toast

Restaurant Cost Control Guide

Introduction

You have to spend money to make money, right? Well what if you could spend less money to make the same or even greater returns…

You've seen the news. You've read the stories. You've likely lived it yourself. So you know all the challenges currently stacked up against the restaurant industry:

Supply chain challenges   Inflation concerns   Labor struggles

You also know that you're not going to fix any of those single-handedly. Many of these are national and global issues out of our hands. Your time is better spent on what you can positively affect — on controlling your restaurant costs.

On average, the food cost percentage is **28-32%** in many full-service and quick-service restaurants.[1]

Restaurant food prices increased **6% over 2021** and is expected to increase another **3.5 - 4.5% through 2022.**[2]

Researchers observed that **4% to 10%** of food purchased by restaurant leaders never gets to the customer totaling approximately **$1,000** of the company's revenue per 3.3 lb of food waste.[3]

[1] https://www.restaurantowner.com/public/Restaurant-Rules-of-Thumb-Industry-Averages-Standards.cfm

[2] https://www.ers.usda.gov/data-products/food-price-outlook/

[3] https://scholarworks.waldenu.edu/cgi/viewcontent.cgi?article=1371&context=ijamt

Use the following questions as a quick operational assessment:

How much value do you have in on-hand inventory?

What is the profit margin on your most popular menu item?

When is the last time you compared invoices week over week?

You can positively influence each of these answers, but first you have to be able to answer them.

This guide provides five steps to improve your cost control.

A better understanding of your costs can help you zero in on your profitability and ensure you're maximizing returns on each dollar you spend on your restaurant, and each dollar your restaurant brings in.

You're already spending money and making money — read on to see how to spend less and make more.

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1 # Know the difference between your costs

You can't control your costs until you know your costs, so let's start there.

Restaurants are up against a ton of costs. They're commonly broken out into two buckets:

Fixed costs

Fixed costs aren't changing. You don't really control them (aside from initial agreement.) Common fixed costs include, leases/mortgages, utilities, property taxes, licenses, payment processing, and salaried employee compensation and benefits.

Variable costs

Variable costs are controllable. These are all your costs directly related to getting your food and drinks out to your customers. Within your variable cost, we're most concerned with your prime costs.

Restaurant prime costs are the combination of your total labor costs and your total cost of goods sold (COGS) over a given period of time.

Total COGS + Total Labor = **Prime Cost**

Total COGS refers to all ingredients and products required to make the products you sell in your restaurant. We're talking food costs, beverages, packaging, cleaning supplies, etc.

Total labor refers to salary + wages, taxes, benefits, food discounts, and insurance. Realize that $10/hour actually costs closer to $12-13 per hour with all those added costs.

Prime costs are represented in dollars, such as the formula above, or as a percentage of sales:

Prime Cost Ratio = **Prime Cost / Total Sales**

Here's what both calculations look like in action:

A bakery owner wants to know the prime cost of their business last month. They had a COGS of $30,000 — meaning it cost $30,000 to produce all the products the bakery sold that month.

Labor reports show total wages for their team cost $4,000 for the month — factoring in taxes, comps, and other benefits bring total labor costs up to $5,000.

The bakery's total sales for the month were $60,000.

Prime Cost	Prime Cost Ratio
$30,000 + $5,000	$35,000 / $60,000
Prime Cost = $35,000	**Prime Cost Ratio = 58%**

2 Consistently capture and update costs

The key to consistent costing is to go straight to the source — your supplier invoices. But no one has time to manually analyze invoices and compare them to prior ones.

What typically happens is that the bare minimum analysis. Invoices are coded into your accounting system at such high levels that any insights uncovered are hardly actionable.

Invoice processing automation solves this.

Invoice automation platforms blend machine learning and optical character recognition (machine vision) to capture every invoice detail via the snap of a photo, scan and upload, email, or EDI feed.

These tools give you properly coded and categorized purchase data for your accounting system without lifting a finger or incurring any billable hours.

More importantly, invoice processing systems unlock a granular view into:

- Every ingredient you order
- Ingredient quantities per order
- Ingredient costs per order
- Order purchase dates
- Ingredient supplier(s)
- Notes, alterations, and credits

It doesn't matter whether you're just starting out with a small cafe or you have 20 franchises under your belt — you'd benefit from automated analysis like this.

