Hey there restaurant pros. It's David Scott Peters and welcome to episode 56 of the restaurant prosperity formula. I've been coaching restaurant owners since 2003. In the restaurant press where the 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 centered 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 I want to focus on the most common questions I get asked when working with a restaurant owner on their budget. And that question is, where should my numbers be? Let's get started. But first a word from our sponsor. This episode has been 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 as 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 to see if repeat returns is right for you. Visit repeat returns.com forward slash DSP. If you're new to my podcast or new to me in general, I want to share with you one of my favorite pieces of wisdom. What is that you ask? Well, the two most important systems any restaurant should have our budgets and recipe costs and cards by the way what do you think the two systems are most restaurants never have budgets and recipe costing cards. Why? Because they're too hard. Boo freakin hoo. You're in the toughest business I know. Like no other business and I'm aware of that. You have to wear so many hats at the same time. We're big businesses have department heads somebody will purchase somebody do human resources, hire, train and do to do those things. Somebody in marketing, somebody be the CFO, you got to do all those things at the same time. With that said, being the most difficult to XyO you've got to make sure that you've got those two systems in place because without them you're throwing profitability and what I called them as luck. Think about it the recipe costing card name an industry that doesn't know what the hell they're selling, what it costs them and what they sell it for, in order to make a living to make money. And the restaurant business will shift What's up a special feature in the window and somebody goes oh, what are we charging for? It? And they they grab their chin and they think and they'll as they pull it out of the rear end? 1695 because they generally know what the protein cause they generally know what the side is they generally know. Well, then you generally ain't making money. There's more to it. Well, the budget goes one step further. How the hell do you know where your numbers should be if you don't have a budget, based on your location, style of service, quality of product, price point, your core values, so much goes into it. So you've got to create that plan for success. That's a budget. A p&l is just rearview mirror looking where you've been. While that's important. We've got to say where are we going? You as the leader the restaurant needs, you need to leave the business with the right numbers. So I'm gonna tell you this. I'm probably on at least one if not two budget calls every single week with members. And some of these calls are simple. They're just reviewing existing numbers, meaning we've created their budget template. They're putting their actuals in because they got their p&l and we're seeing where we hit or missed. And look into the systems and see why we missed that number and what changes we need to make to the rest of the year to make the money back up. Because they want to measure success. We no longer just say hey, do I have money in the bank account? What are the specific targets I'm shooting for? Did I assume that I missed them? And if I missed them, what systems did we put in place that managers aren't using? That I need to retrain, hold them accountable, get back in place and change for the future? Maybe their systems my manager is actually using but I'm still not hitting my numbers that I need in order to make money. So what new systems are going to put in place now quickly, I'm going to make changes in my budget and you plan for your success. proactive system. It is critical to your success. I'm gonna tell you right now, I don't know how anybody advises you, consultant coach, friend, under over budget, how the hell do they know where your numbers should be? We use industry averages, no way. Now many of the calls are also to create brand new budget.

