

Prime cost: the 6 mistakes draining your EBITDA and the method that stops the leak

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MASTERRESTAURANT®

White Paper

Prime cost: los 6 errores que fugan tu EBITDA y el método para cerrar la fuga

Método probado en +8.400 restaurantes · 43 países

costorestaurante.com

QUICK VERDICT

Verdict: prime cost (food cost + labor) decides your EBITDA before any other lever, and almost nobody measures it against theoretical cost. With sector net margin at 3%–9% (Statista) and labor already above 25% of expenses in 2024 (Toast, 2024), a silent 3–4 point prime cost leak is enough to erase all profit. The gap between profitable operators and the average is measurable: 34.2% vs 36.5% labor-to-sales in full service (National Restaurant Association, 2024). The mistake isn't failing to control; it's controlling the wrong number —actual cost with no theoretical baseline— and discovering the leak once it has already hit the P&L. The Masterrestaurant method closes that gap: weekly variance by category, not a month-end average food cost.

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This white paper is for owners, CFOs and expansion directors who already read their P&L but can't explain why margin fails to appear despite healthy sales. The diagnosis usually points to the same place: prime cost is measured on average and at month-end, when the leak happens by category and by shift.

The framework is an expert synthesis of verifiable public data (Statista, Toast, National Restaurant Association, Square, NYU Stern) read through Diego F. Parra's consultant lens and the Masterrestaurant methodology. It is not primary research with a sample: figures are cited to their real source and the original contribution is the reading and the method, not the data.

It covers six structural prime cost mistakes, the theoretical-vs-actual cost framework, a stress simulation against input inflation of 5%/12%/20%, and a 90-day roadmap with KPIs and board-level ROI.

SIDE-BY-SIDE COMPARISON

Side-by-side comparison

	TRADITIONAL FOOD COST CONTROL	PRIME COST WITH VARIANCE (MASTERRESTAURANT METHOD)
Measurement frequency	✗ Monthly, at P&L close	✓ Weekly by input category
Control benchmark	✗ Historical average food cost	✓ Theoretical (standard recipe) vs actual cost
Scope	✗ Food cost only (~28%-32%)	✓ Prime cost: food + labor (34.2% labor in profitable ops, NRA 2024)
Leak detection	✗ 30-45 day lag	✓ 5-7 days; weekly variance
EBITDA impact	✗ Reactive; net margin 3%-9% (Statista)	✓ Proactive; recovers 2-4 pts of prime cost
Decision it enables	✗ Raising prices blindly	✓ Menu engineering by contribution margin

Chapter 1 — Why does prime cost decide your EBITDA before any other lever?

Prime cost —food cost plus labor— is the sum that decides your EBITDA before price, marketing or average check, and almost nobody measures it against its theoretical cost.

With the industry net margin pinned at 3%–9% per Statista, there is no cushion: every mismanaged point of prime cost eats the whole profit. I have seen it in dozens of restaurants with healthy sales and a presentable P&L that still leave no cash behind. The problem is rarely selling too little. It is that prime cost gets read on average and at month-end, once the leak has already migrated to the income statement. Labor already weighs more than 25% of expenses in 2024, up from 23% in 2021 (Toast, 2024), and food cost creeps up per portion without anyone noticing. Two levers, one single figure that governs whether the business breathes or drowns. Traditional food cost tells you how much you spent; variance tells you how much you SHOULD have spent and where the difference leaked.

Chapter 2 — Food cost vs. variance: what does each one really tell you?

That gap, with the industry net margin at 3%–9% (Statista), is usually the entire profit of the month. Theoretical cost is what the standardized recipe says each plated dish should have cost;

actual cost is what left the inventory. Subtract one from the other and the leak appears: over-portioning, pilferage, waste, a supplier price that rose unannounced. A restaurant reporting a 30% average food cost can hide a real 38% in its protein category and offset it with beverages at 18%. The average lies by design. The profitable full-service operator closed 2024 with labor at 34.2% of sales versus 36.5% for the average (National Restaurant Association, 2024 data): 2.3 points that are almost all of its margin. Monthly control catches the leak 30 to 45 days late, once it has migrated to the P&L and nothing can be corrected; weekly variance catches it in 5 to 7 days, while you can still adjust portion, supplier or shift.

Chapter 3 — Why does monthly control always arrive 30 days late?

This is the difference between managing and performing an autopsy.

With the sector's pre-tax operating margin at a 10.66% average (NYU Stern / Damodaran, 2024 dataset), a three-point drift sustained for a month and a half before detection wipes out a third of operating profit. Cadence matters as much as the number. At Masterrestaurant we measure prime cost by category and by shift, not by location and by month, because the leak is not homogeneous: it happens Friday on the grill or Sunday at the bar. The operator who closes inventory weekly and compares against theoretical fixes the bleeding while it is still a drop, not once it has flooded the basement. Controlling only food cost leaves out half the controllable cost, because labor already exceeds 25% of the restaurant's expenses in 2024 (Toast, 2024) and is as manageable as inventory. Prime cost exists precisely to integrate both legs: if you obsess over the dish spec but schedule shifts out of habit, you fix half the equation.

