

QUICK ANALYSIS

THE BIG 5

Summarize the information into the following 5 categories:

	Average	Above Average	Your Restaurant
Sales	100%	100%	
Cost of Good Sold	32%	28%	
Labor	34%	32%	
Total Prime Cost	66%	60%	
General Expenses	30%	28%	
Net Profit before Income Tax	4%	12%	

Sample Restaurant			
Year ended 12/31/05			
Guest Count	75,192		
Average Guest Check			Divide total sales by guest count
Net Sales	Amount	Percent	
Food	808,252		Divide food sales by total sales
Liquor	116,000		Divide Liquor sales by total sales
Beer	28,000		Divide Beer sales by total sales
Wine	71,000		Divide Wine sales by total sales
Total Net Sales	1,023,252		
Cost of Goods Sold			
Food	258,641		Divide food cost by food sales
Liquor	26,680		Divide Liquor cost by Liquor sales
Beer	9,240		Divide beer cost by beer sales
Wine	24,850		Divide Wine cost by wine sales
Total cost of goods sold	319,411		Divide total COG by Total Sales
Labor			
Management	65,000		Divide Management Labor by total sales
Direct	240,000		Divide direct labor by total sales
Related Labor	57,035		Divide related labor by total sales
Total Labor	362,035		Divide total labor by total sales
Total Prime Cost	681,446		Divide Prime cost by total sales
General Expenses	306,976		Divide general expenses by total sales
Net Profit	34,831		Divide Net profit by total sales
Sales per square foot= Divide total sales by total square footage			
Sales per seat = Divide total sales by number of seats			

Sample Pizza Restaurant				
Annual P&L				
	Standard		Your Restaurant	
	Amount	Percent	Amount	Percent
Sales:				
Delivery	281,250	75.0%		
Carry out	93,750	25.0%		
Total	375,000	100.0%		
Direct Costs				
Food	90,000	24.0%		
Packaging	15,000	4.0%		
Total Direct	105,000	28.0%		
Gross Profit	270,000	72.0%		
Labor Cost				
Management	30,000	8.0%		
Crew	63,000	16.8%		
Payroll Taxes	13,950	3.7%		
Total Labor	106,950	28.5%		
Total Prime Cost	211,950	56.5%		
General Expenses:				
Equipment Replacement	1,875	0.5%		
Supplies	4,500	1.2%		
Janitorial	3,750	1.0%		
Auto	3,750	1.0%		
Delivery	11,250	3.0%		
Advertising	13,125	3.5%		
Utilities	9,750	2.6%		
Office	1,125	0.3%		
Computer Services	5,625	1.5%		
Telephone	4,875	1.3%		
Travel	2,625	0.7%		
Insurance	7,875	2.1%		
Credit Card Discounts	1,125	0.3%		
Accounting	3,000	0.8%		
Business Taxes	1,125	0.3%		
Miscellaneous	1,875	0.5%		
Repairs	8,250	2.2%		
Rent	22,500	6.0%		
Interest	5,625	1.5%		
Depreciation	7,500	2.0%		
Total General	121,125	32.3%		
Net Profit	41,925	11.2%	-	

Sample Restaurant				
Income Statement				
Sample Mexican Restaurant				
			Your Restaurant	
	Amount	Per-cent	Amount	Per-cent
Sales:				
Food	\$ 916,000	83.0%		
Liquor	\$ 137,000	12.4%		
Beer	\$ 47,000	4.3%		
Wine	\$ 4,000	0.4%		
total	\$ 1,104,000	100.0%		
Cost of Sales:				
Food	\$ 241,154	26.3%		
Liquor	\$ 33,653	24.6%		
Beer	\$ 12,643	26.9%		
Wine	\$ 1,427	35.7%		
total	\$ 288,877	26.2%		
Gross Profit	\$ 815,123	73.8%		
Labor:				
Management	115,200	10.4%		
Direct	253,682	23.0%		
Employee Benefits	44,266	4.0%		
Total Labor	\$ 413,148	37.4%		
Total Prime cost	\$ 702,025	63.6%		
General Expenses:				
Laundry & Linen	\$ 3,400	0.3%		
Equipment Replacement	12,000	1.1%		
Supplies	5,000	0.5%		
Auto	2,200	0.2%		
Advertising	28,950	2.6%		
Utilities	36,000	3.3%		
Office Supplies	6,300	0.6%		
Telephone	5,200	0.5%		
Insurance	12,500	1.1%		
Credit Card discounts	18,000	1.6%		
Music	4,250	0.4%		
Cash (over) short	(692)	-0.1%		
Accounting	14,500	1.3%		
Internet	1,800	0.2%		
Business Taxes	14,021	1.3%		
Miscellaneous	10,000	0.9%		
Repairs	19,600	1.8%		
Rent	78,000	7.1%		
Interest	2,345	0.2%		
Depreciation	6,000	0.5%		
Total	\$ 279,374	25.3%		
Net Profit	\$ 122,601	11.1%		

