Restaurant Profitability Checklist

By CSI Accounting & Payroll

Introduction

You can't improve what you don't measure. The key to boosting your bottom line is keeping tabs on your finances. You need to understand where your money is going in order to streamline your restaurant and increase efficiency.

Key Performance Indicators (KPIs) are how you measure your financial health. A KPI is a marker that gauges your business performance in a variety of areas. KPIs do vary depending on business and industry, but there are a few essential ones that are relevant to most restaurants.

This eBook covers seven basic KPIs you need to measure to ensure your restaurant is profitable. The information in this book will help you analyze your profits, streamline your operations, and improve efficiency. Each business is unique, which is why the KPIs we discuss are not meant to be definitive. Instead, you can use the checklist in this book to gauge the health of your finances and create a roadmap for the future.

Here's a preview of the seven questions on our KPI checklist:

- What is your customer acquisition cost?
- What is your customer lifetime value?
- What is your break-even point?
- What is your gross profit?
- What are your net profit?
- How do your total revenues compare with last year/last month?
- What is your average revenue per employee?

Question One

What is your customer acquisition cost?

Your customer acquisition cost (CAC) is the price you pay to acquire a new customer. It takes into account the amount you spend on sales, marketing, advertising, and other outreach efforts. Your CAC is one of the most important numbers your business needs to track, but most restaurants ignore or forget to measure it.

You figure out your customer acquisition cost by dividing your total acquisition costs by your number of new customers within a specific time period. Here's the formula:

$$\frac{\text{Sales and Marketing Cost}}{\text{Number of New Customers}} = \text{Customer Acquisition Cost}$$

By knowing how much you spend on average to acquire a new customer, you can tell exactly how many customers you need to generate a profit.

Question Two

What is your customer lifetime value?

Your customer Lifetime Value (LTV) predicts the total profit you can expect from your entire relationship with a single customer. In other words, it tells you how valuable each customer is to your business over time.

This is another number that far too many restaurants ignore. But you need to know your LTV so that you can predict your future revenues and estimate the total number of customers you need to grow your profits.

One basic way to calculate your LTV is to subtract the money you spend acquiring and serving your customers from the revenue you earn from them. Depending on the type of restaurant you have, your method of calculating this number may be more complicated.

If you aren't sure how to calculate your LTV, ask us or your current accountant for the right equation for your business.

Question Three

What is your break-even point?

Your break-even point answers this one crucial question: how much do I need to generate in sales for my company to make a profit? Calculating your break-even point is complicated because it fluctuates depending on variable expenses and profit margins.

Even though it's difficult to pin down your break-even point with precision, you still need to track it as closely as you can. Use this formula to calculate your break-even point:

$$\frac{\text{Total Fixed Cost}}{\text{Average Price}} - \text{Variable Cost} = \text{Break Even Point}$$

Knowing this number will show you what you need to do to turn a profit (e.g., acquire more customers, increase prices, or lower operating expenses).

Question Four

What is your gross profit?

How can you tell whether you are pricing your goods and services appropriately? By tracking your gross profit. Your gross profit is your gross revenue minus your cost of goods sold (COGS), and it should be large enough to cover your operating expenses and give you a profit.

If your gross profit margin isn't high enough to give you a profit, you either need to increase your net revenue or decrease your expenses.

Question Five

What is your net profit?

Knowing your net profit is a business accounting fundamental. In order to calculate your net profit, you need to keep an accurate record of what you spend and where you spend it.

A business expense is any cost you incur in the process of running your business and selling goods or services. A common example is your cost of goods sold, which is calculated as follows:

Cost of Goods Sold = Beginning Inventory + Purchases - Ending Inventory

Examples of operating expenses include:

- Salaries and wages
- Rent and utilities for your office or commercial space
- Business insurance
- Advertising, marketing, and promotional costs
- Taxes and licenses
- Professional services (accounting, legal advice, etc.)

Once you've recorded and added up all your expenses, you subtract this amount from your revenue to calculate your net profit.