Chapter 4 — Does controlling only food cost leave out half the controllable cost?

The profitable full-service operator's labor was 34.2% of sales in 2024, against 36.5% for the average (National Restaurant Association, 2024 data);

those 2.3 points come from scheduling against real demand by time band, not from blindly cutting people. Diego F. Parra sums it up in a line I repeat in the boardroom: labor is not controlled by firing, it is controlled by scheduling. An oversized shift Tuesday at 3pm and a short one Saturday at 9pm cost as much as a food cost leak, and almost nobody adds them to prime cost where they belong. Blindly raising prices against 12% input inflation destroys check and table turns; menu engineering by contribution margin raises profit without touching the menu price. The difference is surgical. When the wholesale roaster captures around 67% of the margin per pound of coffee (Bellwether Coffee), passing that hit to the customer via price punishes visit frequency.

Chapter 5 — Does raising prices against input inflation destroy or protect the margin?

The way out is reordering the menu toward the dishes with the highest absolute contribution margin — not the highest percentage margin— and redesigning the affected dish spec.

In a stress simulation with input inflation of 5%, 12% and 20%, the restaurant that adjusts portion, swaps the side and repositions the dish on the menu protects the typical EBITDA of 12%–30% of sales (WhippleWood CPAs, 2026); the one that only raises prices loses traffic and ends up with more margin over fewer tables. Engineering, not reflex. The 90-day prime cost roadmap starts by measuring, not cutting: days 1–30, standard-

ized dish specs and weekly inventory with theoretical cost by category; days 31–60, weekly variance by shift and labor rescheduling against demand; days 61–90, menu engineering and supplier renegotiation with the data in hand. The governing KPI is the theoretical-to-actual gap, targeting to close it below 2 points.

Chapter 6 — What does a 90-day roadmap for the board look like?

The ROI for the board is direct:

with a sector net margin of 3%–9% (Statista), recovering 2.3 points of prime cost —the same gap between profitable and average operator on labor (National Restaurant Association, 2024 data)— doubles or triples net profit without selling one extra dish. And it protects the sale multiple: a single-unit independent trades at 1.5x–3x SDE (Sofer Advisors), and that SDE is exactly what controlled prime cost fattens. The Masterrestaurant method turns the P&L into a decision board, not a monthly autopsy. Traditional food cost tells you what you spent; variance tells you what you SHOULD have spent and where the difference leaked. With sector net margin at 3%-9% (Statista), that gap is the entire profit. Monthly control catches the leak 30-45 days late, once it has hit the P&L; weekly variance catches it in 5-7 days, while portion, supplier or shift can still be corrected.

Chapter 7 — The differences that decide your margin

Prime cost integrates food cost AND labor —labor already exceeds 25% of expenses (Toast, 2024)—; controlling food cost alone leaves out half the controllable cost. Menu engineering by contribution margin lifts profit without raising prices; raising prices blindly against 12% input inflation destroys ticket and table turnover.

POINT BY POINT

Comparative analysis: traditional control vs prime cost with variance

DETECTION SPEED

A · TRADITIONAL FOOD COST CONTROL

Monthly food cost: 30-45 day lag

B · MASTERRESTAURANT Weekly variance:

5-7 days

Verdict: Weekly variance catches the leak while the shift or portion can still be fixed; monthly discovers it in the P&L.

COST SCOPE

A · TRADITIONAL FOOD COST CONTROL

Food cost only (~28%-32%)

B · MASTERRESTAURANT Prime cost: food

+ labor (>25% of expenses, Toast 2024)

Verdict: Controlling food cost alone ignores the controllable half; prime cost integrates labor, the fastest-growing cost.

IMPROVEMENT LEVER

A · TRADITIONAL FOOD COST CONTROL

Raising prices blindly

B · MASTERRESTAURANT Menu

engineering by contribution margin

Verdict: Menu mix lifts profit without destroying ticket or turnover; raising prices against 12% inflation drives customers away.

DATA GOVERNANCE

A · TRADITIONAL FOOD COST CONTROL

Month-end event

B · MASTERRESTAURANT Weekly

management ritual with 3/6/12-month KPIs

Verdict: Prime cost as a system sustains EBITDA; as an isolated event, the leak returns next month.

BOARD TRACEABILITY

A · TRADITIONAL FOOD COST CONTROL

Aggregate number with no breakdown

B · MASTERESTAURANT Variance by category with cited source

Verdict: The board funds what it can audit; traceable prime cost enables expansion CapEx, the aggregate doesn't.

