Executive Briefs

Prime Cost 55%: the threshold that separates elite operators

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

QUICK VERDICT

Verdict: a prime cost —food cost plus operating payroll— above 60% guarantees the restaurant works for its suppliers and its staff, not its owner. The 55% threshold isn't an accounting target: it's the frontier where EBITDA stops being a residual and becomes predictable. Elite operators defend it plate by plate, not by monthly report.

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Prime cost is the sum of two lines the operator actually controls: the cost of a plate's ingredients (food cost) and the direct payroll of production and service. Everything else —rent, utilities, insurance, depreciation— is fixed structure that the kitchen cannot touch.

The mistake I see again and again: owners celebrating a 28% food cost while payroll climbs to 40% and their real prime cost tops 68%. They watch one line and lose the whole picture. Plate costing in isolation is not enough; prime cost must be governed as a single decision architecture.

Side-by-side comparison

	TRADITIONAL APPROACH	MASTERESTAURANT METHOD
Average prime cost	✕ 63% of sales	✓ 52-55% of sales
Theoretical vs actual cost variance	✕ 9-14% unexplained	✓ ≤2.5% reconciled
Food cost per plate	✕ 35-42% with no ceiling	✓ ≤32% (maximum allowed)
Contribution margin per plate	✕ Not measured	✓ ≥65% per menu item
Operating EBITDA	✕ 4-7% (residual)	✓ 15-19% (predictable)
Reconciliation frequency	✕ Monthly or quarterly	✓ Weekly by ingredient family
Annual capital leakage (3 units)	✕ USD 180,000-260,000	✓ <USD 40,000

1. What is prime cost, and why does it outrank food cost?

Prime cost is the sum of the two lines the operator actually controls: a dish's food cost plus the direct labor of production and service.

Above 60%, it guarantees the restaurant works for its suppliers and its payroll, not for its owner. Everything else —rent, utilities, insurance, depreciation— is fixed structure the kitchen can't touch. The mistake I see again and again: owners celebrating a 28% food cost while payroll balloons to 40% and their real prime cost tops 68%. They watch one line and miss the whole picture. On every 100 dollars sold, a 68% prime cost leaves barely 32 to cover rent near 8%, utilities at 5% and marketing; the residue evaporates. Costing dishes in isolation isn't enough: you must govern both lines as a single decision architecture, because a win on one that hides a loss on the other is no win at all.

2. The 55% threshold: where EBITDA stops being a leftover

The 55% mark is not an accounting target; it's the frontier where EBITDA stops being residual and turns predictable. At a 55% prime cost, every 100 dollars sold leaves 45 to absorb the structure: rent near 8%, utilities and insurance at 6%, administration at 5%, and an operating margin that settles between 12% and 18%. Above 60%, that margin depends on one good month covering two bad ones. In dozens of restaurants I've seen the same scene: the casual-dining operator hits 58% in high season and 64% in low, and calls it 'volatility.' It isn't volatility, it's an ungoverned prime cost. The elite hold theirs between 52% and 55% all twelve months, with deviation under two points. That narrow band is what turns the restaurant into an asset you can plan and sell, rather than a monthly raffle you hope to win. The traditional operator chases food cost; the elite one governs the whole prime cost.

3. Low food cost, wrecked cash: the single-line trap

Cutting food cost two points while payroll climbs four is an accounting victory that destroys cash. I've measured it in the kitchen: an owner reformulates recipes to move from 30% to 28% food cost, saving 2 dollars per 100 sold, but to pull it off he adds a workstation and payroll rises from 34% to 38%. Net result: prime cost climbs from 64% to 66%, and he lost 2 EBITDA points while celebrating the ingredient reduction. Direct labor usually weighs as much as the plate: in a full-service restaurant, food cost and operating payroll run almost even, 28-32% each. Optimizing one while ignoring the other is putting out a fire with fuel from the other tank. The right decision is measured on the sum, never on half of it. Traditional costing is a monthly event; the Masterestaurant method turns it into a continuous system, and that's where the cash difference lives.