This is especially true considering all of the challenges up against the industry.

You can't afford to wait until the end of the month to learn that you've been taking a loss on chicken wings. You have to be proactive in taking action so you can stay ahead of costs and maintain your profitability — that's precisely the foundation that invoice automation provides.

Invoice automation offers unparalleled costing insights and analysis that are conveniently wrapped in tons of time savings.

3 Calculate costs for recipes and menu items

Let's build on that invoice processing automation foundation by grouping ingredients into recipes and menu items.

Remember, you're not serving individual ingredients — you're serving dishes made up of a combination of recipes. You want updated ingredient prices to flow into those recipe costs and then onto your dish/plate costs. That's why it's critical your invoice system integrates with costing tools that build recipes.

For example, say that chicken breasts increase $0.42 per serving this week. You innately know that every dish with chicken breast is now $0.42 less profitable — but what are those dishes? And what's the larger impact on the actual profitability of the dishes?

A $0.42 hit may be nothing for some dishes because of how profitable they are. On the flipside, there may be some dishes where a $0.42 hit makes them unprofitable. Recipe costing tools provide this information in as close to real-time as possible. They shift your efforts from playing catch up to playing the game on your own terms.

Here are a few additional tactics to boost recipe profitability and get the most out of your costs:

Recycle scraps and waste

Use bones and vegetable scraps for stocks. Turn stale bread into croutons.

Purchase smarter

**Whole carrots cheaper than peeled? Buy those and process them.**

Check portion sizes

You don't owe your customers leftovers.

This type of down-to-the-penny analysis shows you how each menu item is contributing to your profits — making it easy to decide if/when:

- Prices need to be raised
- High-quality ingredients need to be swapped for lesser ones
- Dishes need to be pulled off the menu
- Ingredients need to be shopped across suppliers
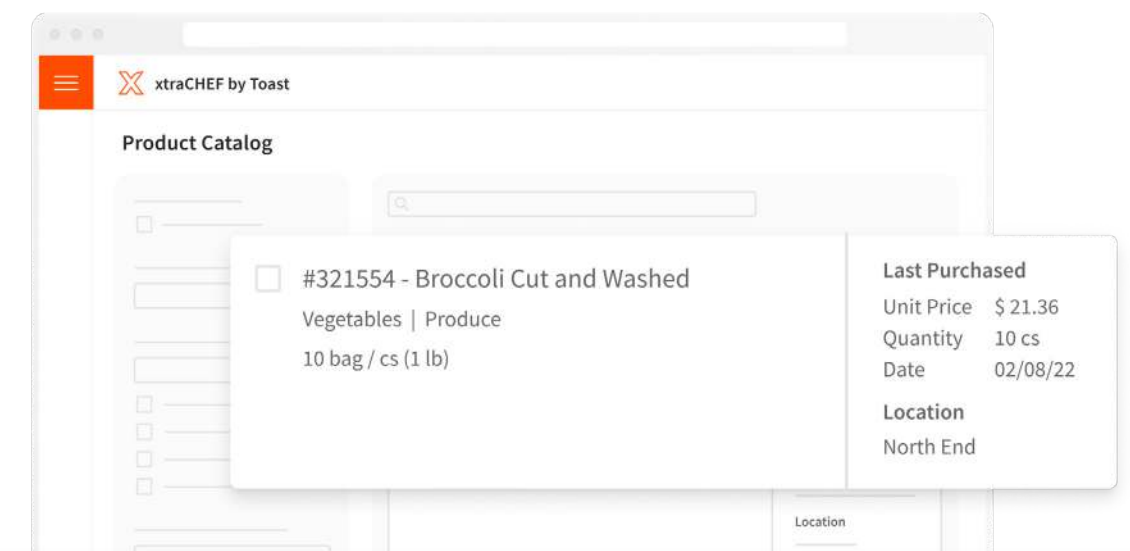
xtraCHEF by Toast creates a product catalog that houses every item processed from your invoices. You can pull from that catalog to build recipes, assigning average costs per ingredient or most recent cost per ingredient.

4 Understand your restaurant's unique inventory needs

There's simply too much complexity in your restaurant needs to be manually managing inventory — especially as you look to scale your operation. This is why the industry puts such an emphasis on inventory management systems. It's table stakes for today's leading operators.