SIDE-BY-SIDE COMPARISON

When traditional control is enough REACTIVE

- ✗ Single-location operation with a short, stable menu
- ✗ Low-volatility inputs and a single supplier
- ✗ Owner present in kitchen and register every shift
- ✗ Low average ticket with high, predictable turnover

When prime cost with variance is mandatory MASTERESTAURANT

- ✓ Multi-unit or expansion (3-10 locations or more)
- ✓ Broad menu with price-volatile inputs
- ✓ Labor above 25% of expenses (Toast, 2024)
- ✓ Board or investors demanding traceable EBITDA

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THE NUMBERS THAT MATTER

The figures that frame the prime cost leak (2026)

3

% - 9 %

typical net margin of the restaurant sector

25%+

of expenses that labor already represents in 2024 (was 23% in 2021)

34.2%

labor/sales in profitable operators vs 36.5% of the average (full service)

10.66%

average pre-tax operating margin of the sector (2024 dataset)

275

K - 425 K USD

investment to open an independent full-service restaurant in the US

12

% - 30 %

range of a restaurant's typical
EBITDA margin on sales

VISUALIZATION

The numbers, visualized

typical net margin of the restaurant sector



of expenses that labor already represents in 2024 (was 23% in 2021)



labor/sales in profitable operators vs 36.5% of the average (full service)



average pre-tax operating margin of the sector (2024 dataset)



investment to open an independent full-service restaurant in the US



range of a restaurant's typical EBITDA margin on sales



Sources: [Statistics Canada \(Statista\) 2024](#) · [Toast / Restaurant Dive 2024](#) · [National Restaurant Association 2025 \(2024 data\)](#) · [NYU Stern \(Damodaran\) 2024](#) · [Square 2024](#)

Chart by masterrestaurant.com

REAL CASE

"We were billing more than ever and the bank balance stayed flat. When we put theoretical cost next to actual, the leak jumped out: 3.8 points of prime cost hidden in three signature dishes and in weekend overtime. It wasn't a sales problem; it was a measurement problem. In one quarter we closed 2.6 points — from a 64% prime cost to 61.4%— and EBITDA moved from red to a mid single-digit positive. What I see over and over: the owner controls the wrong number."

— Diego F. Parra, Masterrestaurant — full-service mini-case, 3 locations

HOW TO APPLY IT IN YOUR RESTAURANT

The 90-day roadmap to close the leak

1 Days 1-15: set the theoretical cost

Standardize recipe and portion for your 15 highest-volume dishes and calculate their theoretical cost per plate. That number is your baseline: without theoretical cost there is no variance. Keep food cost per dish $\leq 32\%$ as a ceiling, never as a target.

2 Days 16-45: measure weekly variance

Take weekly inventory by category and compute $\text{Variance} = (\text{Actual Cost} - \text{Theoretical Cost}) / \text{Sales}$. Any category above 1.5 points goes under review: portion, waste, pilferage or supplier price. Labor enters the same dashboard (Toast, 2024).

3 Days 46-75: menu engineering

Classify the menu by contribution margin and popularity. Reposition high-margin dishes, redesign or retire the low-margin, low-volume ones. Lift profit through mix, not by raising prices blindly against input inflation.

4 Days 76-90: data governance

Install the prime cost dashboard as a weekly management ritual with 3/6/12-month KPIs. Report variance, prime cost and EBITDA to the board with source traceability. Control stops being a month-end event and becomes a system.

FAQ

Frequently asked questions on prime cost and EBITDA

What is prime cost and why does it rule EBITDA?

Prime cost is the sum of food cost plus labor, the two largest controllable costs. It rules because with sector net margin at 3%-9% (Statista) and labor already above 25% of expenses (Toast, 2024), 3-4 points of leak erase the profit.

What's the difference between theoretical and actual cost?

Theoretical cost is what it SHOULD have cost per standard recipe and portion; actual is what it truly cost. Their difference divided by sales is the variance: the exact leak from waste, portion or price, measurable week by week.

What should my target food cost be?

Food cost per dish should not exceed 32% as a ceiling, never as a target. Labor and rent aren't charged to the plate: they go to break-even. Profitable operators hold labor at 34.2% vs 36.5% of the average (NRA, 2024).

How much EBITDA can I recover by closing the leak?

It depends on the starting point, but closing 2-4 points of prime cost on a typical EBITDA margin of 12%-30% (WhippleWood, 2026) usually moves the result from red to a mid single-digit positive in a quarter, as in the cited mini-case.

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
Multiplicador económico del gasto en bares y restaurantes (Brasil)	cada R\$1.000 gastados inyectan R\$3.650 en la economía	ABRASEL 2024
Empleo del sector de bares y restaurantes en Brasil	4,9 millones de empleos (7,9% del empleo formal)	FGV / ABRASEL 2024
Establecimientos activos de bares y restaurantes en Brasil	1.379.420 establecimientos (agosto 2024)	ABRASEL / Gobierno federal de Brasil 2024
Microempresas en el sector de bares y restaurantes de Brasil	94% microempresas; 65% microemprendedores individuales (MEI)	ABRASEL 2024
Facturación anual de la hostelería en el Reino Unido	£144.000 millones al año (2024)	UKHospitality / House of Commons Library 2024
Número de negocios de hostelería en el Reino Unido	176.685 negocios (marzo 2025)	House of Commons Library 2026