Sample Restaurant				
Income Statement				
Sample Full Service Upscale				
			Your Restaurant	
	Amount	Percent	Amount	Percent
Sales:				
Food	\$ 2,353,163	74.0%		
Liquor	\$ 200,585	6.3%		
Beer	\$ 80,000	2.5%		
Wine	\$ 545,835	17.2%		
Total	\$ 3,179,583	100.0%		
Cost of Sales:				
Food	\$ 658,886	28.0%		
Liquor	\$ 37,123	18.5%		
Beer	\$ 20,000	25.0%		
Wine	\$ 185,884	34.1%		
Total	\$ 901,893	28.4%		
Gross Profit	\$ 2,277,690	71.6%		
Labor:				
Management	205,330	6.5%		
Direct	725,687	22.8%		
Employee Benefits	167,583	5.3%		
Total Labor	\$ 1,098,600	34.6%		
Total Prime Cost	\$ 2,000,493	62.9%		
General Expenses:				
Laundry & Linen	\$ 68,567	2.2%		
Equipment Replacement	41,335	1.3%		
Supplies	19,077	0.6%		
Auto	12,500	0.4%		
Advertising	73,567	2.3%		
Utilities	82,208	2.6%		
Office Supplies	19,077	0.6%		
Data Processing	28,616	0.9%		
Telephone	15,898	0.5%		
Travel	12,718	0.4%		
Insurance	43,130	1.4%		
Credit Card discounts	77,232	2.4%		
Cash (over) short	759	0.0%		
Accounting	25,437	0.8%		
Legal	6,359	0.2%		
Business Taxes	9,539	0.3%		
Miscellaneous	9,539	0.3%		
Repairs	57,232	1.8%		
Rent	174,887	5.5%		
Interest	25,437	0.8%		
Depreciation	82,669	2.6%		
Total	\$ 885,783	27.9%		
Net Profit	\$ 293,307	9.2%		



January 2007

Restaurant Methods, Procedures
and Measurements That are Derived
From Experience

Rules of Thumb

By Jim Laube

Editor's Note: Our informal research tells us that the expression "rule of thumb" has its origins in the late 1600s, when it was used to describe a method, procedure or measurement that is derived from experience. (Another explanation, which seems to be dismissed by scholars, is that the rule of thumb was a law that forbade a husband from beating his wife with a stick wider than his thumb. This definition lacks any modern value, unless you find domestic violence a laughing matter.) While you may lack the experience to determine your food costs, for example, you can benefit from the "rules of thumb" or experienced operators and consultants, such as the author.

The first and most fundamental restaurant rule of thumb is "every independent restaurant is unique." However, rules of thumb regarding the financial and operational aspects of restaurants can provide a valuable starting point for evaluating and understanding the financial feasibility and performance of proposed and existing restaurants.

Restaurants generate a lot of numbers so particularly for those new to the industry, deciding what numbers to focus on first and knowing what they mean can be

more than a little perplexing. Rules of thumb can help operators determine where to look first and what to expect.

This article discusses several of the restaurant industry's basic rules of thumb. While there will always be exceptions, they have proven to be surprisingly reliable over the years that I have worked with operators who collectively manage thousands of diverse restaurant operations. Keep these numbers handy when planning your restaurant and assessing your performance after you open.