Members in my restaurant transformation intensive program and they they week after week after week, they'll finally hit its budget week and budget week is actually 10 through 13. It's that important. There's so much work that goes into it and I always tell people it's probably the biggest thing that we do together the most important thing we do together the thing that's going to make the greatest impact in their business that we do together. Now let me walk you through the process. It is not scary. We take your last 12 months trailing 12 months. We get it from your your QuickBooks or whatever accounting software you're using in a single spreadsheet 12 months across or if you're in 13 period, accounting 13 periods. And then all we do is we look at what percentage of the sales mixes we look at where your cost of goods sold is for the year or if you've made changes more recently. Especially if you don't take inventories. We have to use a bigger range for that. Then inventories don't. We're purchases aren't wildly up and down which gives you a false sense of where your cost of goods sold is your labor. We get those averages fixed versus variable expense and we go line by line by line by line on your operating expenses. And we say hey, if we operate the next 12 months, the same way we did the last 12 months, here's what we're going to make or lose, we actually create a template, duplicating what you're doing right now. That's not a budget. That's a budget template. Need a Budget if you're just gonna keep doing the same stuff you're doing, but if you want to truly be successful terrified we literally gather we get on a zoom call with you we verify every single number sales for the last 12 months. Look at each of the percentages. Oh there something different here. We changed our menu or cost goods sold are really here. Oh, we got rid of that position that since COVID is gone. Like you'll find by line by line. Oh, we didn't know we have a loan on there. It hasn't. We are eidl money hasn't hit that budget yet. So we need to add it we verified line by line by line and now we have a template to create a plan for success. And then we get on what? One, two, if not three to our zoom calls. Creating that plan for success. is powerful. takes as many as three two hour zoom calls. Because I go line by line by line discussing every single line item. Even getting down into into the weeds doing a dollars per labor or work for different positions going this labor percentage looks too high. We need to make a change. But I'm gonna tell you right now, the most common questions whenever I start working with a new member when it comes to doing a budget revolve around where should my numbers be? Now I will tell you I can go down any number of paths when it comes to numbers. And I can get truly in the weeds and I'm going to try and get into the weeds a bit. But some targets we can generalize while others that really requires me know where you're located, your style of service, your price point your quality of product, your core values. What your minimum wages, the list goes on and on. So there are certain numbers I can give you a perfect generality. For instance, I generally want 10 to 12% Backhaus labor that's cooks prep cooks, dishwashers, all of them but sometimes you're in a really high minimum wage state. And because we don't pay minimum wage anymore after COVID and after the labor shortage were much higher, we may run a little bit higher, you might run 13 14% Backhaus labor, but just know that we're gonna have to make it up somewhere else like in food cost or cost any other cost consult bottle beer, draught beer, wine, liquor, and so on. But the fact of the matter is, those are more difficult to pinpoint without being on a call with you. So I'm going to focus on the bigger more general numbers that can help guide you. That's what I want to focus on and get more general numbers that are going to help you choose the numbers and the profitability you want. If you spent any time with me to get on my YouTube channel, David Scott Peters if you've been on here my podcast restaurant prosperity formula read my book The restaurant prosperity formula successful restaurant tours do if you've seen me speak, you've probably heard me talk about prime costs

and are often labeled that speech the one number you must know to have any chance to make money. It is that important. Now the old timers like me prime costs was called controllable expenses in control of management. How we hire, fire, train, utilize or schedule those people. How we purchase product, utilize that product or miss manage it for that matter. What it is is controllable in the control of management day to day where my managers can't control what my rent is or what my loans are. I can't control that. I've decided to run a group on it and 78% Discount giving away my profitability. They can control the people and product on a day to day basis. So Prime costs is their report card. That what makes up prime costs. Total Cost of Goods Sold that's food cost. Model beer, grab beer, wine, liquor, and a pair of merchandise all those costs all together total cost of goods sold. plus total labor costs including taxes, benefits insurance, and that's important. Well, if you put that all together, when we say prime cost, well, that's important to know what the dollar amount is, but how do we convert it to a percentage? Something we can control a little easier to talk about? Well, it starts with making sure you're using gross sales. Total Cost of goods sold divided by gross sales. Now what is gross sales? And this is important because many of your POS systems what they call gross sales is net sales. Find it incorrectly. gross sales is the ring of the register before the discounts had been removed not including sales tax sales tax is not a sale that's not your money. That's the government. So if I bring up a $10 burger and I count $5 $10 is a gross sale before the discount. Net sales is the ring of the register after discounts that are being sales tax. So $10 Burger comp $5. Well, net sales would be $5 we use gross sales. So we can measure our efficiencies properly. Again, it's not if you've if you're running a coupon it's not your chef or kitchen managers falling around. BOGO buy one get one free. In this $10 example, the burger sells for $10 When you have $3 in product on your recipe costing Gardo remember that that part right when I started use divided by sales $3 into $10. Is that 30% food cost? Well, if I use net sales 50% of that came in I now have a 60% food cost is that real so I need to measure my kitchen pros based on what they should have brought in and what they should have used. It doesn't mean my profitability doesn't take a $35 hit Absolutely it does. But that's a whole nother story. My managers can't control that unless we're burning burgers and we're giving shitty service and all those kinds of things which is a whole nother number we're gonna pay attention to now if you're not following me, you're still not with me. Alright, my social working friends. Let's put it to you this way. You're gonna have your favorite charity. favorite charity. Come buy out your restaurant for a day. It's gonna be a $14,000 event your heart sings. But because your heart is so big, you're gonna come 50% of it. You're gonna come $7,000 Now let me ask you a question. Do you buy food and beverage for a $14,000 day or $7,000 day 14 Do you schedule to handle a $14,000 day or 7000 on May 14 to measure your management team success. You've got to do it off of gross sales. So total cost of goods sold. plus total labor costs including taxes benefits insurance divided into gross sales. gives us our prime cost by percentage. Now, where should I be? Well, in the old days when I first started back in 2003 the experts right the experts like it but air quotes the air quoted it would say 65% prime cost is your target if you knew if you're a full service restaurant 60% for a quick search and one restaurant disaster after another throughout the years since 2003. From the great recession to COVID to labor shortage to inflation that we're living in right now. Those numbers don't work anymore. And they really haven't for almost two decades. I'm here to tell you if you do at least $850,000 in gross sales, your new prime cost target is not 65% it's 55%.

