White Papers

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

By **Diego F. Parra** · Updated 2026-07-08 · Costing & Finance

QUICK VERDICT

Verdict: prime cost is NOT food cost plus payroll added up at month-end; it is a weekly indicator of theoretical versus actual cost that, mis-measured, hides a leak of 4 to 9 EBITDA points. The right target is *variance*, not the average: a 60% prime cost swinging ±6 points week to week fails before a stable 63% does. The correct method measures theoretical versus actual over short periods, ties the result to break-even, and decides by per-dish contribution margin, not isolated food cost.

White Paper Technical document · C-Suite & multilateral banking · 13 min read · 2026-07-08

Prime cost —food cost plus total labor cost— is the only number an operator can move in under a week. Rent, insurance and depreciation are sunk monthly costs; prime cost is the live lever. That is why measuring it late or wrong is not an accounting nuisance: it is a capital leak that compounds week over week.

At Operaciones MR we have audited the managerial P&L of hundreds of independent and multi-unit restaurants. The pattern repeats: owners who believe they run a 60% prime cost discover, once they measure theoretical against actual, that they operate at 66-68% during peaks, and that 6-8 point gap swallows the entire projected EBITDA. It is not bad luck; it is a broken measurement instrument.

This white paper dismantles six structural errors in calculating prime cost and lays out the Masterestaurant method to turn it into a decision dashboard. This is not theory: each chapter closes with actionable implications for the operator, and the ending brings a 90-day roadmap with tracking KPIs at 3, 6 and 12 months built to take to the board.

SIDE-BY-SIDE COMPARISON

Side-by-side comparison

	TRADITIONAL APPROACH (MONTHLY AVERAGE)	MASTERESTAURANT METHOD (THEORETICAL VS ACTUAL)
Measurement frequency	✕ Once/month (accounting close)	✓ Weekly + daily theoretical
Target metric	✕ Average prime cost ~60%	✓ Variance ≤1.5% of sales

	TRADITIONAL APPROACH (MONTHLY AVERAGE)	MASTERESTAURANT METHOD (THEORETICAL VS ACTUAL)
Decision unit	✕ Global monthly food cost	✓ Per-dish contribution margin
Leak detection	✕ 30-45 days late	✓ 5-7 days
Typical EBITDA leak	✕ 4 to 9 pts lost	✓ 0.8 to 1.5 pts recovered
Labor cost	✕ Base salaries only	✓ Salary + burden + overtime
Reaction to 12% inflation	✕ Reactive, next month	✓ Anticipated, short supply chain + redesign

Chapter 1 — What prime cost really is, and why it isn't food cost plus payroll

Prime cost is the sum of food and beverage cost plus total labor cost —including benefits and payroll taxes— measured as a percentage of net sales. It is not a figure you close at month-end: it is a weekly indicator of theoretical versus actual cost. The rest of the structure (rent, insurance, depreciation) is sunk cost you can no longer move this week; prime cost you can. At Masterestaurant we set the healthy threshold between 55% and 60% of sales. Each point above that in a restaurant with USD 1.5M in annual revenue is USD 15,000 leaving EBITDA with no obvious accounting trace. The error I see again and again: owners who add the two P&L lines at month-end and think they measured. That isn't measuring, it's performing the autopsy. Chasing the prime cost average hides the volatility that bleeds you dry. A 61% average sounds healthy, but if it swings between 56% in slow weeks and 68% at the peaks, the operator lives on borrowed treasury: good weeks subsidize bad ones and cash flow never breathes.

Chapter 2 — Mistake 1: chasing the average instead of the variance

The number worth chasing is variance —the gap between theoretical and actual cost as a percentage of sales—, not the mean. Across hundreds of managerial P&L audits I have seen the same trap: a prime cost 'at 60%' that actually runs at 66-68% during peak-volume shifts, exactly when you sell most and lose most. That 6-to-8-point gap swallows all projected EBITDA. Variance sustained above 2 points isn't bad luck: it's a broken measuring instrument that must be repaired before touching recipes. Measuring prime cost monthly instead of weekly turns a fixable leak into a compounding hemorrhage. If you find on day 45 that labor cost jumped three points, you already lost six weeks of margin that never comes back. Prime cost is the only number an operator can move in under seven days: you adjust shift scheduling, renegotiate with two suppliers, change three high-volume recipes.

