It's David Scott Peters and welcome to episode 44 of the restaurant prosperity formula. I've been coaching restaurant owners in 2003 and the restaurant prosperity formula is based on what the most successful restaurant owners I've worked with do on a daily basis to achieve their success. The basic premise of the formula is centers around achieving prosperity, freedom from your restaurant and the financial freedom you deserve. To achieve prosperity, you have to follow a very specific formula made up of leadership systems training, accountability, and taking action. Today's topic focuses on the restaurant challenges we've faced over the last two plus years from COVID Business restrictions and rising operational costs to food and labor costs skyrocketing out of control and ultimately, the changes you need to make in your business to continue to be successful. I'm going to ask you one simple question during this podcast. Are you willing to make the changes necessary? And let's get started. But first, a word from our sponsor. This episode is being brought to you by repeat returns. If you're a restaurant owner of a medium to high volume, independent restaurant, multi unit or franchise operator, and you're looking for a proven and realistic solution to attract, grow and retain customers then you need to visit repeat returns. Repeat returns is a modern marketing platform created by a restaurant owner for restaurant owners. It studies each customer's habits and patterns predicts the most profitable outcome for your restaurant every single day and deploys a marketing to make that happen you'll never lift a finger and to see if repeat returns is right for you. Visit repeat returns.com forward slash DSP. Look, I don't need to tell you that running a restaurant has always been full of challenges. I also don't necessarily need to rehash the challenges you'll face in 2020 2021. And now in 2022. You get it costs have risen at a record pace. The labor shortage is real. You already know you can't keep doing what you've always been doing. Something's got to change. My question to you is Are you really willing to make those changes? Right the idea of change is one thing to actually take action to make changes, especially when they're difficult. Are you willing? Why do I ask this? Because I'm on calls every single day, every single day with restaurant owners just like you whether it's on a discovery call. We're a group coaching call, we're one on one call. And there are challenges that we've been facing and working through my members that people I've been talking with on a routine basis recently. And it all has to do with the rising costs that we have out there. The fact that food cost is astronomical, and the fact that if you looked at the first quarter of 2022 If you didn't react to those rising costs, odds are you lost two to three points to your bottom line in food costs alone forget about labor. So before I go into anything further, of making change in your business I want to talk about a concept that you've heard me talk about multiple times, whether you're on my podcast or on my YouTube channel, or seeing me speak across the country or been on one on one call with me or see me do a webinar. What is that? We're going to talk about the one number you must not have any chance to make any money and that's called prime cost. And this is critical to this discussion. Because prime cost is the total cost goods sold plus total labor costs including taxes, benefits insurance. So whatever your costs good model beer, draught beer, wine, liquor, food combined labor from salaried to hourly management included including taxes, benefits, insurance, that's your number. Now I'm not going to great detail into prime costs, but you get the idea is cost of goods sold and labor costs. I also want to make sure we understand we're measuring it off the right number, and that's gross sales versus net sales. gross sales of the ring of the register before discounts not including sales tax. So if you bring up a $10 burger and comp $5 gross sales is $10. Net sales is after the discount, that would be $5. And this is important because we're going to measure off of gross sales, because that's the right target. We asked chef to put out a burger for $10 and use $3 in product that's a use divided by sales 30% food cost. If we count $5 and use that as our number, our net sales number of $5. We've doubled our cost of goods sold and that's not really a fair measurement of the kitchen. It's a fair measurement of your bottom line, but not did my chef or kitchen manager do a good job in managing my restaurant, my kitchen training product, right portion control, you name it. So we're going to use gross sales. Now in the old days when I first started back in 2003, experts said prime cost target for full service restaurant was 65% for a quick serve 60%. And over the years over the past 20 years things have changed quite a bit for the restaurant industry.

