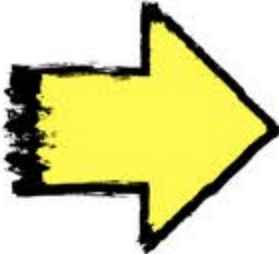
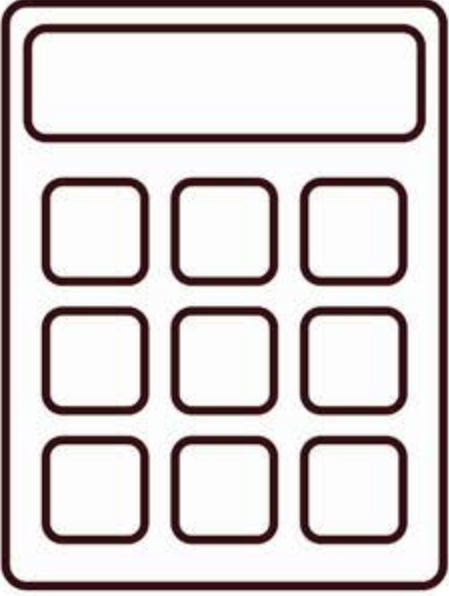


THE COMPLETE GUIDE TO PRIME COST

THE    
PRIME  
COST  
CALCULATOR



**THE MAGIC OF RUNNING A RESTAURANT** comes in that moment when everything works together... the menu, the staff, the customers.

But more often than not, that really *is* just a moment.

The rest of the time?

There aren't enough tortillas for Taco Tuesday...

The ice machine stopped working...

And your top 3 servers have just called out...

I mean, let's face it... running a restaurant is more organized chaos than well-oiled machine.

It can seem like there are so many factors beyond your control when it comes to keeping the doors open.

So how does a restaurant manager maintain some sense of order (and sanity)?

The answer is in your Prime Cost.

Just managing and maintaining this number will ensure your restaurant stays running... and give you the control to manage the most important aspect of your business.

## WHAT IS PRIME COST?

First things first.

### Let's define what prime cost is.

Simply put, it's an equation you can use to manage your profits and make sure your business... well... stays in business.

Here it is:

$$\text{COST OF GOODS SOLD (COGS)} + \text{TOTAL LABOR COST} = \text{PRIME COST}$$

If you're not a fan of math equations, there's a simpler way to look at it.

Prime cost includes those things you pay for on a day-to-day, week-to-week, month-to-month basis that keep your restaurant running.

Basically, it's the products and people power needed to keep you in business.

### Some items that prime cost doesn't include?

- A broken dishwasher needing repair
- New stools for the bar
- Rolls of paper towels and toilet paper for the bathroom
- A new sandwich board for your front sidewalk
- The electric bill
- Fourth of July party decorations

Now that you understand what prime cost is, you're probably wondering what yours should be.

## WHAT'S A HEALTHY PRIME COST?

The prime cost of a thriving restaurant should be approximately 60% (or less) of your total food and beverage revenue.

You're probably thinking, *"So I just add up the inventory that sold and what I paid my servers... and I've got my prime cost. And if that adds up to be less than 60% of all of my sales, I'm good. Right?"*

### **Maybe.**

If you've calculated your COGS carefully and included what you've paid employees in addition to the costs that come along with running payroll in your prime cost... you *might* be good.

And if you're figuring your prime cost on a consistent and frequent basis, you might be better than good.

If you're comparing your prime cost from day to day or week to week and making adjustments either in inventory or people power based on your analysis, we bet you're on the right track.

But before you pat yourself on the back and move on in your to-do list, let's be crystal clear about the importance of figuring out your prime cost.

## **WHY IS PRIME COST IMPORTANT?**

As a restaurant manager, you hold a good portion of the fate of your business in your hands.

Sure, you've got your hands full with servers, schedules, menus and orders. Stuff falls between the cracks every day.

But the most important tasks for your business are to get an accurate COGS, keep a close eye on labor costs, and compare your prime cost from week to week.

*Simply gathering these numbers is not enough, though.*

You've got to use this data to drive how you schedule your servers and what you put on your menu in order to make your budget goals.

Letting a few hours of payroll slip through the cracks once may not close your doors, but consistently paying more than you need to for hourly wages could certainly put a dent in your profits.

## HOW DO I CALCULATE PRIME COST?

It's not hard to add up your prime cost on a consistent basis. In fact, the more you do it, the faster you'll become at it.

Let's walk through it step by step...

### #1 COST OF GOODS SOLD (COGS)

Your COGS represent the total cost of all product that left your restaurant in a week.

So to figure out your COGS, start by [taking an accurate inventory](#) of your storeroom, walk-in and bar. Let's say you do that and wind up counting \$10,000 in inventory.

Then after running your restaurant as usual for a week... take the inventory again and add in any inventory purchases you made during that time.

Let's say you received a delivery worth \$2,000 midweek. And when you took your end-of-week inventory, your count was now at \$8,000.

You now have all the numbers you need to calculate your COGS:

*Starting inventory (\$10,000) + purchases (\$2,000) – ending inventory (\$8,000) = COGS (\$4,000)*

If this seems overcomplicated and time-consuming... you're right.

Nowadays [simple apps complete all these calculations for you](#)... so you don't have to lift a finger.

Once COGS is taken care of, you're halfway to figuring out your prime cost for the week.

