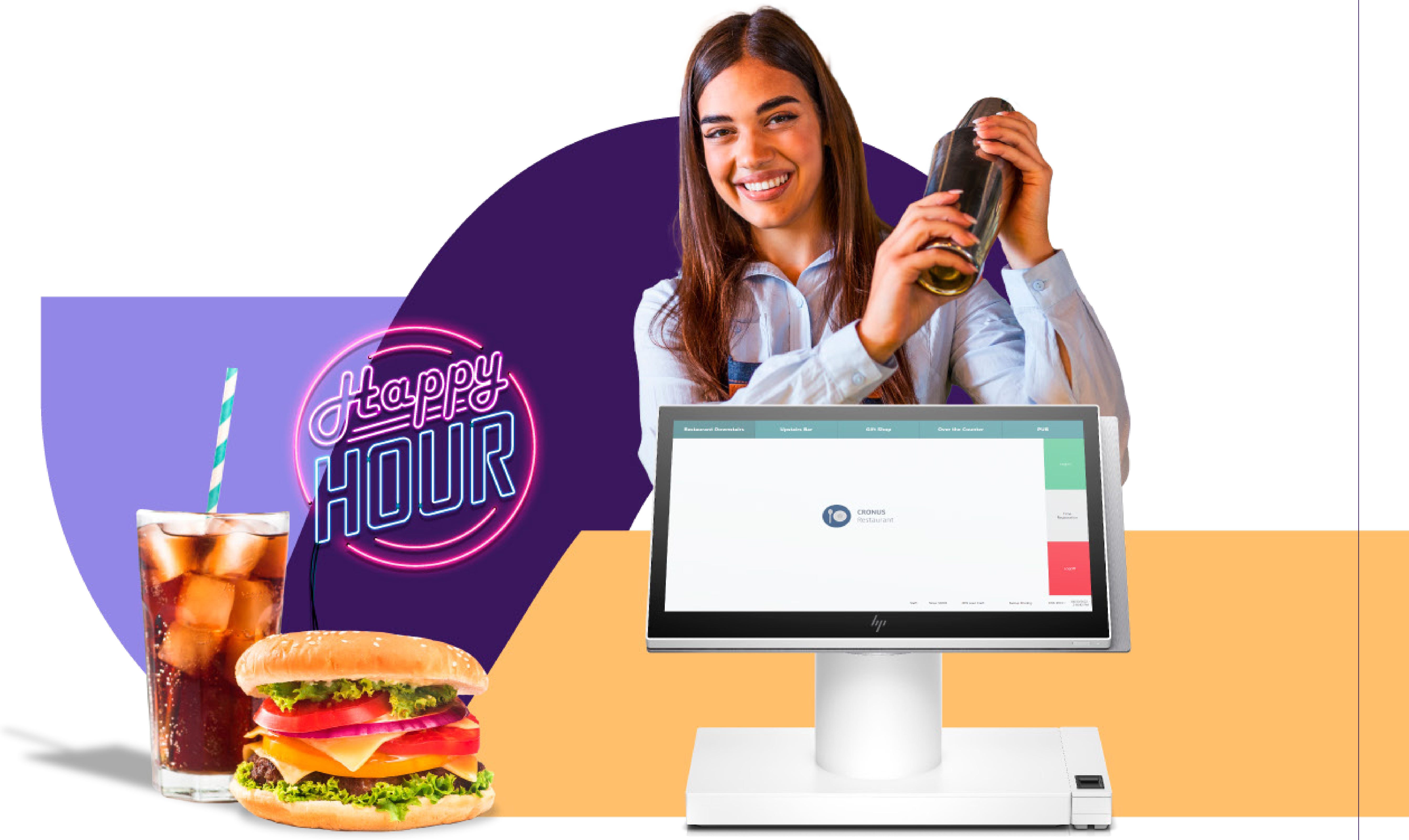


Table and seating efficiency

Keeping an eye on KPIs like table and seating efficiency can tell you if you're **making the most** out of your dining room's seating capacity.

