# PRIME COST

*The Primary Key Performance Indicator*

Manager Training Guide

## What Is Prime Cost?

Prime cost is the single most important number you will track as a manager. It tells us whether our restaurant is making enough money to stay healthy and profitable. Think of it like a report card for how well we control our two biggest expenses: **what we spend on food, beverages, the packaging we deliver them in, and game room toys**, and **what we spend on people**.

Here is the formula:

**Prime Cost** = ( Food + Beverage + Paper + Game Room Toy Costs ) + Total Labor Costs

We then measure prime cost as a **percentage of net sales**. This percentage is the KPI — Key Performance Indicator — that we hold every manager accountable to.

## OUR TARGET: PRIME COST MUST NEVER EXCEED 52% OF NET SALES

That means for every dollar a guest spends, no more than 52 cents should go toward food, beverages, packaging, game room toys, and labor combined. The remaining 48 cents covers rent, utilities, equipment, and profit.

## The Two Halves of Prime Cost

Prime cost is made up of two parts. You need to understand both to manage the number effectively.

### Part 1: Food, Beverage, Paper & Game Room Toy Costs

This side of prime cost captures the cost of everything a guest consumes, plus the paper and packaging that products are delivered in. Specifically, it includes:

- Food items — every edible ingredient that goes into a menu item, including condiment packets (ketchup, ranch, etc.) given to the guest
- Beverages — soft drinks, juices, and any other drink we sell
- Paper and packaging that products are delivered in — to-go containers, pizza boxes, paper cups, to-go bags, and similar items the guest receives as part of their order
- Game room toys — the prizes and toys stocked in the game room for redemption

What does NOT count:

- Napkins, straws, and general-use disposables that are not the container a product is delivered in
- Back-of-house supplies like plastic wrap, foil, cleaning chemicals, or equipment

**The simple test:** Did the guest eat it, drink it, or was the product handed to them inside of it? If yes, the cost counts. If no, it does not. A paper cup counts because the drink is served in it. A ketchup packet counts because the guest consumes it. A napkin does not count because it is not the container or the product itself. Plastic wrap in the walk-in does not count because it never reaches the guest.

### Part 2: Labor Costs

Labor is usually the larger half of prime cost. It is not just the hourly wages or salaries you see on a paycheck. The full, ***factored*** labor cost includes three components:

1. Gross Payroll — this is the hours an employee works multiplied by their hourly wage. This is not their net pay

2. Employer Taxes — Social Security, Medicare, federal and state unemployment taxes that the company must pay on top of wages
3. Workers' Compensation Insurance — the insurance premium the company pays to cover employees in case of on-the-job injuries

### The 13% Rule

For our purposes, employer taxes and workers' compensation together add approximately **13%** on top of gross payroll. This means:

**Factored Labor = Gross Payroll × 1.13**

So if gross payroll for a week is $10,000, the factored labor cost is $10,000 × 1.13 = **$11,300**. That extra $1,300 is real money the company spends because of that payroll, and it must be included in our prime cost calculation. This is the number you see labeled **Factored Labor** on the Team Hot Sheet Dashboard.

### The Sales Side: What We Measure Against

Prime cost is expressed as a percentage of **net sales**. Net sales means the revenue we collect ***after removing sales tax***. Sales tax is money we collect on behalf of the government — it was never ours to begin with, so we do not count it.

Our net sales come from three revenue streams:

- Food sales
- Beverage sales
- Game room deposit sales

**Historical note:** Game room deposits typically run about **11%** of combined food and beverage sales. This is useful for estimating and sanity-checking your numbers. For example, if food + beverage sales for a week are $20,000, you would expect roughly $2,200 in game room deposits, making total net sales around $22,200.

### Putting It All Together: A Worked Example

Let's walk through a realistic weekly example so you can see how every piece connects.

| Item | Amount | Notes |
|---|---|---|

| | | |
|---|---|---|
| Food Sales (net of tax) | $15,000 | |
| Beverage Sales (net of tax) | $3,000 | |
| Game Room Deposits | $1,980 | ≈11% of F+B |
| **Total Net Sales** | **$19,980** | |
| | | |
| Food Cost | $4,200 | |
| Beverage Cost | $600 | |
| Paper & Packaging (delivered to guest) | $350 | Cups, boxes, etc. |
| Game Room Toys | $200 | |
| **Total Food, Bev, Paper & Toy Costs** | **$5,350** | |
| | | |
| Gross Payroll | $4,800 | |
| + 13% (ER Taxes + Workers' Comp) | $624 | $4,800 × 0.13 |
| **Factored Labor Cost** | **$5,424** | |
| | | |
| **PRIME COST** | **$10,774** | $5,350 + $5,424 |
| **PRIME COST %** | **53.9%** | $10,774 ÷ $19,980 |