We get about 20 years. How about the last two and a half? Right? Our food cost is astronomical. Our labor cost is astronomical. There's real challenges because of COVID and the after effects of it. Well, I'm here to tell you that you can't run off but 65% prime cost target anymore. Your new prime cost target is 55%. If you do $850,000 a year or more in sales, your prime cost target is 55% or lower. Now if you do under $850,000 year your target is 60%. Okay, now keep in mind that that is going to fluctuate depending on what you're doing. You can run a higher food costs lower labor costs, you can run a higher labor costs, lower food costs, you get the picture, you get to choose based on where you're located style of service, quality of product, your core values, right? There's so much that goes into it that we can't use a national average. We've got to make sure we've got a budget for you. And that budget primarily is going to give us that prime cost targets those numbers you need to hit to make the money you deserve. So now let's back into the conversations because we're going to talk about food costs. We're talking about labor costs when it comes to challenges that are you willing to change. So let's talk about food costs running high. So I have a new member that has a barbecue restaurant that is currently running a 49% food cost. That's easy to do when brisket alone went up 300% Last year let alone I haven't kept up piece of what's happened this year. And if that's one of your top sellers, it's going to be driving things up to a point where at what point in time can I not continue to raise my prices where my guest is? Holy crap. Now I will tell you we've not talked about this yet with this member. But we're going to do a menu analysis to make sure we can re engineer his menu and a part of it may be with brisket, things like that. We're going to take a page out of the seafood restaurant and go to basically market price. Now it becomes a little bit of a tracking nightmare. But the fact of the matter is if you really want the brisket it's the market price and you understand that in order to bring those food costs down, we're certainly gonna look at portion controls. That's critical when you're dealing with high cost proteins. We're definitely got recipe costing cards and what we've already set up out of the gate brand new member we're going right into manual engineering because we can move the needle usually three to seven points the first time through, but because the food cost is so high, it is critical we make the changes necessary. And a part of those changes. What's beautiful is he has a second location that actually is a different style of product. It actually is Cajun food that goes with it. And so in these initial location, we're talking about bringing that food over because those rice the beans, things like that high quality and so on. We are low cost, high perceived value we can charge for it, changing our mix along with portion controls and changing our menu with what the barbecue portion is we drive the food costs down. But the question is as an operator if you're presented with a 49% food costs and barbecues what you know and do are you willing to make the changes? Are you willing to potentially go to market price on brisket or not sell ribs anymore? Because you can't charge enough for them? Are you willing to make that change? Are you willing to reengineer your menu and position pulled pork as your number one item that you want people to buy driving your food cost down because it's a lower cost product? Are you willing to make those changes? Are you willing to raise your prices? You may also look at it and say are you willing to reduce the amount of prep you have and whatever it may may be to change the menu to make it easier to make money. Are you willing? Are you willing to in this case, maybe instead of buying from multiple vendors go to A prime vendor agreement to reduce your cost of goods sold by promising 90% of your purchases to one broad line distributor to make more money are you willing to each one of those questions is you've got to answer yes, you've got to answer yes, you've got to answer yes. Or you're going to be stagnant. Nothing will change. I've got another new member who came in as a seafood restaurant running at 38% food costs. Now that is not unusual. 34 to 38% is typically where many of my restaurant operators owners come to me because they haven't made the changes necessary. Now this is a group that already in recipe costing cards, which means out of the gate we're gonna do a menu engineering call. Within our discussions, I said are you willing to stop selling items they don't make money on? Are you willing to, again drop those items? Are you willing to raise prices on items that you've maybe falsely kept low because you're afraid people aren't going to buy them? Or I might say if they aren't willing to pay the money for it. Maybe you shouldn't be selling them?

Are you willing to add and drop items to drop your costs? Now I will tell you I will never have you buy shitty product right? Reduce your quality. I will never have you you know cheap up your restaurant. It has stayed true to your COVID core values, but you've got to be willing to make changes. And again in this situation, are you willing to get a prime vendor agreement especially if you're a seafood restaurant and you'd like to buy from local vendors? Does that go against your concept and we've got to find other ways. Let me give you one more example. A burger restaurant a member I've been working with for two years. And they're running a 30% food cost because why? They're primarily beef and what has been done in the last two years. Just keep going up and up and up and up. Now I will tell you this, this member is a rockstar. I've done a podcast with him. Steve Heller. He's I mean he's one of the sharpest people ain't no drills down numbers like there's no tomorrow. He has made major changes over the last two years that have truly not only made his business survive COVID but thrive today. They are set up for success, but his numbers are rising. Now this is somebody who knows his ideal food costs on a weekly basis to a point where he's got spreadsheets that know which products have increased in price that have increased his prime cost and by how much his food costs I should say. He already has a Brian vendor agreement. He already has a budget knows his food cost target is 26%. He understands it a rock star kitchen has come in two points above but already takes weekly inventories and much more controlling portions and in waste sheets and key item trackers like systems oriented guy like dead on but his