4. Theoretical-vs-actual variance: the silent 9-to-14% leak

The variance between theoretical cost —what the recipe says it should have cost— and the actual cost coming out of inventory is the leak almost nobody measures: in uncontrolled kitchens it runs between 9% and 14% of ingredient cost. In a venue buying 40,000 dollars in raw materials a month, a 12% variance is 4,800 dollars monthly evaporated in waste, uncontrolled portions, pilferage and mistimed purchasing: 57,600 dollars a year. That leak is caught only with weekly reconciliation by ingredient family, not with a single month-end count that averages and hides. My rule at Masterestaurant: if a family's variance exceeds 3 points two weeks running, that family goes under investigation that same week. Closing the leak to 3% recovers more margin than raising prices. The traditional approach loads rent and utilities onto the plate and concludes 'it doesn't work'; the Masterestaurant method pulls them out of the dish cost and moves them to the break-even point.

5. Rent and utilities do NOT belong on the plate: the MR architecture

The plate answers only for its food cost and its direct labor. When an owner splits 12,000 dollars of rent across 3,000 plates and adds a 'structure' dollar to each, he distorts everything: he punishes low-volume dishes and rewards high-volume ones, making menu decisions on a fictional cost. Diego F. Parra frames it plainly: the plate is managed by its prime cost; fixed structure is covered by the volume the break-even point demands. If break-even needs 3,200 covers a month and only 2,700 show up, the problem isn't that 'the plate doesn't work,' it's missing traffic. Separating both ledgers lets you decide, on real prices, which dish to push and how much volume to chase. Getting prime cost to 55% without raising prices or cutting quality is done by attacking both lines in parallel with concrete levers, not blind cuts.

6. How to drop below 55% without touching price or quality

On food cost: menu engineering that pushes high-margin dishes and demotes the poor-contribution ones, spec sheets with real gram weights, and purchasing consolidated by family; this typically recovers 2 to 4 points. On direct labor: shift grids tied to the sales curve by time slot, not to fixed schedules, and productivity measured in sales per labor-hour; fixing over-staffing in the valley hours trims another 3 to 5 points without firing anyone key. At Masterestaurant we've moved operators from a 66% prime cost to 54% in one quarter just by closing variance and adjusting shifts. Sequence matters: first you measure both lines weekly, then you act; whoever cuts before measuring usually slices muscle and leaves the fat. The elite operator watches three numbers every Monday, not one at month-end: consolidated prime cost below 55%, theoretical-vs-actual variance by family under 3%, and direct labor as a percentage of sales within its daypart band.

7. The three numbers that separate the elite operator

With those three dashboards, the costing decision stops being guesswork. The traditional operator reviews a monthly P&L, already too late to correct; by the time he sees the number, the month is lost. In my experience with world-class restaurants, the gap between an 8% operating margin and a 16% one is almost never in prices: it's in governing these three figures with weekly discipline. One mishandled prime-cost point, on annual sales of 1.2 million, is 12,000 dollars gone. Five points are 60,000: the difference between reinvesting and closing. That's why the 55% threshold isn't accounting, it's the line separating the owner of his own cash from the one who merely runs it for others. The traditional operator chases food cost; the elite operator governs the full prime cost. Dropping food cost two points while payroll rises four is an accounting win that destroys cash.

8. The differences that decide EBITDA

Traditional costing is a monthly event; the Masterestaurant method turns it into a continuous system. The variance between theoretical and actual cost —that silent 9-14% leak— is only caught with weekly reconciliation by ingredient family. The traditional approach loads rent and utilities onto the plate and concludes 'it doesn't work.' The MR method pulls them out of plate costing and moves them to the break-even point: the plate answers only for its food cost and direct labor.

POINT BY POINT

Traditional vs Masterestaurant in plate costing

WHAT IS CONTROLLED

A · TRADITIONAL APPROACH Only food cost, reviewed sporadically

B · MASTERESTAURANT Full prime cost: ingredients + direct payroll

Verdict: Governing prime cost, not a single line, is what shields EBITDA.

THEORETICAL VS ACTUAL COST

A · TRADITIONAL APPROACH Not reconciled; 9-14% variance invisible

B · MASTERESTAURANT Weekly reconciliation by ingredient family, variance ≤2.5%

Verdict: Weekly reconciliation catches the leak before it becomes a loss.

TREATMENT OF RENT AND UTILITIES

A · TRADITIONAL APPROACH Loaded onto the plate: 'it doesn't work'

B · MASTERESTAURANT Moved to break-even, out of plate costing

Verdict: The plate answers only for food cost and direct labor.

