Executive Briefs

The Three Numbers that Predict a Restaurant Bankruptcy 12 Months in Advance

By **Diego F. Parra** · Updated 2026-07-07 · Costing & Finance

QUICK VERDICT

A restaurant doesn't fail overnight: three numbers warn you 12 months ahead. Prime cost above 65%, a theoretical-vs-actual cost gap over 4 points, and fewer than 21 days of operating cash. When all three cross their threshold at once, capital leakage has already started and the management P&L will only confirm it too late. Diego F. Parra's Masterestaurant method turns those three warning lights into a decision dashboard that triggers correction while there is still margin and EBITDA to save.

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Sixty percent of restaurants close before their third year, and almost none for lack of customers: they close from unmeasured operational variability inside the cost structure. Bankruptcy is the last line of a P&L that had been screaming for twelve months.

Diego F. Parra has audited the management accounting of more than 8,400 units across 43 countries. The pattern repeats: the owner watches sales, not unit economics. By the time they react, cash flow has already drained through a leak that plate costing would have caught in time.

SIDE-BY-SIDE COMPARISON

Side-by-side comparison

	TRADITIONAL MANAGEMENT	MASTERESTAURANT METHOD
Prime cost (food + labor)	✕ 68% of sales, unmeasured	✓ 58% with weekly dashboard
Theoretical vs actual cost gap	✕ 6-9 pts, invisible	✓ ≤1.5 pts, reconciled
Days of operating cash	✕ 9 days, no visibility	✓ 38 days, projected
Food cost per plate	✕ 38%, averaged	✓ ≤30%, per recipe
Contribution margin per plate	✕ Not calculated	✓ 62% weighted
Management close frequency (P&L)	✕ Monthly and late	✓ Weekly, predictive
Operating EBITDA	✕ 4% or negative	✓ 16-19%

1. What are the three numbers that predict bankruptcy?

A restaurant doesn't collapse overnight: it warns you twelve months in advance with three numbers almost nobody watches.

Prime cost above 65% of sales, a gap between theoretical and actual cost greater than 4 points, and fewer than 21 days of operating cash. When all three align, the capital drain has already begun. Some 60% of restaurants close before their third year, and almost none for lack of customers: they close because of operational variability never measured inside the cost structure. Diego F. Parra has audited the managerial accounting of more than 8,400 units across 43 countries and the pattern repeats: the owner watches sales, not unit economics. By the time he reacts, cash flow has already drained through a leak that plate costing would have caught with months to spare. Prime cost is the only indicator that adds ingredient cost and labor into a single controllable figure, and above 65% of sales the structure no longer leaves EBITDA to absorb a bad month.

2. Prime cost: the one figure that adds ingredients and labor

In a healthy restaurant that number lives between 58% and 62%: food cost of 28% to 32% plus kitchen and floor payroll of 28% to 33%. Every point above 65% is margin that vanishes before paying rent, utilities and debt. I've seen it in dozens of operations: the owner celebrates a record sales month without noticing prime cost climbed to 68% because he added three extra cooks to handle the volume. He sold more and earned less. Prime cost doesn't lie about that; the profit and loss statement at month's end, when there's nothing left to do, doesn't either. The gap between theoretical and actual cost is the most honest capital-leak detector there is: every point of difference between what the recipe says it should have cost and what the register actually paid is waste, theft or uncontrolled portioning. A healthy gap sits below 2 points.

3. Why is the theoretical vs actual gap the most honest leak detector?

Above 4 points, the restaurant is giving away money without knowing it. A cash example: an operation with $180,000 in monthly sales and 30% theoretical food cost should spend $54,000 on ingredients;

if the register paid $61,200, those 4 points are $7,200 a month gone. That's $86,400 a year, nearly the full profit of a small location. Plate costing measured against real inventory is the only tool that turns that invisible leak into a number you can correct on the very next purchase order. Days of operating cash translate everything above into pure survival, and below 21 days any variability —a supplier raising prices 8%, a slow rainy month— pushes the restaurant to fund operations with CapEx or expensive debt. You calculate it by dividing available cash by average daily operating spend. A restaurant with $42,000 in cash and $2,000 in daily spend has exactly 21 days: the line.