Investment Rules of Thumb

One of the primary indicators chain operators use for evaluating the feasibility of a new location is the sales-to-investment ratio. This ratio compares the projected annual sales of a proposed site with its estimated startup cost. The ratio looks like this:

**Sales to Investment =
Annual Sales / Startup Cost**

Startup cost includes all the costs necessary to open the restaurant including leasehold improvements (or land and building), furniture and equipment, deposits, architectural and design, accounting and legal, preopening expenses, contingency and working capital reserve.

Sales to investment – leasehold. When evaluating the feasibility of a proposed restaurant in a leased space, a rule of thumb says that the sales-to-investment ratio should be at least 1.5 to 1, or a minimum of \$1.50 in sales should be expected for every \$1 of startup costs. This means that if the cost of opening a restaurant in a leasehold situation was estimated to be \$500,000, the location should be given further consideration only if the annual sales volume of at least \$750,000 could be a realistic expectation.

Sales to investment – own land and building. The rule of thumb for restaurant projects in which the operator owns the land and building calls for a sales-to-investment ratio of at least 1 to 1, or \$1 in sales for every dollar of startup costs.

While there are many other considerations in deciding whether to open in a particular location, this is one ratio that many operators use as an early indica-

tor of whether to move on to other factors in the go/no go decision process.

Profitability Rules of Thumb

Sales per square foot. While not all high-volume restaurants make lots of money, they do have the greatest opportunity to generate a sizable amount of profit. Sales volume is the most reliable indicator of a restaurant's potential for profit and a useful way to look at sales volume when evaluating profit potential is through the ratio of sales per square foot.

It's easy to calculate a restaurant's sales per square foot. Just take annual sales and divide by the total interior square footage including kitchen, dining, storage, restrooms, etc. This is usually equal to the net rentable square feet in a leased space. The ratio looks like this:

$$\text{Sales Per Square Foot} = \frac{\text{Annual Sales}}{\text{Square Footage}}$$

In most cases, full-service restaurants that don't generate at least \$150 of sales per square foot have very little chance of generating a profit. For example, a 4,000-square-foot restaurant

with annual sales of anything less than \$600,000 would find it very difficult to avoid losing money. This works out to \$50,000 in monthly and \$12,000 in weekly sales.

Generally, you don't want management salaries to exceed 10 percent of sales in either a full- or limited-service restaurant. This would consist of all salaried personnel.

Limited-service restaurants that generate any less than \$200 of sales per square foot have little chance of averting an operating loss. Industry averages reveal that limited-service restaurants tend to have slightly different unit economics than their full-service counterparts. Higher occupancy costs (on a per-square-foot basis) and lower check averages are two of the primary reasons for this difference.

At sales levels of \$150 to \$250 per square foot (full-service) and \$200 to \$300 (limited-service), restaurants with effective cost controls may begin to approach break-even, with some well-managed operations able to achieve a net income of up to 5 percent of sales.

At sales levels of \$250 to \$325 per square foot (full-service) and \$300 to \$400 (limited-service), restaurants may see moderate profits, which are defined as 5 percent to 10 percent net income (before income taxes) as a percentage of total sales.

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High profit can be defined as sales levels more than \$350 per square foot (full-service) and more than \$400 (limited-service). Generating sales at these levels affords the opportunity for some operators to generate a net income (before income taxes) in excess of 10 percent of sales.

There are many factors that influence a restaurant's profitability besides sales volume. Two of the biggest are prime cost and occupancy costs. Without competent management and effective systems and controls over food, beverage, labor and other operating expenses, no amount of sales will produce much more than mediocre operating results.

Likewise, occupancy costs, which are not controllable by restaurant management, will have a significant effect on profitability. The sales volume rules of thumb above assume an "industry average" occupancy cost from \$15 to \$22 per square foot. If your occupancy costs are higher than \$22 per square foot, the sales numbers above will be low when using them to evaluate your restaurant's profitability.

Percentage of Cost Rules of Thumb

Food cost. Food cost as a percentage of food sales (costs/sales) is generally in the 28 percent to 32 percent range in many full-service and limited-service restaurants. Often, more upscale full-service concepts, particularly those that specialize in steaks and/or fresh seafood can have food cost of 38 percent, 40 percent and even higher. Conversely, I'm familiar with some gourmet pizza restaurants in upscale areas that are able to consistently achieve a food cost of 20 percent and sometimes even less.