Chapter 3 — Mistake 2: measuring late turns a leak into a compounding hemorrhage

Rent, insurance and depreciation don't respond at that speed. That is why at Masterestaurant inventory counts and theoretical payroll close every Monday, with the weekend shift still fresh. A restaurant that measures monthly loses, on average, between 4 and 9 EBITDA points a year versus one that measures weekly. That gap, in a USD 2M operation, is between USD 80,000 and USD 180,000 a year of pure decision. Failing to calculate theoretical cost leaves the operator blind against actual cost. Theoretical cost is what the week's sales SHOULD have cost to produce according to standardized recipes and scheduled labor; actual is what genuinely left cash and inventory. The subtraction between them —variance— is the diagnosis. Without theoretical you only have a

final number with no cause: you know you lost, not why. In practice, a 3% food cost variance usually breaks down into unrecorded waste, unstandardized portions and pilferage; a 2% labor variance is almost always over-scheduling in slow hours.

Chapter 4 — Mistake 3: not separating theoretical from actual leaves the problem undiagnosed

I have audited restaurants convinced they had a purchase-price problem when they were actually giving away 4 points at plating. Without the theoretical, that owner would have renegotiated with suppliers and kept losing exactly the same. Putting rent, utilities or depreciation inside prime cost breaks the tool. Those costs are fixed and sunk for the month: they belong to the break-even point, not to the live indicator you correct week by week. When an owner 'dilutes' rent into per-plate food cost, they get an inflated number that says nothing actionable: they can't lower rent on Tuesday. Prime cost must contain EXCLUSIVELY what responds to seven-day management: inputs and labor. At Masterestaurant we rigorously separate prime cost (the lever) from occupancy cost (break-even). A common attribution error: loading the general manager's salary into variable labor when it is fixed. That dirties the variance and sends you chasing ghosts.

Chapter 5 — Mistake 4: loading sunk costs into prime cost distorts the lever

The hard rule: if the cost doesn't change when the week's sales change, it doesn't belong in prime cost. A consolidated prime cost hides which time slot destroys margin. A restaurant can close the week at 60% overall and still lose money: lunch runs at 52% and dinner at 71% from over-staffing and an unbalanced menu. The average lies by design. At Masterestaurant we break prime cost down by daypart and by channel —dine-in, delivery, takeout— because each has a different labor structure: delivery can carry food cost 8 points higher from packaging and a platform commission of 18-30%. I have seen operators raise prices across the whole menu when the problem lived in two dinner-shift dishes. Segmenting prime cost by slot turns an anesthetic number into a map of where to cut. Without that granularity, every decision is blind and the opportunity cost is brutal.

Chapter 6 — The Masterestaurant method: from accounting figure to decision dashboard

The Masterestaurant method turns prime cost into an anticipatory decision dashboard, not an accounting autopsy. The difference is operational: the traditional approach tells you why you lost last month; this one lets you correct this week. The dashboard runs three numbers every Monday: theoretical prime cost, actual and variance, broken down by daypart and channel. On top of that we build a 90-day roadmap with KPIs at 3, 6 and 12 months, designed to take to the board: cut food cost variance below 1.5 points, close over-scheduling in slow hours and stabilize consolidated prime cost between 55% and 58%. In operations we have advised, recovering 3 to 5 prime cost points in a quarter is realistic and translates, in a USD 1.5M restaurant, into USD 45,000 to 75,000 of EBITDA recovered per year. Start by measuring theoretical against actual this Monday. The traditional approach treats prime cost as historical accounting data; the Masterestaurant method treats it as an instrument of anticipatory management.

Chapter 7 — The differences that decide the margin

The difference is not semantic: one tells you why you lost last month, the other lets you fix this week. In a restaurant with USD 1.5M in annual sales, each mis-controlled point of prime cost is USD 15,000 a year leaving EBITDA with no obvious accounting trace. Chasing only the average hides volatility. A 61% average prime cost sounds healthy, but if it swings between 56% and 68% depending on the week, the operator lives on borrowed

treasury: good weeks subsidize bad ones and cash flow never breathes. Variance —the deviation between theoretical and actual cost as a share of sales— is the real KPI. Chasing the average is like measuring body temperature while ignoring intermittent fever. The third axis is the decision unit. Global food cost averages profitable dishes with bleeding ones; per-dish contribution margin exposes which product funds the operation and which drains it. Menu engineering fixes that: reposition, redesign the portion, or retire it. Without that granularity, lowering global food cost cuts exactly the star dishes and cheapens perception, destroying average check while the dashboard number improves falsely.

POINT BY POINT

Traditional approach vs Masterestaurant method, criterion by criterion

MEASUREMENT FREQUENCY

A · TRADITIONAL APPROACH (MONTHLY AVERAGE)	B · MASTERESTAURANT
Monthly, at accounting close	Weekly with daily theoretical cost

Verdict: B: cutting the 30-day lag to 7 recovers the week where money is still in play.