Table efficiency is calculated by dividing the number of individuals and groups you are hosting during a select period, such as the set dinner service hours, by your total number of tables:

$$\frac{\textbf{number of individuals and groups}}{\textbf{total number of tables}} = \textbf{table efficiency}$$

When you're making note of how many groups you're seating, it's also advisable to keep track of the number of guests in each party. Doing so allows you to see how effectively you're using your available seats. As each seat represents a potential cover, seating a party of two at a table set for four means halving the potential of the sales ticket.

$$\frac{\textbf{number of seats filled}}{\textbf{total number of seats}} = \textbf{seating efficiency}$$

Is party size matching table size? Are you turning over tables in a way that is profitable and still providing a relaxing experience for your guests? By following table and seating efficiency KPIs, you can track how well your floorplan is supporting your guests and find the **perfect balance** between high profitability and serving up a great dining experience.

RevPASH: revenue per available seat per hour

Revenue per available seat per hour (RevPASH) is crucial to profitability. Revenue is the gross income amount from your combined food and beverage sales, before food, labor, and overhead costs are subtracted. The RevPASH KPI tracks **how revenue is created** through a combination of average check size and capacity use. If your chairs are empty, your profits are suffering.

Start by establishing your available seat hours (ASH) for a set period:

number of seats (x) hours of operation = available seat hours

Then divide your revenue for this time by the available seat hours of that period:

$$\frac{\textbf{revenue}}{\textbf{available seat hours}} = \textbf{RevPASH}$$

Following your restaurant's RevPASH daily can indicate where adjustments are needed to improve profitability. You might discover that your POS or kitchen stations are not working as efficiently as they should be, slowing table turnover. Your service might be struggling to add on or provide information on dishes, preventing your diners from becoming higher spenders. Menu prices might need to be raised on popular items to increase revenue. **The higher your RevPASH, the more efficiently your business is running.**

3. Kitchen

Your kitchen is the heart of your restaurant, the place where the quality of your product is defined. It is also the main area where you can **reduce costs and increase throughput**. Keeping close tabs on what's going into and coming out of your kitchen will allow you to pinpoint the best ways to **reduce waste and costs**. Here are some kitchen management KPIs you should track:

Menu item contribution margin

The prices of your menu items impact profitability. Do you know which dishes **yield the biggest return** and how well those dishes are selling? A high-profit menu item is great – but not if it produces a statistically insignificant percentage of your sales.