Alcoholic beverage costs. Alcohol costs vary with the types of drinks served. Among the reasons that bar service is so desirable are both the relative profitability of alcohol and the ability to control costs, as long as servers are trained to pour accurately, and theft is not a significant problem. Below are typical costs in percentages:

- ✓ Liquor – 18 percent to 20 percent.
- ✓ Bar consumables – 4 percent to 5 percent as a percent of liquor sales (includes mixes, olives, cherries and other food products that are used exclusively at the bar).
- ✓ Bottled beer – 24 percent to 28 percent (assumes mainstream domestic beer, cost percent of specialty and imported bottled beer will generally be higher).
- ✓ Draft beer – 15 percent to 18 percent (assumes mainstream domestic beer, cost percent of specialty and imported draft beer will generally be higher).
- ✓ Wine – 35 percent to 45 percent (the cost percentages of wine can vary dramatically from restaurant to restaurant depending primarily on the type of wines served. Generally, the higher the price per bottle, the higher the cost percentage).

Nonalcoholic beverage costs. It is standard industry practice to record nonalcoholic beverage sales and costs in Food Sales and Food Cost accounts, respectively:

- ✓ Soft drinks (post-mix) – 10 percent to 15 percent (another rule of thumb for soft drinks is to expect post-mix soda to cost about a penny an ounce for the syrup and CO₂).
- ✓ Regular coffee – 15 percent to 20 percent (assumes 8-ounce cup, some cream, sugar and about one free refill).
- ✓ Specialty coffee – 12 percent to 18 percent (assumes no free refills).
- ✓ Iced tea – 5 percent to 10 percent (iced tea is the food cost champ of all time. Cost of the tea can be less than a penny per glass. Biggest cost component in iced tea is usually the lemon slice).

Paper cost. In limited-service restaurants paper cost should be classified as a separate line item in "cost of sales." Historically, paper cost has run from 3 percent to 4 percent of sales. However, the recent run-up in the cost of many paper goods has increased the paper cost percentage to more than 4 percent of sales in many restaurants. In full-service restaurants, paper cost is usually considered to be a direct operating expense and nor-

mally runs from 1 percent to 2 percent of total sales.

Payroll and Salaries

Payroll cost as a percentage of sales includes the cost of both salaried and hourly employees plus employee benefits, which includes payroll taxes, group, life and disability insurance premiums, workers' compensation insurance premiums, education expenses, employee meals, parties, transportation and other such benefits. Total payroll cost should not exceed 30 percent to 35 percent of total sales for full-service operations, and 25 percent to 30 percent of sales for limited-service restaurants.

Generally, you don't want management salaries to exceed 10 percent of sales in either a full- or limited-service restaurant. This would consist of all salaried personnel including general manager, assistant manager(s), chef or kitchen manager.

One caveat on this would be in a situation in which a working owner fulfills the role of the general manager and/or chef and takes a salary in excess of 3 percent to 4 percent of sales. When this occurs, management salaries can easily exceed 10 percent of sales and total payroll cost can appear excessive as well. To compensate for a highly paid working owner when comparing costs and margins that contain management salaries, subtract the amount of the owner's salary that exceeds 4 percent of sales. This will make comparisons to industry averages and rules of thumb much more meaningful and useful.

Hourly Employee Gross Payroll

Full-service Restaurant – 18 percent to 20 percent

Limited-service Restaurant – 15 percent to 18 percent

Limited-service restaurants generally have lower hourly payroll cost percentages than full-service restaurants. In limited-service restaurants, managers often perform the work of

an hourly position in addition to being a manager. In some cases, however, hourly workers may also perform management roles on some shifts, which could lead to higher hourly payroll costs in these restaurants.

Employee Benefits
5 percent to 6 percent
of total sales
20 percent to 23 percent
of gross payroll

Employee benefits can vary somewhat depending primarily on state unemployment tax rates and state workman's compensation insurance rates. California, for example, has had for the past several years very high workers' compensation premium rates as compared with rates in other states. Restaurants that are new or have had a large number of unemployment claims may have state unemployment tax rates that could cause their employee benefits to be higher than the rules of thumb above.

