Restaurant KPIs

You probably didn't enter the restaurant business because you're passionate about accounting, but knowing where your money is going means having the means to continue living your dreams as a restaurateur.

KPI stands for Key Performance Indicator. By understanding a few key metrics, you'll be able to find waste in your restaurant, and use that knowledge to reduce costs and increase profit. This guide will make it easy, we promise.

First you need to know:
Average Food Costs
Average Labor Costs
Fixed Costs Estimate

From here you can calculate the most important KPIs:
Daily cost of operation and ROI- Breakeven.

To help determine your food costs calculate your COGS

COGS Stands for "Cost of Goods Sold". It's how much you're spending on food. To determine your restaurant's Cost of Goods you need to have a handle on your inventory. It's calculated using the simple formula:

(Beginning Inventory Value) - (Ending Inventory Value) = (Cost of Goods Sold)

Let's take an example. You have **$3,000** in inventory at the beginning of the week, and you spend an additional **$1,500** during the week. Your restaurant was busy making food, and at the end of the week your inventory is now valued at **$2,500**. So, to figure out your *COGS* for the week;

$3,000	+	**$1,500**	=	**$4,500**	
Starting Inventory Value		*Additional Inventory Value*		*Total Inventory Value*	
			-	**$2,500**	
				End of Week Inventory Value	
				$2,000	
				COGS	

Add each week's cost of goods to determine your monthly COGS. Divide this number by the days in the month to find your daily COGS average.

Fixed Costs Per Day

The next calculation you want to make is for your fixed costs. These are your bills. Rent, utilities, service fees etc. These costs don't change much from day to day. You figure out your fixed costs per day by adding them up and dividing by the number of days in the month. Your utilities costs may change greatly based on the season so keep in mind that "fixed" doesn't mean that these costs don't change.

The formula is:
(Rent)+(Utilities)+(Service Fees and other Recurring Costs)=(Fixed Rate Costs) / (Days in the Month)=(Fixed Costs Per Day)

$4,000	+	**$400**	+	**$100**	=	**$4,500**		
Rent (example)		*Utilities*		*Service Fees*		*Total Fixed Costs*		
						31	=	**$145.16**
						Number of days in the month		*Per Day Fixed Costs*

Depending on the month, you'll have a different number of days, but the process is the same.

Determine your Labor Cost

Labor is one of the most expensive costs in the restaurant so it's important to understand your labor costs and how they relate to other metrics.

To determine your monthly labor cost calculate the following for each of your employees. Also include costs associated with their employment such as insurance and taxes.

(Rate of pay) x (Number of Hours Worked) + (Additional Employee Costs, Insurance, Taxes, Etc.) = (Single Employee Labor Cost)

Assuming each employee has a different labor cost each month, add the cost of each employee together to find your total labor cost for the period.

(Employee 1 Labor Cost)+(Employee 2 Labor Cost)+(Employee 3 Labor Cost)=(Total Employee Labor Cost)

For example:
Joseph makes **$10** an hour, and worked **60** hours this month. State fees and insurance for Joseph total **$200**.

($10	**X**	**60)**	**+**	**$150**	**=**	**$750**
Hourly Rate		*Number of Hours*		*Fees and Insurance*		*Total Labor Cost for Joseph this month*

Divide your total monthly labor cost for all employees by the number of days in the month to find your average daily labor cost.

Daily Overhead

Now that you have a handle on your cost of goods sold (COGS), your fixed costs and your labor costs you can calculate your total daily cost estimate. This is the number that you have to "beat" with sales, in order to break even or turn a profit for the day (ROI).

(Average daily COGS)+(Fixed Costs Per Day)+(Average Labor Cost Per Day) = (Daily Overhead)

For example, your calculation might look something like this:

$300	+	**$150**	+	**$300**	=	**$750**
COGS Daily Average		*Daily Fixed Costs*		*Daily Labor Cost*		*Daily Overhead*

ROI and Breakeven

ROI means "return on investment". Your Breakeven is the point in the day at which you're no longer "paying bills." Using your POS you can track sales to know when you've crossed the threshold and are no longer paying for overhead. Without this information, you may not have had any idea if you're making money, treading water or sinking.

Breakeven / ROI is:

(Total Sales) - (Daily Overhead) = (Breakeven / ROI)

An example might be the following:

$480	-	**$450**	=	**$30**
Total Sales an hour into dinner		*Daily Overhead*		*ROI*

Your Breakeven was sometime during the first hour of dinner, then you started earning a return on your investment.

Business Intelligence

Now you should have a basic understanding of the most important Key Performance Indicators and how to calculate them for your restaurant business. Once you get a handle on your daily cost and ROI, you can start to dig deeper and track KPIs for each meal, or really go in depth and track KPIs every hour, for every menu item and for every employee.

In future learning center articles, we'll go into detail about how to lower food, labor and fixed price costs.

When determining which POS system to choose for your restaurant, make sure you choose a POS system that gives you easy access to the information you need. Business intelligence tools built into the best POS system for restaurants enable tracking of these valuable metrics.