METRIC BEING CHASED

A · TRADITIONAL APPROACH (MONTHLY AVERAGE)	B · MASTERESTAURANT
Average prime cost (~60%)	Variance ≤1.5% of sales

Verdict: B: the average hides volatility; variance exposes the real leak week to week.

DECISION UNIT

A · TRADITIONAL APPROACH (MONTHLY AVERAGE)	B · MASTERESTAURANT
Global monthly food cost	Per-dish contribution margin

Verdict: B: deciding per dish avoids cutting the stars when lowering the global average.

LABOR COST TREATMENT

A · TRADITIONAL APPROACH (MONTHLY AVERAGE)	B · MASTERESTAURANT
Base salary only	Salary + burden + overtime + turnover

Verdict: B: full labor cost is where 2-3 invisible prime cost points hide.

REACTION TO INPUT INFLATION

A · TRADITIONAL APPROACH (MONTHLY AVERAGE)	B · MASTERESTAURANT
Reactive, next month	Anticipated with stress simulation

Verdict: B: simulating 5%/12%/20% before the hit enables re-engineering instead of blind price hikes.

SIDE-BY-SIDE COMPARISON

The mistake: prime cost as an accounting average

WHAT I SEE OVER AND OVER

- ✕ Measured once a month, when the leak already ran 30 days
- ✕ Chases the average (60%) and ignores weekly variance
- ✕ Labor cost counts only base salary, no burden or overtime
- ✕ Global food cost hides dishes that lose money on every sale
- ✕ No split between theoretical cost (standard recipe) and actual cost (purchases)
- ✕ Payroll and rent get mixed in; break-even goes blind

The method: prime cost as a live dashboard MASTERESTAURANT

- ✓ Weekly measurement with daily theoretical cost per standardized recipe
- ✓ Target = variance ≤1.5% of sales, not a pretty average
- ✓ Full labor cost: salary + benefits + overtime + turnover
- ✓ Decision by per-dish contribution margin (menu engineering)
- ✓ Prime cost tied to break-even and real cash flow
- ✓ Stress-scenario simulation before inflation hits

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THE NUMBERS THAT MATTER

The numbers that define the leak

60%

Healthy target prime cost (full service)

66%
Actual prime cost measured at peaks (audits)

4pts
EBITDA leaked by measuring prime cost late

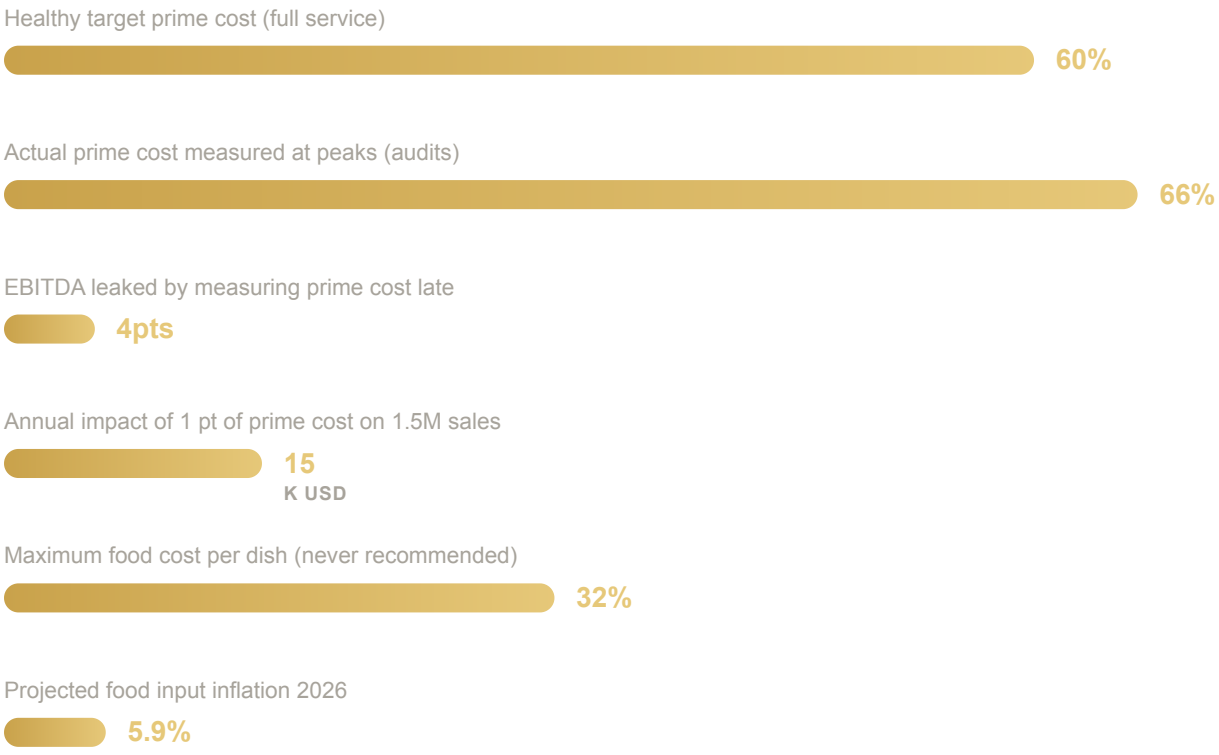
15
K USD
Annual impact of 1 pt of prime cost on 1.5M sales