4. Days of operating cash: when 21 is the line of life

Below that, there's no cushion left to negotiate with suppliers or to survive a $6,000 equipment repair without reaching for a card at 45% annual interest. Diego F. Parra insists at Masterestaurant that this number separates the owner who decides from the owner who reacts: 30 days is breathing room, 21 is tension, under 14 is a restaurant already operating on borrowed money and still doesn't know it. The three numbers, read together, form a decision architecture: one measures profitability, another measures leakage, and the third measures survival time. Alone they mislead; combined they don't. A prime cost of 63% looks acceptable, but with a theoretical-to-actual gap of 5 points and 15 days of cash, that 63% is a snapshot already rotting. The right diagnosis reads the sequence: the leak inflates actual cost, actual cost pressures prime cost, and eroded prime cost burns cash month after month until 30 days become 12.

5. The three read together: a decision architecture

Twelve months of warning turned into a closure. The managerial accounting of the 8,400 audited units shows the same causal order over and over. The P&L doesn't manage; it only confirms, late, what these three numbers screamed on time. Start this week with one concrete action: calculate your three numbers using the last 30 days of data, not the last year. Prime cost comes from payroll plus food cost over sales; the gap, by comparing the theoretical costing of your 10 star dishes against actual inventory consumption; days of cash, by dividing your cash by daily spend. If prime cost passes 65%, freeze hiring and re-cost the menu before touching prices. If the gap exceeds 4 points, audit portions and purchases of your three most expensive ingredients: 70% of the leak lives there. If cash drops below 21 days, negotiate terms with suppliers today, not when you run short.

6. What to do this week with the three numbers

The Masterestaurant method doesn't ask for more sales; it asks you to measure these three numbers every Monday. That's the dashboard separating the restaurant that survives from the one that closes without ever seeing the blow coming. Prime cost is the only indicator that folds food and labor into one controllable figure: above 65% of sales, the cost structure no longer leaves EBITDA to absorb a bad month. The theoretical-vs-actual cost gap is the most honest capital-leakage detector: every point of difference between what the recipe says a plate should have cost and what the register actually paid is waste, theft, or unchecked portioning. Days of operating cash translate all of the above into survival: below 21 days, any operational variability —a supplier hike, a slow month— forces the restaurant to fund operations with CapEx or expensive debt. Read together, the three form a decision architecture: one measures profitability, one measures leakage, the third measures time. Bankruptcy happens when all three cross their threshold in the same quarter.

POINT BY POINT

Traditional vs Masterestaurant method, criterion by criterion

PRIME COST VISIBILITY

A · TRADITIONAL MANAGEMENT

Discovered at annual close

B · MASTERESTAURANT Weekly warning light on sales

Verdict: The traditional model finds out when there's no EBITDA left to defend; the MR method corrects with months of margin.

CAPITAL-LEAKAGE CONTROL

A · TRADITIONAL MANAGEMENT

Theoretical-vs-actual gap invisible

B · MASTERESTAURANT Per-recipe reconciliation ≤1.5 pts

Verdict: Every unmeasured point of gap is waste leaving the till with no accounting trace.

LIQUIDITY MANAGEMENT

A · TRADITIONAL MANAGEMENT Cash gap seen when payments bounce

B · MASTERESTAURANT Days of cash projected 90 days out

Verdict: Bankruptcy is a timing problem, not a profitability one: whoever projects cash wins the year the other loses.

NATURE OF THE P&L

A · TRADITIONAL MANAGEMENT	B · MASTERESTAURANT
Forensic, monthly, late	Managerial, weekly, predictive

Verdict: A P&L that arrives 20 days late documents the bankruptcy; a weekly one prevents it.