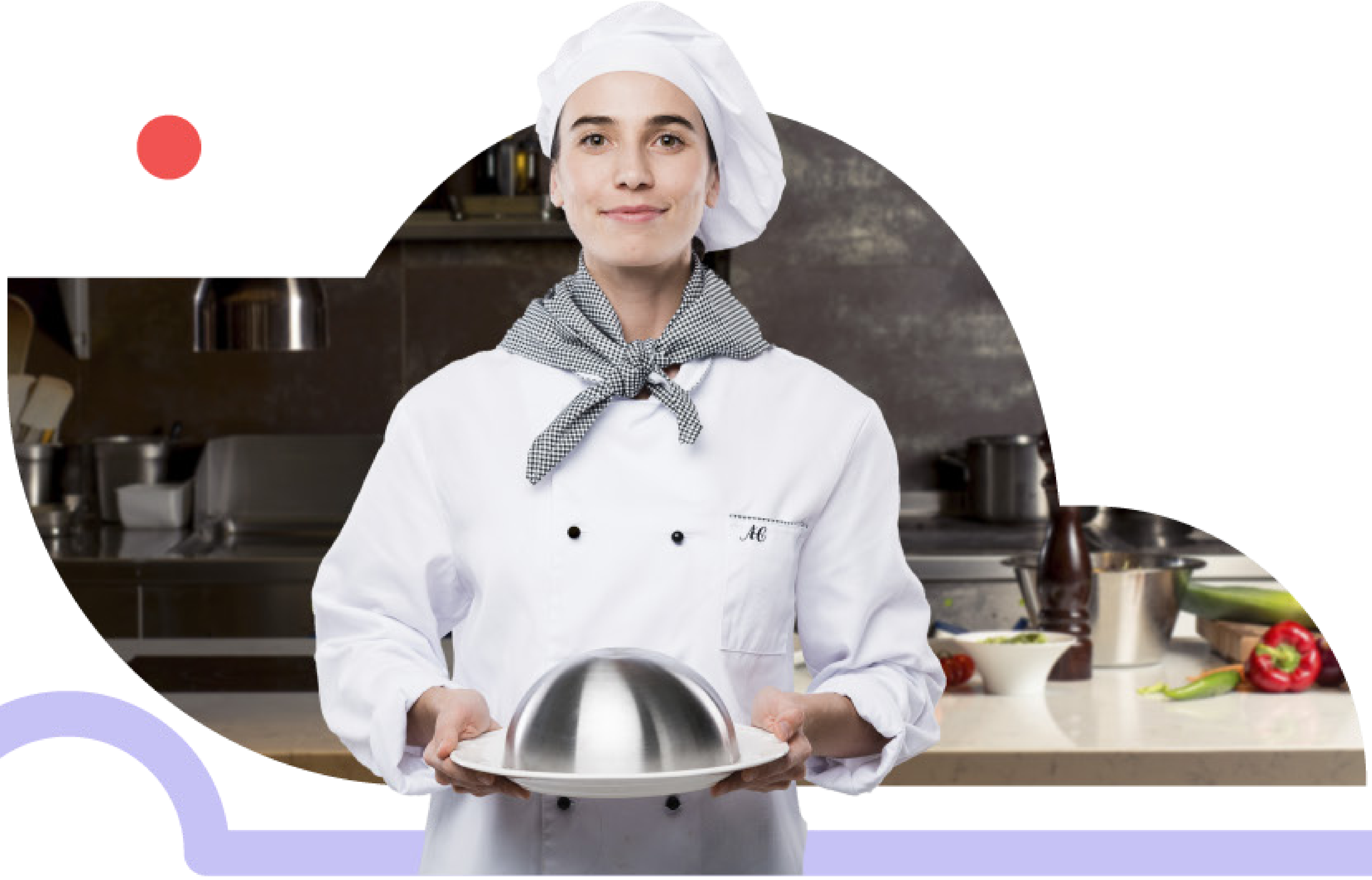
The easiest way to see what kind of profit a dish brings to your till is by determining its contribution margin. Menu item contribution margin is calculated as:

$$\frac{\text{sell price}}{\text{food cost}} = \text{menu item contribution margin}$$

The profitability of producing a dish is determined by combining the cost of ingredients used – including cooking mediums and condiments – into a “food cost” and subtracting this amount from the menu price. The resulting menu item contribution margin can help you determine which dishes have the best margins and are worth promoting.

Knowing your contribution margin is essential for **menu engineering**, the process of finding the perfect balance of profitability and popularity for the food your restaurant serves. If you're looking to determine a menu item's popularity, you would start by choosing your level of evaluation. For example, you could analyze the full menu, or just similar items, such as dinner entrees. You'd then divide the number of items by 100 to get the **ideal percentage of total sales** each dish provides. You can then judge the **effectiveness** of a menu item by comparing this value to its actual sales percentage.

Items with higher sales but lower contribution margins might be driving all your revenues, while low-selling dishes with high contribution margins languish at the bottom of the menu. By tracking your menu item contribution margin along with your sales, you can take steps to **spotlight the more profitable dishes** with higher menu placement or an increase in server suggestions. Removing low-selling, low-margin dishes will save you money on wasted inventory, further increasing your margins.



Food wasted per food purchased

Food waste is a huge concern for restaurateurs worldwide. Monitoring the amount of waste that you're generating enables you to **improve your demand forecasting and optimize your raw ingredient ordering.** It forces you to reconsider how and where you procure your foods and leads to better management and storage of your food stock. It can also help you determine if there are better methods to prepare your food, and if you need to reconsider your portion sizes or serving methods.