However, it's critical you realize that simply adopting an inventory management platform is not a fix-all for your restaurant.

You need to know exactly what you want to get out of implementing an inventory management system. Here are a few questions to ask yourself:

How are you managing purchase orders?

Do you need support with insights tied to inventory?

Are you struggling to get consistent on-hand inventory counts?

Your answers to these questions will set the stage for how you implement and benefit from your inventory system. Regardless of your needs, you must build your inventory system on strong data foundations.

Here are a few ways to achieve that strong inventory data foundation and better control your restaurant costs:

Invoice automation checks the box for your strong data foundation. It ensures you have real-time pricing data funneling into your additional platform modules.

Precise inventory data is critical when reporting your COGS. xtraCHEF by Toast calculates the exact value of your inventory by applying your ingredients' most recent purchase prices, or take an average of the last 3, 6, or 9 purchase prices.

Digitized inventory systems make counts easier by organizing around your unique kitchen setup and assigning specific team members to complete counts.

We're not going back to 2019 — so restaurants need to start operating in 2035. xtraCHEF by Toast empowers your staff to take physical inventory counts on any device no matter how strong your connection to the internet may be.

Automated supplier purchasing and par leveling tools make sure you always have the products you need stocked for every service.

xtraCHEF by Toast automatically builds order guides based on what's on hand and what's required to maintain par — all you have to do is take inventory once. And your invoice-powered product catalog simplifies one-off orders.
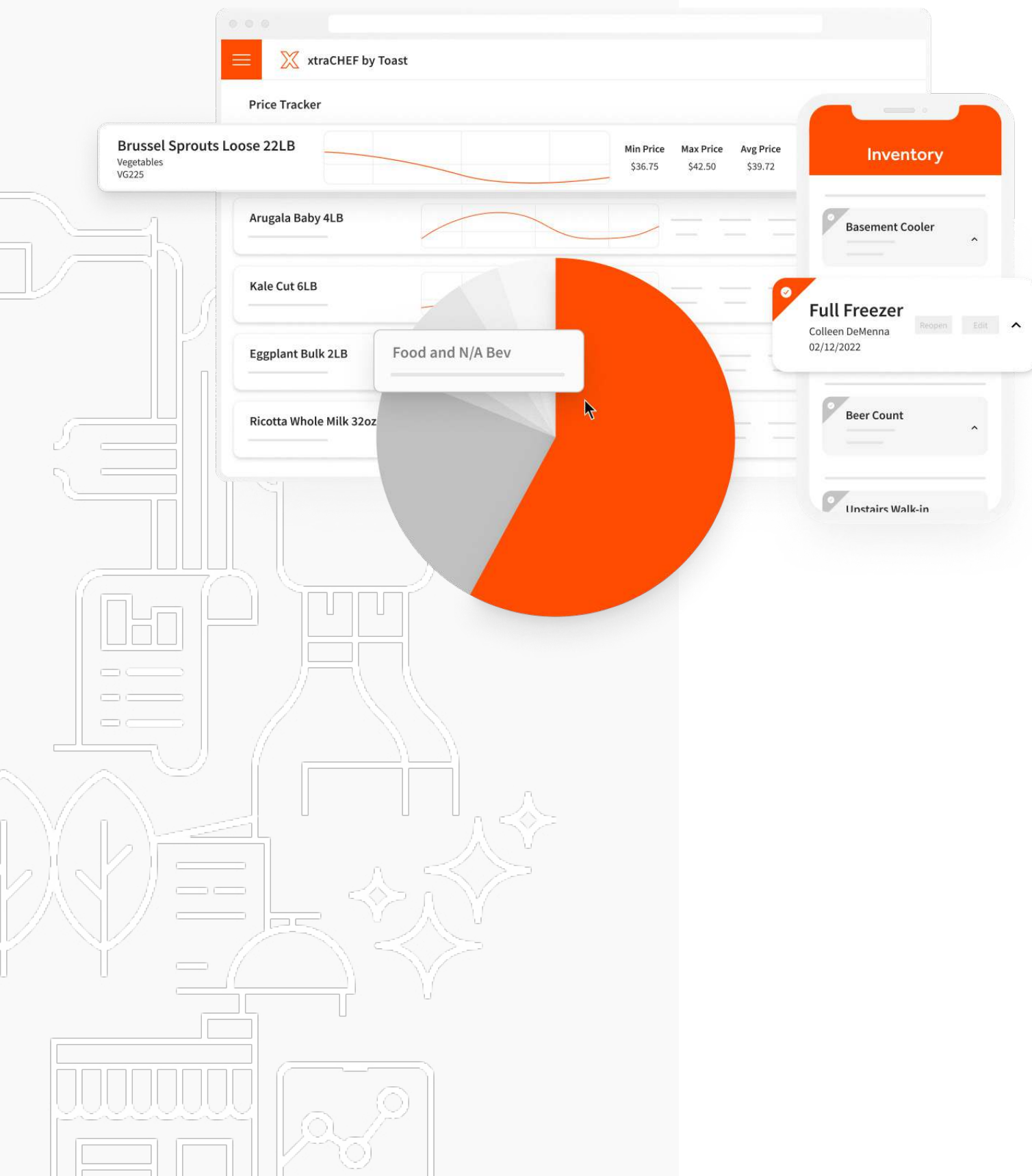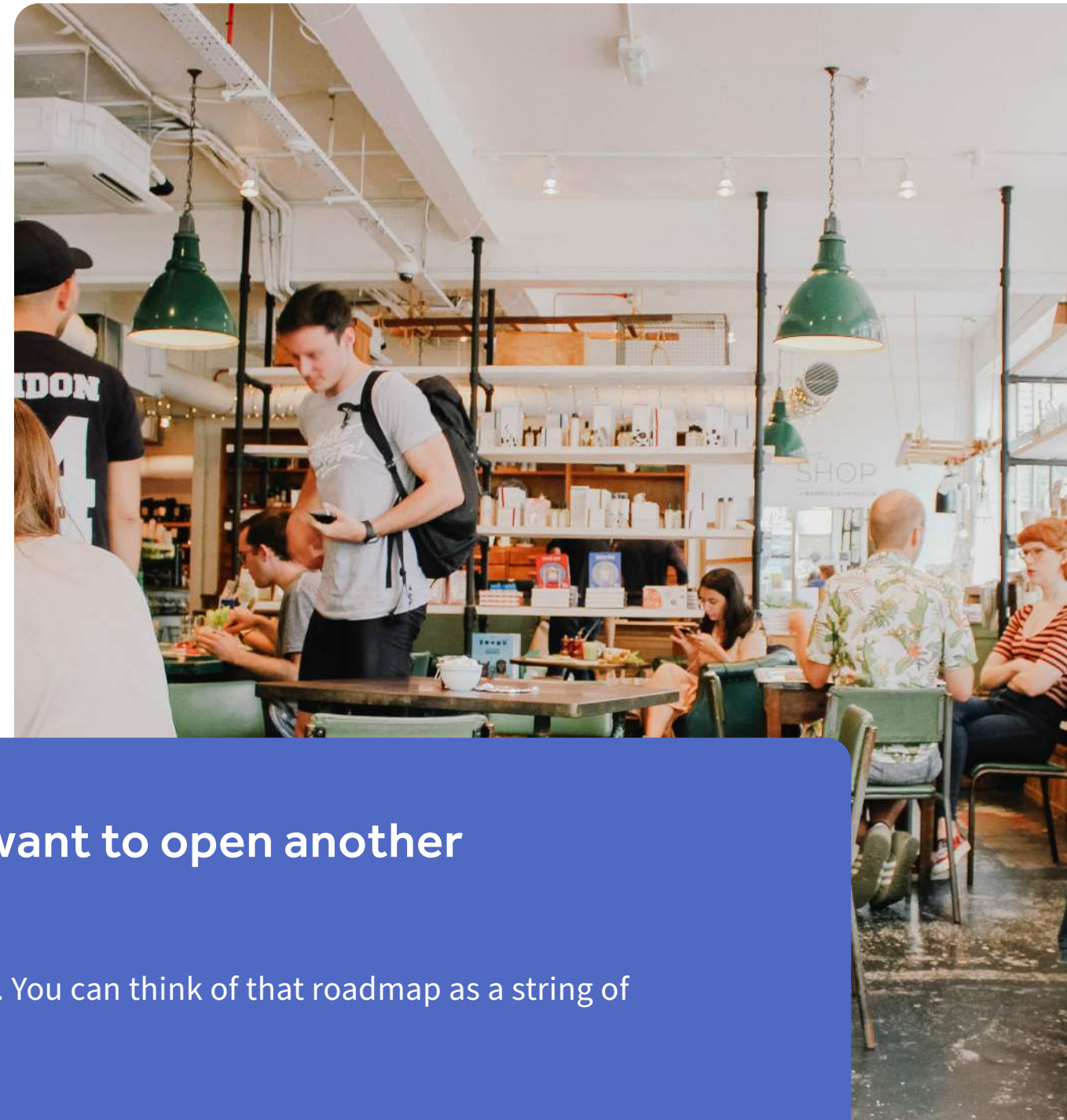
5 Be intentional about your goals