The second step is figuring out labor costs.

## #2 LABOR COSTS

If you're keeping track of labor costs by adding up the total wages your employees have earned in a week... you're off to a good start.

Keep in mind your labor costs must also include:

- Payroll taxes
- Workers' compensation insurance
- Employee health insurance (if applicable)
- Any additional employees benefits you offer

If you're using technology to schedule your employee shifts, this information should be easily accessible. Your accountant will most likely have this number, too.

An important labor cost note... be sure to differentiate between salaried wages and hourly wages.

This information may come in handy when you're using your prime cost to make important decisions about cuts to your budget and the financial health of your restaurant.

## #3 PRIME COST

Once you've got your COGS number and labor cost number... you're ready to roll.

Here's our handy equation for calculating prime cost:

$$\text{COGS} + \text{LABOR COSTS} = \text{PRIME COST}$$

So what do you do with this prime cost number?

Back it up against your total sales for the week.

So... if your prime cost comes out to \$7,500... you'd divide that by your total sales for the week (let's say you made \$12,000) to get a percentage:

$$\text{PRIME COST } (\$7,500) \div \text{TOTAL SALES } (\$12,000) \equiv .625 \text{ OR } 63\%$$

The best restaurants run a prime cost of 60% or less... so in this case, you'd need to do some trimming either in food cost or labor.

Specifically, you might look for hidden food costs or take a look at the schedule to see if you really need four hourly servers on at lunch on Tuesday.

Remember, knowledge is power.

When you know your prime cost, you have valuable knowledge to guide your further decision-making.



## WHEN SHOULD I CALCULATE PRIME COST?

It may seem like a lot of what happens in your business is out of your control. But the one thing you have the ability to control is your prime cost.

That's why you should be tracking it consistently and often.

If you ONLY calculate your **restaurant prime cost** once a year, you ONLY get a snapshot of the health of your business at that point in time.

And unless you do something with the information you've collected... you've pretty much wasted your time... you've missed week-by-week and month-by-month opportunities to adjust your food costs or trim your labor costs to increase your profits.

A lot that can happen week to week... and often day to day... that can affect your prime cost.

## **WHAT TO DO WHEN YOU HAVE A BAD PRIME COST**

If you've calculated your Prime Cost and it's above 60%... what do you do?

First, you've got to figure out the cause so you can make changes immediately.

### **It could be people problems.**

This includes improperly trained employees who don't follow portion control guidelines... managers who overstaff shifts... employees who steal inventory.

### **Or it could be your food costs.**

Some food costs increase because of seasonality or availability. But a lot of the time... your food costs go up for no logical reason at all.

When you see this happen... it's time to [talk to your supplier](#).

Even if they've promised you "a deal" or special pricing... there's no way to know if you're actually getting a good price.

And when food costs make up 1/3 of your spend, you better believe you want to get every penny's worth.



# ORDERLY

## Prime Cost Calculator

Just enter your info into the fields below and we'll do the rest!

Total Sales.....

Starting Inventory.....

Purchased Inventory.....

Ending Inventory.....

Hourly Wages.....

Salary Wages.....

Workers Comp.....

Employee Health Insurance.....

Other Employee Benefits.....

Payroll Tax.....

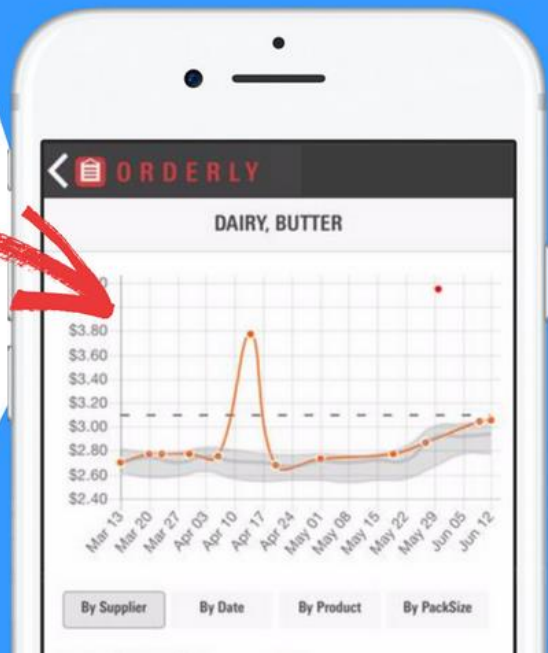
**COGS + Total Labor Cost = Prime Cost**

**Prime Cost % of Sales**

\*Remember, Ideal Prime Cost % of Sales is best when it's 60% or under\*

STEP 1: SNAP A PHOTO  
STEP 2: DO NOTHING  
STEP 3: GET YOUR COGS

**GET THE FREE APP >**



## USE THE CALCULATOR... AND THEN GET THE FREE APP THAT CALCULATES COGS FOR YOU

**The Prime Cost Calculator is your shortcut to finding out your prime cost.**

If your prime cost is under 60%... you ROCK.

**If it's over 60%... we recommend getting [the Orderly app for COGS](#), price comparison & benchmark pricing.**

The app will automatically calculate your COGS and map your purchases to local supplier pricing.

You'll see the top 25% of prices being paid... the bottom 25%... and the middle 50%.

**So you'll know exactly why your prime cost is high...**

**...and how to fix it.**