One of the most effective ways to measure the amount of waste generated in your restaurant is by dedicating specific bins to food-only waste. These bins can then be monitored and measured during specific time periods by either volume or weight, which can then be put into a formula that determines food waste per food purchased:

$$\frac{\text{total weight of food waste}}{\text{weight of food purchased during select period}} = \text{food wasted per food purchased}$$

As you monitor the fluctuations of this figure, you can start to focus on pain points leading to waste. But the best way to keep track of food waste is to **train your kitchen staff** to incorporate practices into their restaurant routine that will help with food preservation. Making sure that food is being stored at the right temperatures, utilizing stock that's already been opened versus unopened – and using product in order of best-before dates – as well as inspecting shipments for freshness and packaging integrity are all protocols that employees should enforce. Additionally, you can request **feedback** from your diners via customer comment cards or surveys conducted online or by phone, **to establish what the ideal portion** is for a dish. Customer input can be particularly valuable when it comes to pricier meals.

A recent World Resources Institute study has found that restaurants saved $7 for every $1 invested in reducing food waste. The time spent tracking trends in your food wasted per food purchased can be the beginning of a **monumental impact on your bottom line.**

4. Administration and marketing

As a restaurant CEO, you understand that the front of house and kitchen aren't the only things contributing to your operations – it's the back office, too. . While a modern restaurant management system can unify your POS and Kitchen Display System (KDS) into a platform that provides a **single vision** of your sales and inventory data, it can also incorporate your payroll, training, and marketing to provide a complete overview of your business. Here are some of the KPIs that are important for your management to keep track of in the back office.

Employee turnover

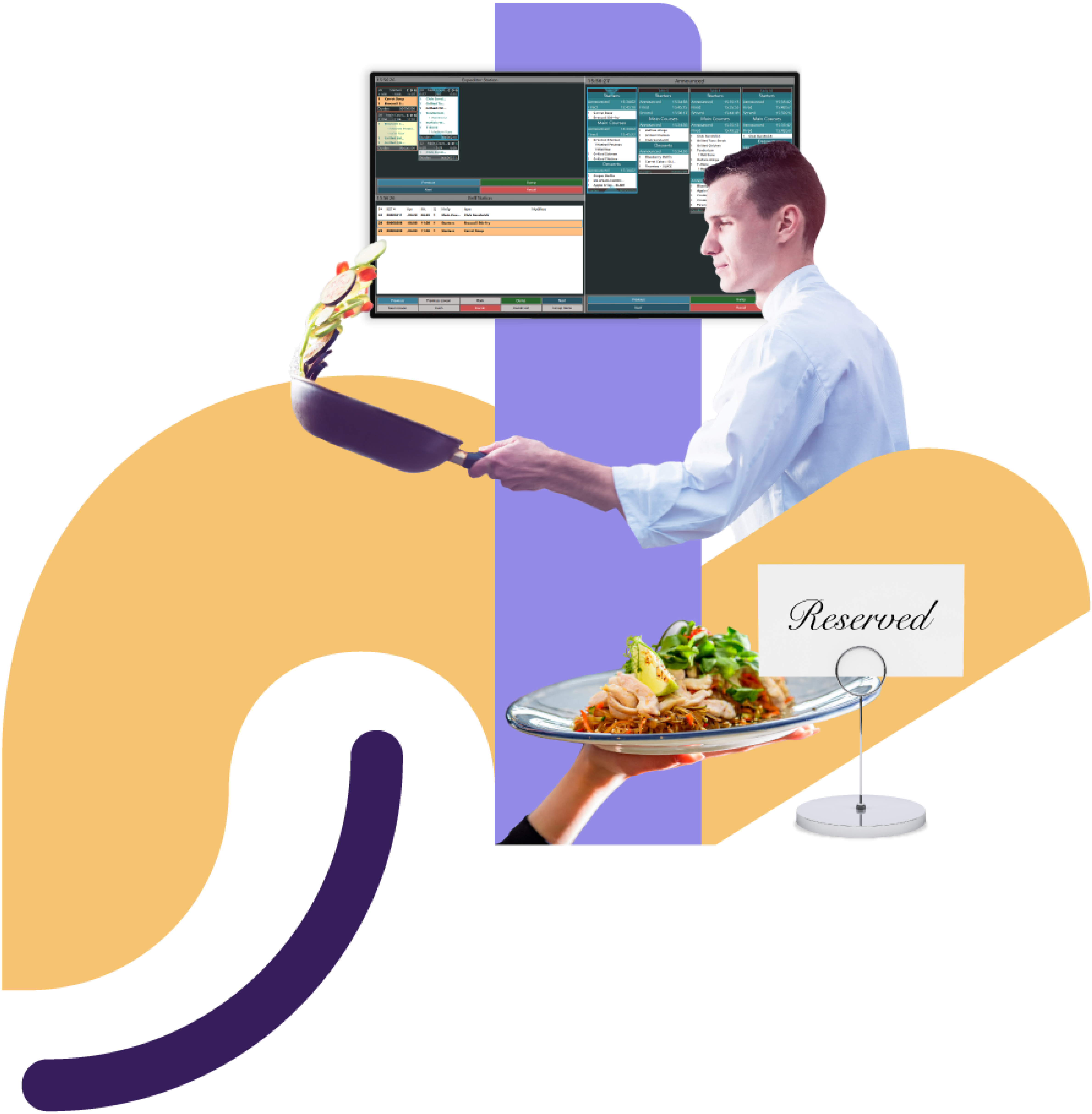
Employee turnover rates in restaurants are some of the highest of any industry. . According to the National Restaurant Association in their most recent State of the Restaurant Industry report, 65% of restaurants don't have enough employees to meet customer demand. The costs rise when you consider **lost productivity, recruiting, selection, and training costs.**

