

# Dollars and Sense

Recently I was consulting with a restaurant that had been losing 40 cents on the dollar for a number of years and the owners were tired of writing checks!

The challenge was how to sensitize the staff to the situation without creating mass panic among the troops or revealing figures that were likely to find their way into a feature article in the local paper.

Before I started my first meeting with the staff, I asked them all to write down what percentage of the sales dollar they thought was profit. Then I gave them each \$1.00 in change and we started to talk restaurant economics.

The dollar represented a dollar in sales (they understood that) and they also understood there were expenses against it.

Reading from the NRA's Restaurant Industry Operations Report, we started "paying the bills" using median figures for full service restaurants – thirty-five cents for food, thirty cents for labor, five cents for benefits and so on – by dropping the coins into a cup. They were shocked to end up with three cents . . . and that was pre-tax profit!

Then I had them take the money out of the cup and talked about the results that their restaurant was achieving.

We started by paying out 50 cents for food and 50 cents for labor. Then I said, "OK, now we have to pay the rest of the bills – utilities, phone, rent and so forth – so we need another 40 cents. Drop it in the cup. You know that if you don't pay your bills, you won't stay in business."

Their eyes got wide with panic as they tried to figure out where the additional 40 cents was going to come from! I gave the reality of the situation time to settle in before pointing out that when income doesn't cover the expenses, you have to use your own money to stay in business . . . and the owners were tired of it.

They got the message loud and clear and started asking what they could do to help stop the bleeding!

In my experience, unless you educate them to the contrary, most restaurant workers think you make 25-50 cents on the dollar!

By the way, the person who guessed closest to the right answer on the profitability question got the dollar's change from everyone at the meeting . . . and the restaurant's food cost decreased from 53% to 34% in less than six weeks!

(If you would like to conduct a similar exercise with your staff, the figures from the National Restaurant Association are included on the following page.)

# National Restaurant Association Restaurant Industry Operations Report 2000

## Statement of Income and Expenses Median Ratio to Total Sales\*

	Full Service <u>Ck Av &lt;\$15</u>	Full Service <u>Ck Av 15-25</u>	Full Service <u>Ck Av &gt;\$25</u>	Limited <u>Service</u>
SALES				
Food	84.2%	78.7%	72.8%	100.0%
Beverage	<u>15.8</u>	<u>21.3</u>	<u>27.2</u>	<u>n/a</u>
Total Sales	100.0	100.0	100.0	100.0
 COST OF SALES				
Food	33.9	35.1	33.3	28.6
Beverage	<u>27.9</u>	<u>28.8</u>	<u>32.5</u>	<u>n/a</u>
Total Cost of Sales	32.3	65.7	34.2	28.6
 GROSS PROFIT	67.7	65.7	65.8	71.4
 OPERATING EXPENSES				
Salaries and Wages	30.0	30.3	27.3	29.2
Employee Benefits	4.4	3.9	4.8	2.7
Direct Operating Expenses	5.0	5.4	5.1	5.2
Music and Entertainment	0.0	0.2	0.1	0.1
Marketing	2.0	2.3	2.4	5.8
Utility Services	2.8	2.8	2.0	3.2
Repairs and Maintenance	1.5	1.7	1.8	1.7
General and Administrative Expenses	2.9	3.9	5.4	5.4
Restaurant Occupancy Costs	5.1	5.3	5.4	3.2
Depreciation	1.6	1.6	1.5	2.4
Other (Income) Expense	0.1	0.2	0.3	0.0
Corporate Overhead	<u>0.0</u>	<u>**</u>	<u>1.3</u>	<u>**</u>
Total Operating Expenses	60.7	61.8	59.8	62.9
 INTEREST EXPENSE	0.1	**	0.6	0.8
 OTHER EXPENSES	**	**	**	**
 INCOME (LOSS) BEFORE INCOME TAXES	5.2%	3.0%	4.0%	4.5%

\* all ratios are based as a percentage of total sales except food and beverage costs which are based on their respective sales

\*\* insufficient data

n/a - not applicable