The past few years have no doubt caused operators to think deeply about their restaurant business goals — we're talking long-term growth plans and even endgames.

Obviously, things change, and life throws us curveballs. But planting flags on business goals allows you to be intentional with how you optimize your operation.

Say, for example, that you're a single-unit operator and want to open another location in a year.

That objective allows you to create a roadmap of milestones needed to achieve that goal. You can think of that roadmap as a string of **if/then statements**, working back from the final goal to determine how you'll get there.

Here's how you could break down cost needs:

If it takes $100,000 to open a new location and you have $40,000 saved,
then you need to net $60,000 to afford to open the next location.

If you need to net $60,000 over the next year,
then you need to average $5,000 in monthly profits.

If you need to average $5,000/month and you currently only net $3,200,
then you need to drive more revenue, raise prices, and lower costs to make up the additional $1,800.

Dissecting your goal this way provides bite-size objectives that are more quickly achievable, allowing you to build some momentum and see the progress.

Once your objective is broken down into profitability measures, all the previously mentioned cost control steps provide the strategies and tools needed to get there:

Invoice automation shows you where all your money is going

Recipe costing enables you to control profitability across your menu

Inventory management helps ensure your maximizing the value of your ingredients

While this is the final step in this guide, your restaurant cost control journey has no destination or ending. You'll ideally have these goals and objectives broken down clearly to keep yourself aligned with along the way — **but the road goes on forever and the costing never ends.**
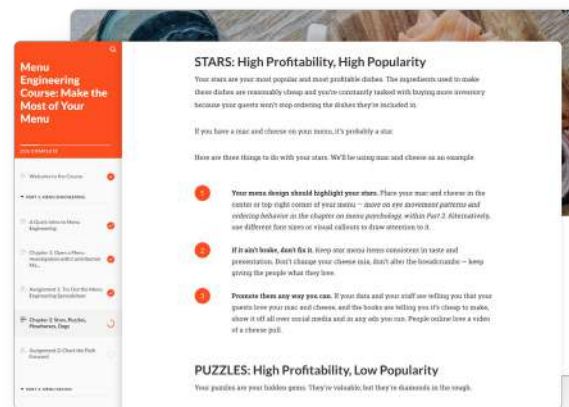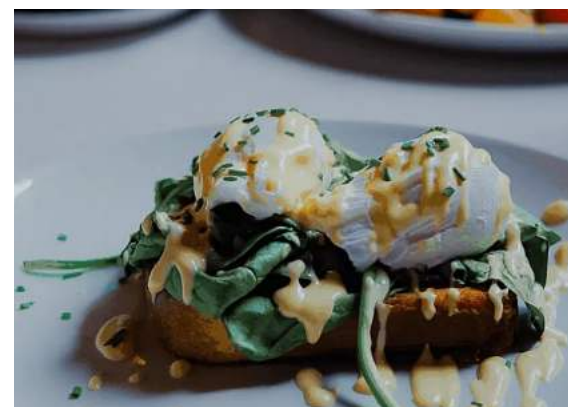
Where do you go from here?