To understand your business's turnover rate, you simply need to know the average number of staff members in your company, and how many employees have left in the period being analyzed:

$$\frac{\textbf{employees released or quit}}{\textbf{average number of employees}}\ \textbf{(x) 100 = employee turnover rate}$$

By multiplying the number by 100, you get the turnover rate as a percentage.

Check if this KPI can be correlated with changes to your other performance indicators, such as prime cost, to see if there are systemic flaws in the way your staff and/or operations are being managed.



Return on marketing investment

The way you market your business is key to expressing your brand's vision and attracting customers to your restaurant. Sending out email promotions, creating a digital loyalty program, leveraging social media, redesigning your website, signage, and menus to reflect your restaurant's atmosphere are all valuable strategies. But nowadays, your customers have a huge pool of options to choose from, so how can you ensure that your marketing tactics are **making your restaurant stand out** from all the rest and delivering returns to your business? By calculating your Return on Investment (ROI), you can get a clear understanding of what campaigns are working for your restaurant business, and which ones may need to be reworked or scrapped altogether.

To calculate your ROI, you first want to find the sales growth in your restaurant during the period you were running a specific campaign, as well as calculate the total investment on marketing that you made (such as purchasing ads, signage, hiring someone to promote a product, etc.). Subtract these two numbers to get the net return on investment:

Sales growth – total marketing investment
= net return on investment

Then, divide the net return on investment by the total marketing investment to find the ROI:

$$\frac{\textbf{Net return on investment}}{\textbf{total marketing investment}} \ \textbf{(x) 100 = ROI\%}$$

Once you get a better overview of your returns, you can start making plans to adjust your marketing strategy around what's most profitable for your business. But apart from profits gained, ROI can also show you if you're investing in the right places. Maybe the campaign you promoted on social media did better on one platform than another. Why? Well, you can start getting to the bottom of this and decide if there's room for improvement. Analyzing this information will help you reduce needless spending and improve use of your budget. It's also important to keep in mind that your ROI can't eliminate risk or uncertainty when it comes to future investments, and those possibilities should always be factored in to help your business achieve the best results.