In this example, prime cost came in at **53.9%**, which is **above our 52% target**. That means for this week, we spent too much relative to what we sold. To get back on track, the team would need to either increase sales or reduce costs by about $380 (the difference between 53.9% and 52% applied to $19,980).

### Why 52%?

The 52% target is not an arbitrary number. It is the threshold that allows our restaurant to cover all other expenses — rent, utilities, insurance, repairs, corporate fees, and still return a reasonable profit. If prime cost consistently runs above 52%, the restaurant will

struggle to pay its bills and eventually operate at a loss. If we keep it at or below 52%, we give ourselves room to be a healthy, sustainable business.

### What You Can Control as a Manager

#### On the food, beverage, and paper side:

- Minimize waste by following prep guides and FIFO (first in, first out) rotation
- Ensure accurate portioning so every plate matches the recipe spec
- Reduce theft and unauthorized consumption through accountability
- Monitor packaging — use the right-sized container; every extra box or cup is real cost
- Track game room toy inventory and redemption rates

#### On the labor side:

- Schedule to the forecast and to the template — staff based on expected sales, not habit
- Stick to the schedule publishing deadlines — schedules must be published 7 days before a new period begins. Time off requests must be received 3 days before that, giving you time to plan around absences before the schedule goes out
- Cut labor when the floor is slow; send people home early when possible
- Avoid overtime whenever possible — overtime wages inflate gross payroll quickly
- Cross-train team members so you can run leaner shifts without sacrificing service

#### On the sales side:

- Upsell and suggestive sell — higher sales with the same labor hours brings the percentage down
- Promote game room deposits to boost total revenue
- Make sure every transaction is rung up correctly — missed sales hurt the denominator

## Helpful Hints

### Hint #1: Waste Is a Silent Killer

When food gets wasted — burned, dropped, over-prepped, expired, or given away without being rung up — something painful happens to your prime cost: **the cost goes up, but no sale comes in to offset it.**

Think about it this way. If you make a pizza and sell it, you spent money on ingredients but you also collected money from the guest. The cost and the sale move together. But if you make a pizza and it gets thrown away, you still spent the money on ingredients — the cost side of prime cost went up — but there is zero on the sales side to balance it out. The denominator stays the same while the numerator gets bigger. That means your percentage goes up, and not in a good way.

Here is a simple example. Imagine your food costs for the week are $5,000 on $20,000 in sales. That is a 25% food cost. Now imagine $200 worth of food was wasted during that same week. Your food cost is now $5,200 on the same $20,000 in sales — that is 26%. That one percentage point might not sound like much, but over a full year it adds up to more than **$10,000 in lost profit**. And that $10,000 came from food that nobody ate and nobody paid for.

**Bottom line:** every time something goes in the trash, picture dollar bills going in with it. Waste has no customer. It only has a cost.

### Hint #2: How Much in Sales Do You Need to Justify One Extra Hour?

This is one of the most practical things you can learn as a manager. When you are building a schedule and thinking about adding one more hour for an employee, you should be able to answer: ***"How much in sales does the restaurant need to earn to pay for that hour?"***

The good news is the math is simple. You only need two numbers: one from the Team Hot Sheet Dashboard and one target from management. No extra calculations required.

### Your One Source of Truth: The Team Hot Sheet

The Team Hot Sheet Dashboard shows the **average hourly wage** for the restaurant. This number is **already factored** — employer taxes and workers' compensation are already built in. You do not need to multiply by 1.13 or do any extra math on it. The dashboard

has done that work for you. Trust the number you see. It represents the real, total cost the restaurant pays for one hour of labor.

To access the Team Hot Sheet, log in using **mod.shakeyselmonte@gmail.com**. Once a month you will need to verify your access through Cloudflare — just follow the email verification prompt when it appears. This is a normal security step and only takes a moment.