SIDE-BY-SIDE COMPARISON

The dashboard of the one who reacts late TRADITIONAL

- ✗ Watches monthly sales, not weekly prime cost
- ✗ Never reconciles theoretical against actual cost
- ✗ Discovers the cash gap the day payroll bounces
- ✗ Costs plates on average, never per recipe
- ✗ Gets the P&L 20 days after close, with no room to act

The dashboard of the one who decides in time MASTERESTAURANT

- ✓ Prime cost as a weekly warning light, not an annual surprise
- ✓ Reconciles theoretical vs actual and hunts every point of leakage
- ✓ Projects days of cash 90 days out with scenarios
- ✓ Costs plate by plate with explicit contribution margin
- ✓ Closes a predictive management P&L, not a forensic one

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THE NUMBERS THAT MATTER

The evidence in numbers

12
MONTHS
of lead time the three indicators give before closure

65%
prime cost on sales: critical cost-structure threshold

21
DAYS
of operating cash below which risk spikes

8400
UNITS
audited by Diego F. Parra across 43 countries

60%
of restaurants that close before their third year

15 pts
of EBITDA recovered by closing the theoretical-vs-actual gap

REAL CASE

“When Diego audited my kitchen, my prime cost was 69% and I ignored it: I watched sales, which looked fine. The gap between theoretical and actual cost was 7 points, pure leakage in portioning and waste. I had 8 days of cash and didn't know it. We built the three-number dashboard, cut food cost per recipe to 29%, and in five months EBITDA went from 3% to 17%. The closure I saw coming never arrived.”

— Owner of a 3-restaurant group, Masterestaurant audit, 2026

HOW TO APPLY IT IN YOUR RESTAURANT

How to build the three-number dashboard

1. **1. Set real prime cost and its warning light**
   Add cost of goods sold plus total labor and divide by net sales for the week. Above 65%, it's red zone. This is the first number in your decision architecture: measured weekly, not annually.

2. **2. Reconcile theoretical vs actual cost per recipe**
   Cost each plate against its spec sheet (target food cost ≤30%) and compare it to real inventory consumption. Every point of gap is capital leakage: waste, theft, or portion. Hunt it plate by plate with explicit contribution margin.

3. **3. Project days of cash 90 days out**
   Divide available cash by average daily operating spend. Below 21 days, trigger a liquidity protocol. Model OpEx and break-even scenarios to know how long you last if a supplier hikes or sales dip.

4. **4. Close a predictive management P&L weekly**
   Turn the three numbers into a weekly close, not a monthly autopsy. When all three cross threshold in the same quarter, trigger correction: renegotiate supplies, re-engineer the menu, and adjust labor before the leak empties the till.

FAQ

Frequently asked questions

Which of the three numbers matters most?

Days of cash, because they mark real survival time. But below 21 days it's usually late: prime cost and the theoretical-vs-actual gap warn months earlier, while there's still room to correct without drama.

Can a profitable restaurant still go bankrupt?

Yes, and it's the most common case. A business can show positive EBITDA on the P&L and still run out of cash from a bad payment cycle or funding CapEx with operations. Accounting profit and liquidity are different things.

How often should I measure prime cost?

Weekly. Measuring it monthly is like driving by the rearview mirror: by the time you see the problem in the P&L, you've been bleeding margin for weeks. Weekly frequency is what turns the number into a useful warning light.

What theoretical-vs-actual gap is acceptable?

Below 1.5 points. Between 1.5 and 4 points you must investigate portioning and waste; above 4 points there's structural capital leakage that drains EBITDA and pulls the bankruptcy forward.

DATA & SOURCES

Sector data 2026 (official sources)

Verifiable industry benchmarks from official, non-commercial sources (government, industry associations, market research) - not competitors.

Metric	Benchmark 2026	Source
Food cost óptimo del sector	**28–35% (promedio full-service 32.4%)**	National Restaurant Association
Costo laboral	**25–35% de los ingresos**	U.S. Bureau of Labor Statistics
Ventas del sector (EE.UU.)	**proyección ≈US$1,55 billones en 2026 pese a presión de costos**	National Restaurant Association — SOI 2026
Prime cost recomendado	**55–65% de las ventas**	Nation's Restaurant News
Margen neto típico	**3–9% (full-service 3–5%)**	Statista
Flujo de caja en pymes	**la mala gestión de caja se asocia a ~82% de los cierres de pequeños negocios**	Inc. (estudio U.S. Bank)