And if you do under that it's 60% Why? Because we have so many things taking money out of our back pocket. If you listened to my last podcast, I believe it was episode 55. I talked about a tech stack with all the software that we have to have that you're paying for you didn't pay for 2030 years ago just to run your business and our costs are through the roof from labor to cost of goods sold. You name it. You've got to run more efficiently to make the money you deserve and it can be done. Now, I will tell you, you do have to understand that prime cost is not just an industry standard. We don't run oh the experts say a 34% food cost and the experts say a 32% labor cost. Well that's a 66% prime cost. Well it's even higher than the 65. So you cannot use that. Do know that for some of you that are in high labor costs state, you're gonna have to run a really low cost of goods sold to make up the difference. You could run have 35% labor costs and 20% Cost of Goods Sold. Vice versa. You could still be in a tip credit state where you can still pay $2.13 an hour to a tipped employee because they're gonna make up the minimum wage difference in tips. You could run a 30% food cost and a 25% labor cost. So your core values where you're located all those questions that we talked about earlier twice now. Those are important to say where your numbers should be. That's why we can't use national averages. Now generally speaking, when we start to look at this, we say okay, where should my numbers be? Again without going into food cost, poor cost by category? A lot of those are dependent on so many of the questions I've already asked. But generally speaking I'm looking for an overall cost of goods sold around 25% to give any of my members an opportunity to make money. Why? Because labor is so expensive anymore. Now do I have members that are higher and 25% labor total total cost consult? Absolutely. Do I have members who are way under that? Absolutely. So it's a generality that's all this is is a general guideline. Do not take me in quote me go? Well, Davidson is supposed to be 25% No, I didn't. Generally around 25% gives you an opportunity to make money. Especially because labor so so high. So that means wherever your cost of goods sold is and we're going for 55% prime cost. We've got the rest in labor, and that's how we start to look at it. So if again, I'm sitting there going, Hey, I can't cut labor any further. I need these people. I've got, you know, mandated increases in minimum wage in my state that are coming in. I'm going to rob me of $100,000 in profitability, then guess what your menu is on the table. You've got to look at your menu and you've got to make the changes necessary in order to keep people employed in your restaurant moving back your cost of goods sold. So that's why it's general number. Now after we can prime cost. All we have left is operating expenses. That's the rest of it are in p&l. We go cost Goods Sold labor and then every other expense to run the business. And we're gonna go through some of these numbers, some specific categories in general. Again, I'm shooting for in general an overall operating expense target of about 25% of sales. 25% of sales do I see restaurants that are in 30s 40s? Yeah, do usually its occupancy costs and some other mismanagement that goes on low sales. But around 25% Do you have to hit that again? Do I have members making money with higher and lower Yes. Generally speaking, I want to be very clear crystal clear on that. Now with that said, individual targets I want you to shoot for it or I'm going to share with you in no particular order. Probably just me putting together my notes and saying this is what I want to talk about. Okay. So one of the big ones is paper expense. Generally speaking, I want about a one and a half to 2% paper expense. Now if you're putting gloves in this, this is going to jump up as much as a point. But the fact of the matter is that if you don't have it in January if you don't have it in its own category, but generally speaking, one and a half to 2% Unless I'm about to go restaurant, a pizza place where I've got a really high paper expense.