### Step 1: Get Your Two Numbers

You need two numbers. One comes from the dashboard, the other is your target:

4. The **average hourly wage** — find this on the Team Hot Sheet Dashboard. Right now it is about **$18.50**. This is the real, factored cost per hour.
5. Your **factored labor target** — this is **29%**. This is not on the Hot Sheet. It is the target percentage that management has set for labor as a share of sales.

That's it. One number from the dashboard, one target from management. Nothing else to look up or calculate.

### Step 2: Divide

Now divide the average hourly wage by the labor target percentage. That's one division problem and you're done:

$$\$18.50 \div 0.29 = \mathbf{\$63.79}$$

What does this mean? If our factored labor target is 29% of sales, that means for every dollar a guest spends, 29 cents goes to labor. So we are asking: how many sales dollars does it take for 29 cents of each one to add up to $18.50? The answer is $63.79.

That means the restaurant needs to bring in **$63.79 in additional sales** to pay for that one extra hour of labor without letting prime cost get worse.

### Let's Walk Through It One More Time, Slowly

Imagine you are looking at Friday's schedule and wondering if you should add one more hour for a crew member. Here is exactly what you do:

6. Go to the Team Hot Sheet Dashboard

7. Find the average hourly wage — it is $18.50 (remember, this is already factored)
8. Know your factored labor target — it is 29%
9. Divide: $18.50 ÷ 0.29 = $63.79
10. Ask yourself: will this extra hour help the restaurant earn at least $64 more in sales?

If the answer is yes — maybe it's a busy Friday night and you need the help to serve more guests and keep the line moving — then the hour pays for itself. If the answer is no — maybe the floor is already slow and another body will not generate more sales — then you are just adding cost with no return.

### Why This Matters

Every hour on the schedule is an investment. You are spending the restaurant's money with the expectation that it will come back through sales. This calculation gives you a concrete number to use when making that decision instead of just guessing. It turns a gut feeling into a business decision.

**Quick Formula:** Avg Hourly Wage (from Hot Sheet) ÷ Labor Target % = Sales Needed per Hour

### Hint #3: How Often Should You Check Prime Cost?

You should be aware of prime cost **every single day**, but the numbers that matter most are the **weekly number** and the **6-week trailing average**.

Why not daily? Because any single day can be misleading. A slow Tuesday will always have a higher prime cost percentage than a packed Friday night, simply because you still have a baseline of labor hours on the floor but far fewer sales to spread them across. If you only looked at Tuesday's number, you might panic. If you only looked at Friday's, you might think everything is perfect. Neither day tells the full story on its own.

The **weekly number** smooths out those daily swings. It captures the slow days and the busy days together, which gives you a much more honest picture of how the restaurant is actually performing. This is the number you should be reviewing every week and holding yourself accountable to.

The **6-week trailing average** is even more important. It shows the trend. One bad week can happen to anyone — maybe there was an unexpected closure, a holiday that shifted traffic, or a large catering order that skewed the numbers. But if your 6-week trailing average is creeping above 52%, that is not a fluke. That is a pattern, and patterns need to be addressed.

Think of it this way: the daily number is the temperature outside right now. The weekly number is this week's weather. The 6-week trailing average is the season. You dress for the season, not for one random hour.

### Hint #4: Comps and Discounts Hurt Twice

When you comp a meal or give a discount, it feels like a small gesture. But it does something sneaky to your prime cost: it hits you on both sides of the equation.

Say a guest has a bad experience and you comp a $20 pizza. You still spent the money on dough, cheese, sauce, and toppings — so the cost side of prime cost stays the same. But the $20 in sales disappears. The denominator (sales) gets smaller while the numerator (costs) stays the same. That makes the percentage go up.

A $20 comp does not cost you $20 in prime cost terms. It costs you the food that went into it ***plus*** the lost sales revenue you can no longer count. It is like waste, except you chose to do it.

This does not mean you should never comp anything — taking care of guests is part of the job. But you should understand the real cost. Every comp should be deliberate, documented, and worth it. If you are comping multiple items every shift, that is a pattern that will show up in your weekly prime cost, guaranteed.

### Hint #5: The Two Halves Work Together, Not Against Each Other

A common mistake is trying to minimize food costs and labor costs independently. A manager might think: "I'll cut hours to save on labor." But here is what often happens when you cut too deep:

- Fewer hands in the kitchen means rushed prep, more mistakes, and more food waste — so food cost goes up
- Slower service means frustrated guests who leave or do not come back — so sales go down

- Burned or ruined product has to be remade — doubling the food cost on that item

You saved a few dollars on labor but lost more on food waste and missed sales. The prime cost percentage actually got ***worse***, not better.