Prime Cost
Rules of Thumb

Prime cost is one of the most telling numbers on any restaurant's profit-and-loss statement. Prime cost is arrived at by adding cost of sales and payroll costs as shown in the Prime Cost Calculation chart below:

PRIME COST			
Cost of Sales -			
Food	\$ 15,000		
Liquor	1,500		
Beer	1,000		
Wine	1,200	18,700	
<hr/>			
Payroll Costs -			
Management	5,000		
Hourly Staff	12,000		
Taxes & Benefits *	3,400	20,400	
<hr/>			
Prime Cost			\$ 39,100

*Taxes & Benefits include employer payroll taxes, workers' compensation, medical, disability and life insurance premiums and other employee benefits.

Prime cost reflects those costs that are generally the most volatile and deserve the most attention from a control standpoint. It's very easy to lose money due to lax or nonexistent controls in the areas of food, beverage and payroll. Many successful restaurants calculate and evaluate their prime cost at the end of each week. (For more information, see "How to Make Your Profit & Loss Statement One of Your Most Powerful Tools," in the March 2006 issue of *RS&G*.)

In the chart, if total sales were \$60,000, then prime cost would be running \$39,100 or 65 percent of sales.

Prime Cost
Full-service – 65 percent or less (total sales)
Table-service – 60 percent or less (total sales)

As prime cost exceeds the above levels it becomes increasingly difficult to achieve and maintain an adequate bottom-line profit in most restaurants. When looking at a restaurant's overall cost structure, prime cost can be very meaningful, particularly in cost of sales and payroll cost. Some restaurants, such as steak and seafood restaurants, may carry very high food cost and yet be extremely profitable. Again, this can be exhibited by looking at prime cost.

Some people might be surprised that some of the most profitable restaurants in our industry have a food cost in excess of 40 percent. I'm familiar with a seafood restaurant outside of a major Midwest city that, according to reliable sources, consistently operates with a food cost of 45 percent or higher, which is not all that uncommon in restaurants specializing in high-quality steak and/or seafood.

You might be thinking, though, how any restaurant could make money let alone be highly profitable when its food cost gets close to 50 percent of sales. Well this particular restaurant does more than \$20 million in annual sales in about 20,000 square feet. This means that its sales are more than \$1,000 per square foot, which is among the highest in the industry.

Even though their food cost is as high as say 45 percent, what do you think is their labor cost as a percentage of sales when they generate a sales level this high? I'm fairly certain it's much lower than the industry average, which is around 30 percent to 35 percent. In fact, their payroll, including management, hourly staff and taxes and benefits is probably around 15 percent to 18 percent of sales, but let's say it's 20 percent to be conservative.

Let's also assume that their sales mix is 85 percent food and 15 percent liquor, beer and wine. If their combined beverage cost is, say, 25 percent of beverage sales, here's an estimate of their prime cost percentage (see below):

Sales:	
Food	85%
Beverage	15%
Total Sales	<hr/> 100%
Cost of Sales:	
Food	45%
Beverage	25%
Total Cost of Sales	<hr/> 42%
Payroll Costs *	<hr/> 20%
Prime Cost %	<hr/> 62%

* Including management, hourly staff and payroll taxes and benefits.

If our assumptions about beverage and payroll costs are fairly accurate, you can see that its prime cost is well below the 65 percent threshold. This means that even with a very high food cost, this particular restaurant should be very profitable, assuming its remaining costs and expenses are in line with restaurant industry averages.

Some restaurants, like many ethnic concepts, have relatively low food costs, with some well under 30 percent of sales. You might think that these restaurants would be extremely profitable. They might be, but often these restaurants have lower check averages and are more labor intensive, so their payroll costs are much higher as a per-

At a Glance: Rules of Thumb

Sales to Investment

(Annual Sales/Startup Cost)

Leasehold – at least 1.5 to 1.

Own land and building – at least 1 to 1.

Sales Per Square Foot

Losing Money

Full-service – \$150 or less.

Limited-service – \$200 or less.

Break-even

Full-service – \$150 to \$250.

Limited-service – \$200 to \$300.