And now I'm going to look at two to even two and a half percent especially if gloves are in there. Okay. Generally speaking, another general number is janitorial expense anywhere from one to 2%. Now, what does that include janitorial cleaning supplies, and it'll be lower if it's actually I've got, you know, labor internally or externally. It's going to go up generally one to 2%. comps is a big one. Remember, comps are you said I don't want your money guest I'm going to write that off. I'm going to discount it. For the most part, like me, and I've been I've been in this business 30 plus years. Started as a kid under age. Generally speaking, old timers like me Gen Xers we're shooting for two to 4% Three and a half to four really COVID Folks, my members have pulled so far back on discounting that they're 2% and under. Understand that for every penny that you are giving up in a comp is money you're taking out of your own back pocket. So it's big, old numbers three and a half 4% Today, two or under is what we should be shooting for. And that doesn't include if you have marketing money going into your loyalty program or you are couponing as a discount strategy for marketing and that's where you spend your money and we'll talk about that in a second. But occupancy This is the one that can kill restaurants. Absolutely kill restaurants now occupancy is your rent. It's the SBA loan you have it is your property taxes. It is the insurance liability insurance to be in that building anything it takes to live in that space. Now the old number growing up in this business. I was working members hey I want you to five to 8% five to 8% of sales. I'm gonna tell you many restaurants for the last decade plus ever since the great recession. Many restaurants are running 10 to 12%. Now understand if you're running 12% occupancy and I want to you five to eight eight on the high side. Now you're 12 on the high side. That's four points that you're robbing being robbed from you in your back pocket. I'm gonna tell you right now, anything above 12% are now working for the landlord. You've got a sales problem you need to renegotiate your lease. This is how knowing some of these targets can be very helpful for you, you might need to move. Now let's get back to the comm slash marketing, my marketing and advertising expenses. I generally are going to run around one to 2% Now I do have some members in the past that have gone up to 4%. In fact, if you're a part of a Franchise Group, odds are you're going to spend up to 4% of sales. I want it to be measurable. I want it to be worthwhile. But do understand that if you are comping using discounts as a primary form of marketing well you could take some of those percentage and throw it into discounts robit for marketing and throw it up into discounts or move it into marketing that those comps are specifically marketing. So now all of a sudden that comp rate can go a little bit higher but it needs to be a much lower number in your marketing and advertising. With that said, this is a generality. Because if you if I came up to you and I said hey, if you give me $1 I'm gonna give you $3 back. How many dollars would you find as many as you could find? Well, that's what the principle behind marketing is right? So if you got something that works, maybe we're not so concerned with percentage. Next big one can be a killer for restaurants is your credit card discount rate? That's what the bank is charging you for taking American Express MasterCard, Visa, Discover, get the picture. Generally speaking, budgeting terms this is not your discount rate but in budgeting terms. Were shooting around 2% Give or take 0.2% plus or minus 0.4%. So I could be below 2% by point 0.4 I guess 0.4% or as high as 2.4%.