32%
Maximum food cost per dish (never recommended)

5.9%
Projected food input inflation 2026

VISUALIZATION

The numbers, visualized



Sources: National Restaurant Association 2026 · Masterestaurant internal data · USDA Food Price Outlook 2026

Chart by masterestaurant.com

REAL CASE

“A three-location full service believed it ran at 61% prime cost. Measuring theoretical against actual by week surfaced a 5.4-point gap concentrated in two dishes and unplanned overtime. Menu re-engineering on four items plus shift-based staffing brought actual prime cost down to 58.7% in 11 weeks, lifting EBITDA 3.1 points. No one bought new equipment; they simply stopped measuring with a broken instrument.”

— Diego F. Parra, Masterestaurant — managerial P&L audit, Operaciones MR

HOW TO APPLY IT IN YOUR RESTAURANT

The right method in 4 steps

1

1. Standardize the recipe and compute theoretical cost

Before chasing prime cost you need a benchmark. Standardize every recipe with real weights and yield loss, and compute the theoretical cost per dish: what it SHOULD cost if everything is executed perfectly. Without this number, actual cost has nothing to compare against and variance stays invisible. Done well, this step alone reveals dishes with food cost above 32% that need re-engineering.

2

2. Measure weekly actual cost and derive variance

Take opening and closing inventory weekly, add period purchases and get the actual cost. The formula: Variance = (Actual Cost − Theoretical Cost) / Sales. A variance above 1.5% of sales is an active leak. Measuring weekly, not monthly, cuts the 30-day lag to 7 and lets you act on the current week instead of a month already lost.

3

3. Add full labor cost and tie it to break-even

Real prime cost includes salary, benefits, social burden, overtime and the hidden cost of turnover. Add it to food cost and contrast against break-even: payroll and rent are NOT charged to the dish, they belong to break-even. If prime cost rises but you clear break-even with margin, you prioritize; if not, the leak is structural and urgent.

4

4. Decide by contribution margin and menu engineering

Rank every dish by contribution margin (price − variable cost) and by popularity. Reposition the stars, redesign portion or price on the dogs, and retire what bleeds. Run the stress-scenario simulation (inflation 5%/12%/20%) before your supplier surprises you. Repeat the cycle weekly: prime cost stops being an average and becomes a decision dashboard.

FAQ

Frequently asked questions about prime cost

What exactly is a restaurant's prime cost?

It is the sum of cost of goods (food and beverage) plus total labor cost: salaries, benefits, burden and overtime. It is the only major cost an operator can move in under a week, which is why it concentrates margin control. Rent and depreciation are excluded: they are fixed break-even costs.

What is a good prime cost in 2026?

In healthy full service it runs around 60% of sales; in well-run QSR and fast casual it drops to 55-58%. But the deciding number is not the average: it is weekly variance. A 60% swinging ±6 points fails before a stable 63% does. Chase variance ≤1.5% of sales, not a cosmetic average.

How often should I measure prime cost?

Weekly at minimum, with daily theoretical cost per standardized recipe. Measuring only at the monthly close introduces a 30 to 45-day lag: by the time you see the leak, the month is lost. Weekly measurement cuts that lag to 5-7 days and lets you fix the current week, when the money is still in play.

Why is my food cost dropping but margin not improving?

Because global food cost averages profitable dishes with money-losing ones. Lowering the average usually cuts the star dishes and cheapens perception, destroying check. The fix is per-dish contribution margin and menu engineering: deciding product by product, not with an average that hides who funds and who drains the operation.

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
Ventas del sector (EE.UU.)	**proyección ≈US$1,55 billones en 2026 pese a presión de costos**	National Restaurant Association — SOI 2026
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
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)

Metric	Benchmark 2026	Source
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