Hopefully, you've read these steps and are ready to take control of your restaurant costs. Here are a few calculators, templates, and other free resources to get you started:
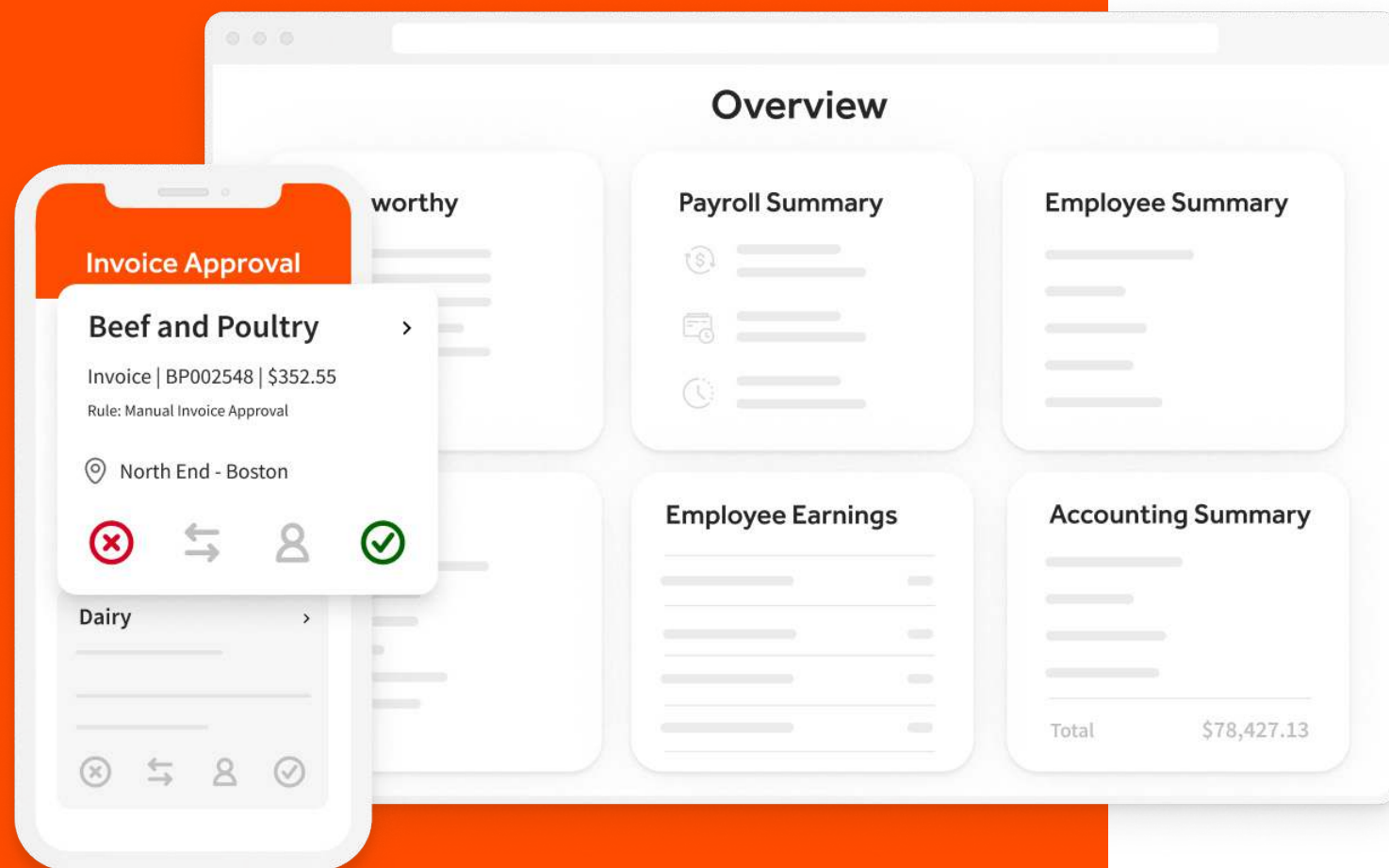

**The Menu
Engineering Course**

**How to Set Up Par
Inventory Sheets**

**How to Cost a
Plate of Food**

Invoice Approval

Beef and Poultry ›
Invoice | BP002548 | $352.55
Rule: Manual Invoice Approval

North End - Boston

Dairy ›

Overview

worthy

Payroll Summary

Employee Summary

Employee Earnings

Accounting Summary

Total $78,427.13

Take control of your costs

Toast's all-in-one platform is designed to grow with your restaurant. xtraCHEF by Toast and Toast Payroll tools combine with our flagship POS system to integrate and centralize costing data — empowering you to truly start controlling your controllables.

Talk to a specialist