EBITDA OUTCOME

A · TRADITIONAL APPROACH 4-7% residual and volatile

B · MASTERESTAURANT 15-19% predictable

Verdict: Prime cost at 52-55% turns margin into a governable result.

SIDE-BY-SIDE COMPARISON

Traditional report-based costing REACTIVE

- ✕ Food cost calculated once and never revisited after input prices rise
- ✕ Payroll treated as a fixed expense, not a production variable
- ✕ No reconciliation between theoretical recipe cost and actual storeroom usage
- ✕ The P&L arrives on the 15th of the following month, after the leak occurred

Directed prime-cost architecture MASTERESTAURANT

- ✓ Live theoretical cost per plate, recalculated when purchase prices move
- ✓ Payroll modeled as a % of sales by time band and season
- ✓ Theoretical-actual variance reconciled by ingredient family every week
- ✓ Near-real-time prime-cost dashboard that triggers alerts at 57%

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THE NUMBERS THAT MATTER

Prime cost in 2026 figures

55%
Prime-cost threshold separating elite from survival

63%
Sector-average prime cost with no costing architecture

14 pts
Theoretical-actual variance leaking unreconciled (observed max)

15 %
Predictable EBITDA with disciplined 52-55% prime cost

8400
Units diagnosed by Masterestaurant across 43 countries

32 %
Maximum food cost allowed per plate (not recommended, ceiling)

REAL CASE

“They had a 29% food cost and bragged about control. When we opened the books, real prime cost was 67%: payroll had eaten four points per quarter with no one watching. We reconciled theoretical cost against actual usage by ingredient family, pulled rent out of plate costing, and modeled payroll by time band. In 90 days prime cost fell to 54% and EBITDA across three units went from 5% to 16%. Same sales, USD 210,000/year more in cash.”

— Three-unit casual dining group, Masterestaurant diagnosis, 2026

HOW TO APPLY IT IN YOUR RESTAURANT

How to install prime-cost discipline

1. **Phase 1 — Snapshot the leak**
Rebuild each plate's theoretical cost with standardized recipes and reconcile it against actual storeroom usage. Deliverable: variance map by ingredient family. Timeline: 3 weeks. Success metric: variance measured and ranked from largest to smallest leak in USD.

2. **Phase 2 — Re-engineer plate and payroll**
Redesign the highest-leak recipes to a food cost ≤32% without touching the flavor promise, and model payroll as a percentage of sales by time band. Deliverable: recosted menu + shift grid. Timeline: 6 weeks. Success metric: prime cost below 57%.

3 **Phase 3 — Continuous governance dashboard**
Install a prime-cost dashboard with weekly reconciliation and automatic alerts when it exceeds 57%. Deliverable: weekly management P&L per unit. Timeline: 4 weeks. Success metric: prime cost stable at 52-55% for three consecutive cycles.

FAQ

Frequently asked questions about prime cost

What exactly is a restaurant's prime cost?

It is food cost (the cost of a plate's ingredients) plus direct payroll for production and service. It represents the two variable lines the operator controls from the kitchen. Rent, utilities, and depreciation stay out: those belong to the break-even point, not to plate costing.

Why is the threshold 55% and not 60%?

Because above 55% EBITDA becomes residual: any input-price rise or sales dip erases it. At 52-55% the operating margin turns predictable and leaves room for fixed structure, debt, and dividends. It is the frontier between distributing profit and merely surviving.

How do I lower prime cost without raising prices or cutting quality?

By attacking the theoretical-actual variance first: the 9-14% leak between what a recipe should cost and what the storeroom actually consumes is money already lost. You recover it with weekly reconciliation, standardized recipes, and payroll modeled by time band —not by raising the check.

How often should I review prime cost?

Weekly, by ingredient family. Monthly costing arrives late: by the time you see last month's P&L, the leak has run for four weeks. Elite operators reconcile theoretical cost against actual usage every week and trigger alerts when it tops 57%.

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

Metric	Benchmark 2026	Source
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
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)
Costos y demanda 2026	**alzas de costos persistentes con demanda resiliente en restaurantes**	Bloomberg Línea
Prime cost recomendado	**55–65% de las ventas**	Nation's Restaurant News