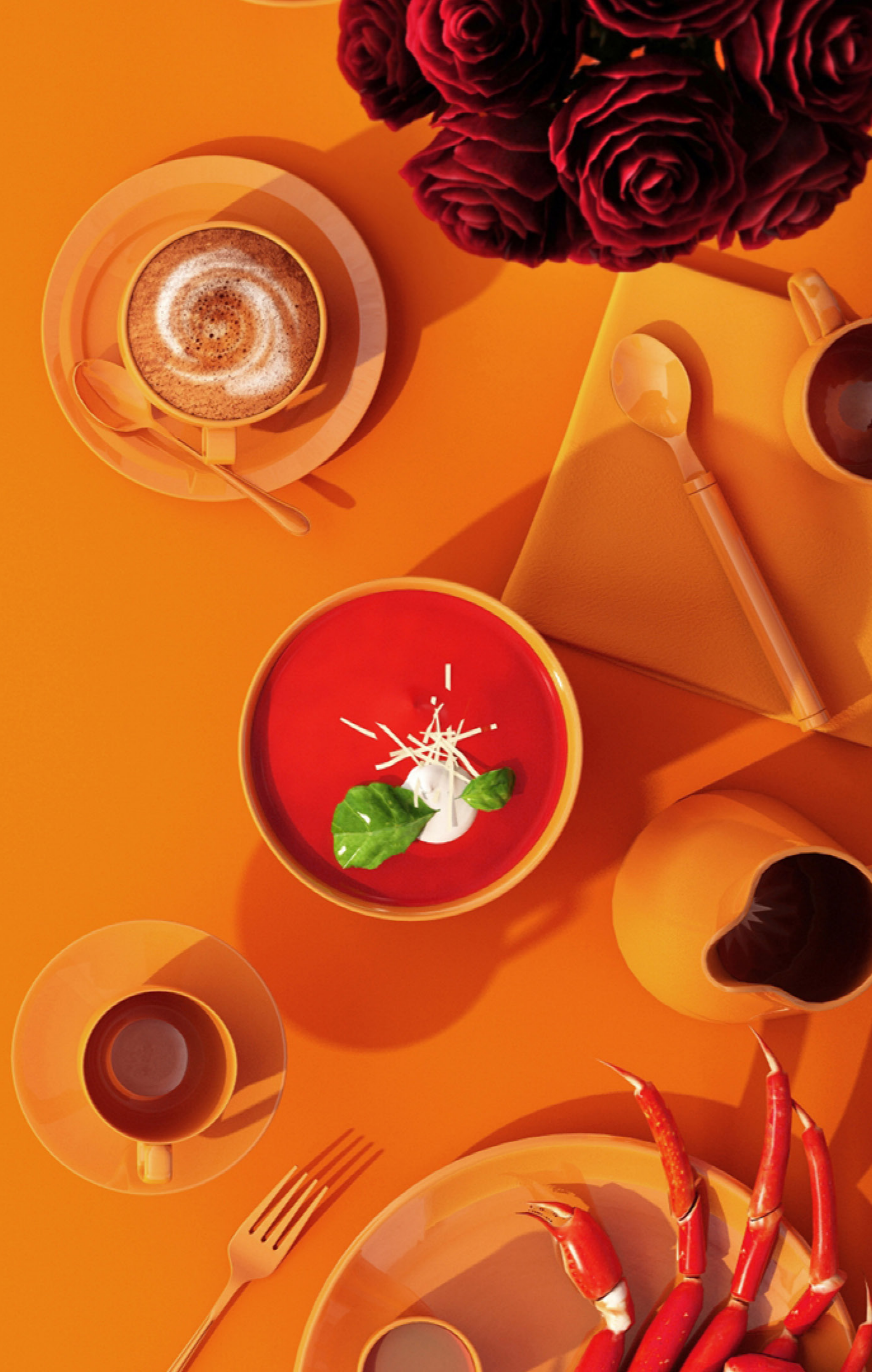
Don’t miss out on valuable data

As a restaurant CEO, you want to make sure that you’re making use of all the data that can benefit your brand. But with a sea of information to sort through, this often feels like an overwhelming challenge.

How do you even know where to begin? You know what KPIs you should be tracking, but how can you find the most efficient ways to analyze them and, most importantly, turn them into actions that will help your business grow?

You don’t need to answer these questions alone. We can help.

Talk to our experts



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