The target is **52% combined**. What matters is the total, not how each half splits. A week where labor runs a little high but food cost is well-controlled can still hit 52%. A week where you slashed labor but wasted product might miss it. Always think about the two halves as a team, not a tug of war.

### Hint #6: There Are Two Levers, Not One

When prime cost is running high, most managers immediately think about cutting. Cut hours, cut portions, cut spending. And yes, controlling costs is essential. But there is a second lever that is just as powerful: **driving more sales**.

Remember, prime cost is a fraction — costs divided by sales. You can improve the fraction by making the top number smaller ***or*** by making the bottom number bigger.

Sometimes the sales cure is easier and more effective. If the Friday dinner rush is slammed and you push your team to upsell drinks, appetizers, and game room deposits, you might generate an extra $500 in sales. That $500 flows straight to the denominator and brings the percentage down — without cutting a single hour or reducing a single portion.

On the other hand, agonizing over $50 in food waste (which you should still fix) will not move the needle nearly as much as a great sales night. The best managers use both levers: they keep costs tight **and** they find ways to grow sales. That is the fastest path to staying under 52%.

### Hint #7: If It Is Not Tracked, It Is Invisible Waste

Employee meals are a benefit, and that is fine. But if they are not rung up or logged, they become invisible waste. The food is consumed, the cost hits our invoices, but there is no record of it anywhere. As far as the numbers are concerned, it looks exactly like theft or spoilage — cost with no explanation.

The same applies to any unauthorized consumption. A crew member making themselves a pizza without logging it, a handful of Mojo's grabbed off the line, a drink poured without a ring — none of these feel like a big deal in the moment. But multiply them

across every shift, every day, every week, and you have hundreds or even thousands of dollars in unaccounted cost eating into your prime cost.

The fix is simple: **every employee meal gets logged**. No exceptions. This is not about being stingy — it is about keeping the numbers honest. If we do not know where the cost is going, we cannot manage it. And if we cannot manage it, we cannot hit 52%.

### Hint #8: Check Every Delivery and Get Every Credit

When a delivery shows up short, damaged, or wrong, that is money walking out the door unless you catch it. If you ordered 10 cases of cheese and only 9 arrived, your invoice still says 10. If you do not document the shortage and get a credit from the vendor, you just paid for a case of cheese you never received. That cost hits your prime cost as if you used it, but you got nothing for it.

The same goes for damaged product. A case of crushed tomato cans, a bag of shredded lettuce that arrived warm, a box of cups with the wrong lids — if you accept it and say nothing, you own the cost. If you document it and request a credit, the vendor owns it.

Make this a habit every single delivery:

11. Check the delivery against the invoice while the driver is still there
12. Count cases and look for damage before signing anything
13. Note any shortages or problems directly on the invoice and have the driver initial it
14. Contact the vendor the same day to request a credit — do not wait
15. Follow up to make sure the credit actually appears on the next statement

Unclaimed vendor credits are invisible waste. The product never made it to a guest, but the cost still landed on your books. A few missed credits every month can add up to thousands of dollars over a year — all of it dragging your prime cost up for no reason.

### Quick Reference Summary

| Term | Definition |
|---|---|
| **Prime Cost** | Food/beverage/paper/toy costs + factored labor costs |
| **Prime Cost %** | Prime Cost ÷ Net Sales × 100 |

| | |
|---|---|
| **Target** | **Never exceed 52% of net sales** |
| **Net Sales** | Food + Beverage + Game Room deposits, net of sales tax |
| **Cost Side** | Food + beverages + packaging delivered to guest + game room toys |
| **Factored Labor** | Gross Payroll × 1.13 (includes ER taxes + workers' comp) — shown on Team Hot Sheet Dashboard |
| **Game Room Rule** | Historically ≈11% of food + beverage sales |

**Remember: Prime cost is the primary KPI. Every shift you manage, every schedule you write, and every order you place impacts this number. Own it.**

## ACKNOWLEDGMENT

I have read and understand the Prime Cost Training Guide. I understand that prime cost is the primary KPI for the management team and that it must never exceed 52% of net sales.

_____ _____

Manager Name (Print) Date

_____

Manager Signature