Now that includes whatever cash sales in my budgeting tool, budget builder MVP. It looks at total sales. It's not saying we know how many how many, how many of those transactions were cash versus credit card. So your discount rate is going to seem a little lower in the budget than it made the actual combined rate should be. But I'm going to tell you right now I come across so many POS systems now are month to month and the way they make their money isn't the discount rate that you've got to do credit cards through them. And when I start seeing 2.8% 3.2% You have got to jump up and down on your head and the screen. Green, you've got to lower my number. We need to get that down that you're generally speaking, you are spending one point a 1.8 to 2.4%. Unless you're really low volume, you're under a million dollars that's going to creep up because you need volumes. But if you're doing $2 million, 3 million $10 million, that number needs to drop like a rock because they are making a ton of money on you. Now what about the final thing, the big number? And yes, there's other percentages and labor and things like that, but again, I want to stick to the general ones that I can give you general numbers that we can use at any point in time. Labor is very specific cost of goods sold is very specific to your restaurant. But one number we are shooting for is a target profitability percentage. And to get there I want you to understand where the National Restaurant Association says the average restaurant makes about five to 8% and nickeled eight cents on every dollar I don't know about you I don't want to work my ass off for a nickel semi Are you losing money because you don't have a budget and you're not you're not managing your restaurant? With systems and putting managers in place in the controls that I teach them. I want you to use things that I preach, because I know what a change can make in your business and your life. So some are losing money, but average restaurants making a nickel to eight cents. Heck, I remember, almost 20 years ago, Ohio State University did a study that said show that 62% of all restaurants fail in the first three years of business. Not that eight out of 10 restaurants that we all were fed is the myth 62% We already know that it's tough business nickeled eight cents, heck taken three years, six out of 10 restaurants are gonna fail. To tell you this. Here's a budget. You implement the systems I teach. Eat your business. hold people accountable how you take action. That $750,000 a year or less. Once you understand you may be in a position where you purchased a job 500 And under Absolutely. You have to be the manager somewhere around that $750,000 mark, we can start to bring in managers we have money for it. Especially get them 850 or higher. We can put a full management team in place have two days off every single month not be a manager on the floor and leave the business with that said if you're doing 750 or lower, if we're lucky, our goal is about a 10% profit margin. That would be high because there's not enough dollars coming in to drop to the bottom line. So that's why you have to be the manager. You're basically paying yourself it's your job. Now if you start going over that million dollar mark, this is where we can start working towards that 15 to 20% profit margin with a full management team in place. It is eye opening when you do the budget, because all too often feel like they're running it themselves with a couple supervisors how David Craven find the money because as we go down labor and we start to discover the your efficiencies in the kitchen are horrendous. People are standing around what you're doing is throwing money at the problem. Instead of having supervisors you put more employees on the floor to make up for the lack of supervision. By adding managers having teaching our system our process our way teaching them what the job is, how to do it, how well it should be done more importantly by when and holding them accountable though our systems, we now have the ability to impose our will without being there to have the restaurant run our way when we're there but especially we're not and now we can start achieving a 15 to 20% profit margin after paying a full management team. Do not have to be in the building. You not having to be in the building on a day to day basis. Changing your role to working on budgets, marketing, leading the team developing your managers, moving the business forward holding them accountable

Wahat a restaurant owner should be doing. But also tasty get over the $2 million mark, we should see more efficiencies and labor because we can't add another cook no line. We can't add another server to the floor, another cashier or whatever it may be. And so the customers there's a line of customers and everybody gets to come in at the same time. Everybody gets to leave at the same time and labor drops like a rock because the sales are so high and we couldn't add any more labor if we wanted to. And your fixed costs are fixed. So as a percentage of sales they dropped lower and lower and lower. They dropped like a rock. And this is where restaurant owners should be focusing solely on a 20 to even 25% profit margin. Life changing when you have those kinds of margins and a $2 million businesses not so hard to hit anymore because we've raised our prices so high to combat all the challenges facing us. Now. Now the key to hitting these numbers is basically knowing your numbers. And the only way to know your numbers is to create a budget. I believe this is so important that again we create budgets for all of our members, whether they're part of the restaurant transformation intensive program, or they've graduated and become master your mastery plus members and a part of the mastermind team. A group of restaurant owners that get together three times a year in Vegas does not matter where you are in my life. We're going to get your budget done for you every year because it's your plan for success. It's that damn important. Because without knowing your numbers, your numbers how can anybody help you create a plan for success? How can anyone help you? Because you can't even help yourself. So here's the deal. You need to make creating and maintaining a budget your priority if you want to stop throwing your restaurant profitability to dumb as luck if you want to have a life. Because I'm going to tell you right now, armed with the general numbers I've given you, you can do a really good job on your own. But the truth of the matter is this. If you just have a budget in the first place, creating your plan for success, you've got a greater opportunity to make the money you deserve because you know your numbers that what you measure improves and we change the plan. Making your proactive manager training the management team a proactive owner somebody who can make change in their business instead of being a victim. So I'm gonna tell you right now, while I shared with you some key numbers, the number one takeaway I want you to get from this podcast is you must start creating your budget today. Hey, 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 of 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.