

Prime Cost Tip Sheet

WHAT IS PRIME COST AND WHY IS IT IMPORTANT?

Prime Cost is the most important measure of a restaurant's profitability. Prime Cost is a restaurant's total food, beverage and payroll costs over a specific period of time. Prime Cost is IMPORTANT because it can give you a much better snapshot of your cost structure, profit potential and how well your restaurant is being managed on a day in and day out basis.

HOW DO I CALCULATE MY PRIME COST?

Please follow this calculation below to figure out your Prime Cost

$$\begin{aligned} &\text{Food Cost} \\ &+ \\ &\text{Beverage Cost} \\ &+ \\ &\text{Salaries and Wages} \\ &+ \\ &\text{Payroll Taxes and Benefits} \\ &= \\ &\text{Prime Cost} \\ &\text{Divided by} \\ &\text{Total Restaurant Sales} \\ &= \\ &\text{PRIME COST PERCENTAGE} \end{aligned}$$

A RESTAURANT'S PRIME COST SHOULD RUN NO MORE THAN 65% OF TOTAL SALES.

A restaurant's profitability will often come into question when the prime costs gets close to or exceeds 70 percent of sales. When this happens, it becomes more difficult for you to earn a suitable profit that you are happy with.

HOW OFTEN SHOULD I FIGURE OUT MY PRIME COST AND WHY?

You can figure out your prime cost monthly but it would not be an accurate. We suggest that Prime Cost should be figured out on a weekly basis. When prime cost is figured out on a weekly time frame, owners and operators can correct the profit loss and provide a solution to a problem whether it is a food, beverage or payroll oriented.

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