Net Profit = Revenue - Expenses

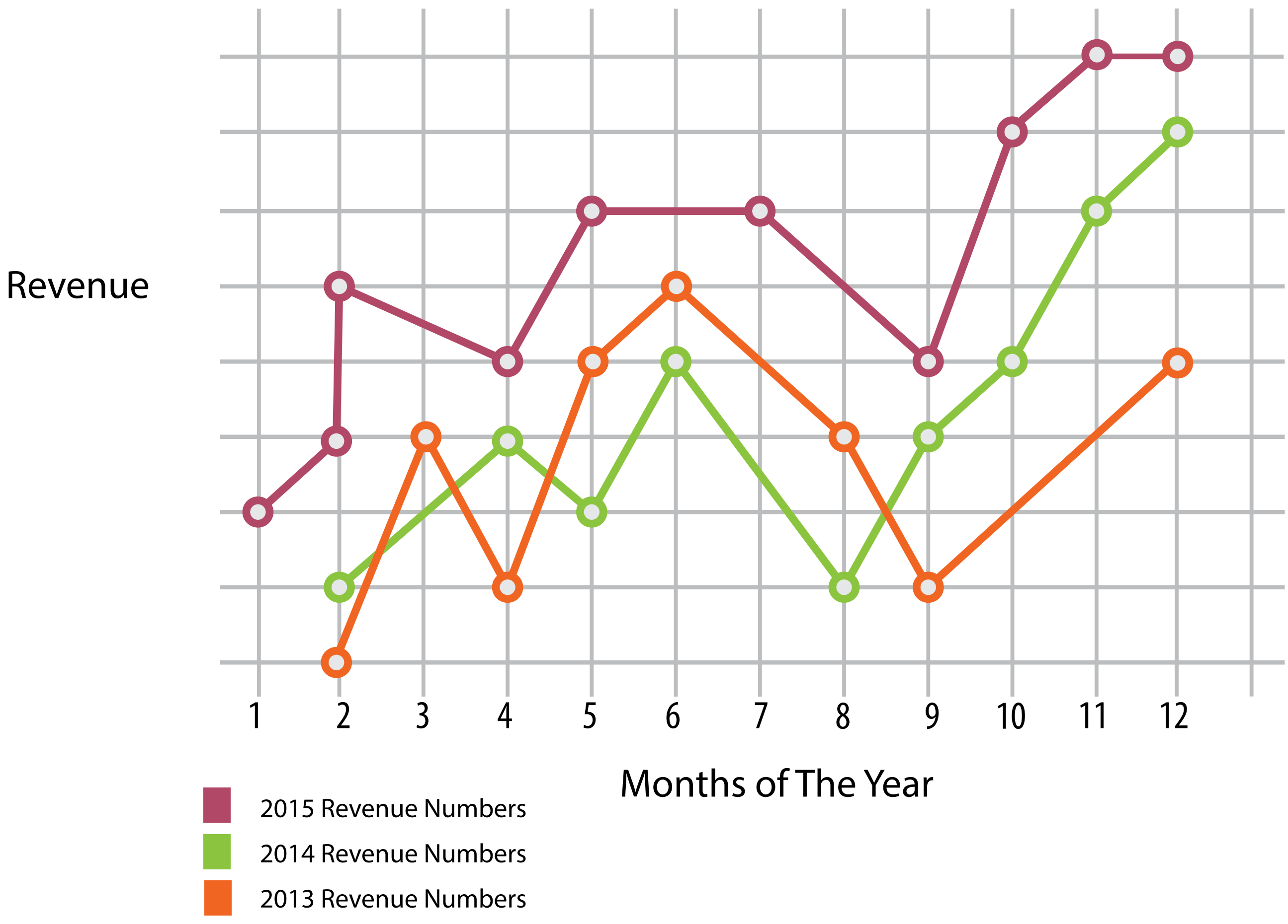
This is the single most important number you need to know for your restaurant to be a financial success. If you aren't making a profit, your restaurant isn't going to survive for long.

Question Six

How do your total revenues compare with last year/last month?

If you want your revenue to grow, then you need to track it. Some businesses benefit most from comparing their year over year revenue, and some need to look at their month over month growth. The nature of your restaurant will determine which metric is most relevant to you.

An accounting spreadsheet will let you see at a glance where you stand financial. By tracking and comparing your total revenues over time, you'll be able to make sound business decisions and set better financial goals.



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Question Seven

What is your average revenue and average gross profit per employee?

Your average revenue per employee measures how efficiently your business utilizes your employees. This average will vary quite a bit depending on industry. For labor-intensive businesses such as restaurants, this average will typically be lower compared with businesses that require less labor.

To calculate this amount, use this equation

$$\frac{\text{Total Revenue}}{\text{Number of Employees}} = \text{Average Revenue Per Employee}$$

Your average gross profit per employee shows you where you stand in relation to other businesses in the restaurant industry. It's important to know this number so that you can set realistic productivity goals and recognize ways to streamline your business operations.

Here's how you calculate it

$$\frac{\text{Gross Profit}}{\text{Number of Employees}} = \text{Average Gross Profit Per Employee}$$

Conclusion

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To succeed, your restaurant must be profitable. All your business objectives boil down to this one simple fact. But turning a profit is easier said than done. In order to boost your bottom line, you need to know what's going on financially at all times. You also need to be committed to tracking and understanding your KPIs.

If you don't have the bandwidth to do all this yourself, a great strategy is to partner with a monthly accounting service. Outsourcing your accounting to an expert will simplify your life and give you more time to focus on running your business operations.

A monthly accountant will provide you with a profit and loss sheet, balance statement, and accurate account reconciliation every month, ensuring that you have the financial information you need to make the best choices for your restaurant.

We're here to answer any questions you have about monthly accounting services. Give us a call at 952.927.4011 or get in touch with us through our contact form.

If you want to learn more about creating a financially sustainable business, check out these additional resources:

The Lean, Mean, Business Machine by Tony and Frank Fiore

Six Steps to Small Business Success by Bert Doerhoff, CPA, Lowell Lillge, CPA, David Lucier, CPA, R. Sean Manning, CPA, and C. Gregory Orcutt, CPA