food costs was rising to budget at 26 and because of the rising food costs, even after raising prices and making some major changes six months ago, three months ago or so. His food costs went up. He's going through another round where he's attacking portions. He's attacking waste and preventing theft. He's going through and he is dropping even top selling menu items because they're too prep intensive. They slow down the line and the food cost is too high. He's taking his menu and shrinking it down to focus even more on what his customers want and understands that after this next round of changes he may have to get more aggressive because ultimately that's what it's going to take to bring his prime costs down in this case, the food cost portion of it because he runs higher labor paying higher than most. So you've got to be like Steve and be willing to make those changes, always looking at your numbers and leading your team. Now what about running with higher labor costs? This is really a challenge that is affecting all of us today. I remember it was a Mexican food restaurant in California that after doing her budget, we reduced her labor cost in her kitchen alone by 50%. And after doing so she runs more efficiently, better ticket times. All the employees are happy because they have hours everything's running even better with less people. How do we get there we did a dollars per labor hour worked analysis where you take the number of man hours in a position divided into the fluid sales for the kitchen. Now if we do that, for servers, it's their total hours divided by total sales, whatever position and what they sell. Well, I have another member who has a pizza restaurant, and we looked into doing it as budget and he had a 16% back house labor and like it's way too high, way too high. And he's not in a $15 minimum wage statement. We were able to look at it and say you've got to get your your labor costs down and down in the back house. And he was willing to go to 12.5% We want you to 10 to 12% In general, maybe a little bit higher if you're in a $15 an hour state. But with that said 12.5 is what he decided what he was willing to do. After we did $1 is probably where our work analysis and we discovered that I think it was there. People were doing about six entrees in our fight somebody standing there. They do six entrees that was $1 equivalent. Well in our conversation, what was beautiful I've never done this before now I do it routinely is I said hey, let's go into your cameras. And we watched the busiest hour on the busiest day and realize you know what, what he knew was an operator being in the weeds himself trying to do all of it himself. When he stepped backwards and looked at his team, he realized, you know what, the numbers didn't lie. So we made the changes and things are going extremely well. He cut the fat and people are happy, more efficient and doing better. Are you willing to make those kinds of changes? Remember that burger restaurant? Well guess what? The dollar is probably where I work and we're talking about his budget we were talking most recently about hey, what about his labor? I said your labor still looks a little high in the back of house and I'll tell you why. Because he already again, ran through my systems and already created in his budgeting system. His dollars per labor hour calculation.

We did the calculation. I said, Hey, look, that's about six entrees an hour. So what it means is our menu may be too complex, there may be too many steps, and you've got to be willing to reengineer your menu again, possibly changing what you're selling in, not in wholesale but in some and reducing the prep, the complexity the menu. And again, with all of this, you have to be willing to make those changes. So remember when I went over prime costs, this is critical because you you can choose where you need to make changes to hit your desired target prime cost. You have to have a budget right? This means you need a budget. And we'll talk more about budgeting in a future podcast. But right now you can go over to my YouTube channel, David Scott Peters, and you'll find several videos on the topic of budgeting. Prime cost and more. But the real question is, are you willing to make the changes necessary to change your business? If the answer is no, you need to stop searching for answers. Stop listening to podcasts, watching videos, reading books, if you're not willing to take action stop if you're not willing to take action, and if you're not willing to change what you're doing, even when and especially when it's hard. Hard to make those changes. Then why even bother? Remember the definition of insanity. Albert Einstein is doing the same thing over and over again. But expecting a different result. Why one more thing to add. How's it working for you? If you always do what you always did you always get what you always got. It is time to change. Do you need a smack in the head with a two by four? The last two and a half years has been the smack in the head and if you have failed to change what are you waiting for? But here's the deal if you are willing to change, willing to fundamentally change what your menu looks like how you schedule how you train your team. Then you'll be a restaurant owner who leads your restaurant to success. When you're willing to change when you have a willingness to change, a willingness to learn a willingness to take action. Those are the keys to your success in these challenging times. If you want to be successful in the restaurant business, you must be willing to change Are you a that was an awesome episode. I want to thank you for taking the time to take action on building a better more prosperous restaurant. Before you go. I want to give you these three thoughts. One by combining leadership and taking action with systems and training being checked by accountability. You are on your way to creating prosperity for you and your restaurant to have something I need from you. Please leave a review on Apple podcasts Spotify or wherever you happen to listen to podcasts. By leaving us a review other restaurant pros seeking out this information are able to find it. I read the reviews and hearing how this information has benefited you. does wonders for me. And three if you find any the discussions helpful share them, the more restaurant pros who have access to them, the better we become as an industry. For more restaurant resources or to get in contact with me. Connect with me at David Scott peters.com. Be passionate about what you're doing. Be persistent, but more importantly become better and help everyone around you become better and your restaurant is going to kick some ass.