Moderate Profit

Full-service – \$250 to \$350.

Limited-service – \$300 to \$400.

High Profit

Full-service – More than \$350.

Limited-service – More than \$400.

Food Cost

Generally – 28 percent to 32 percent as a percentage of total food sales.

Alcoholic Beverage Costs

Liquor – 18 percent to 20 percent as a percentage of total bar sales.

Bar consumables – 4 percent to 5 percent as a percentage of total bar sales.

Bottled beer – 24 percent to 28 percent as a percentage of total bar sales.

Draft beer – 15 percent to 18 percent as a percentage of total bar sales.

Wine – 35 percent to 45 percent as a percentage of total bar sales.

Nonalcoholic Beverages

Soft drinks (post-mix) – 10 percent to 15 percent as a percentage of nonalcoholic beverage sales.

Regular coffee – 15 percent to 20 percent as a percentage of nonalcoholic beverage sales.

Specialty coffee – 12 percent to 18 percent as a percentage of nonalcoholic beverage sales.

Iced tea – 5 percent to 10 percent as a percentage of nonalcoholic beverage sales.

Paper Cost

Full-service – 1 percent to 2 percent as a percentage of total sales.

Limited-service – 3 percent to 4 percent as a percentage of total sales.

Payroll Cost

Full-service – 30 percent to 35 percent as a percentage of total sales.

Limited-service – 25 percent to 30 percent as a percentage of total sales.

Management Salaries

Ten percent or less as a percentage of total sales.

Hourly Employee Gross Payroll

Full-service – 18 percent to 20 percent as a percentage of total sales.

Limited-service – 15 percent to 18 percent as a percentage of total sales.

Employee Benefits

Five percent to 6 percent as a percentage of total sales.

Twenty percent to 23 percent as a percentage of gross payroll.

Prime Cost

Full-service – 65 percent as a percentage of total sales.

Table-service – 60 percent as a percentage of total sales.

Occupancy and Rent

Rent – 6 percent or less as a percentage of total sales.

Occupancy – 10 percent or less as a percentage of total sales.

centage of sales than, say, a steak or seafood restaurant. Looking at cost of sales and payroll costs together as prime cost usually provides a much more meaningful and valid indication of a restaurant's cost structure and potential for profit.

Some people might be surprised that some of the most profitable restaurants in our industry have a food cost in excess of 40 percent.

Rent and Occupancy Cost Rules of Thumb

Rent (6 percent or less). Rent used here is the ongoing payments made by an operator to the lessor for the use of premises. Rent payments may be fixed or based on a percentage of sales. Generally, the goal is to limit rent expense to 6 percent of sales or less, exclusive of related costs such as common area maintenance (CAM) and other occupancy expenses.

Occupancy cost (10 percent or less). Occupancy cost includes rent, CAM, insurance on building and contents, real estate taxes, personal property taxes and other municipal taxes. Many operators want to keep occupancy cost at or below 8 percent of sales, however, 10 percent is generally viewed to be the point at which occupancy cost starts to become excessive and begins to seriously impair a restaurant's ability to generate an adequate profit.

Sales Value of Restaurant Business Rules of Thumb

Accurately determining the potential sales value in any restaurant requires the services of a professional business appraiser, preferably with experience appraising independent restaurants.

Determining the reasons for any differences may prove to be an insightful process in learning more about the financial and operating nuances of your restaurant.

However, there are two rules of thumb that may be helpful to arrive at an initial, rough estimate of what your restaurant may be worth, assuming you operate in leased space:

Sales value of business (gross sales method) – 38 percent to 42 percent of gross sales.

Sales value of business (cash flow method) – annual cash flow (basically net income before depreciation, debt service and owner compensation) times a multiple of three to four. On this page, we show how to estimate business value, based on the cash flow method.

When determining the value of a restaurant in leased space, one of the most important determinants is the terms, particularly the transferability and the amount of time, with options,

remaining on the existing lease. Lease factors such as these and other terms can have a significant effect on the value of any business.

In restaurants where the operator owns the land and building, the inherent value of the business will be influenced significantly by the underlying value of the real estate. For this reason it is difficult to value the business in a meaningful way using rules of thumb.

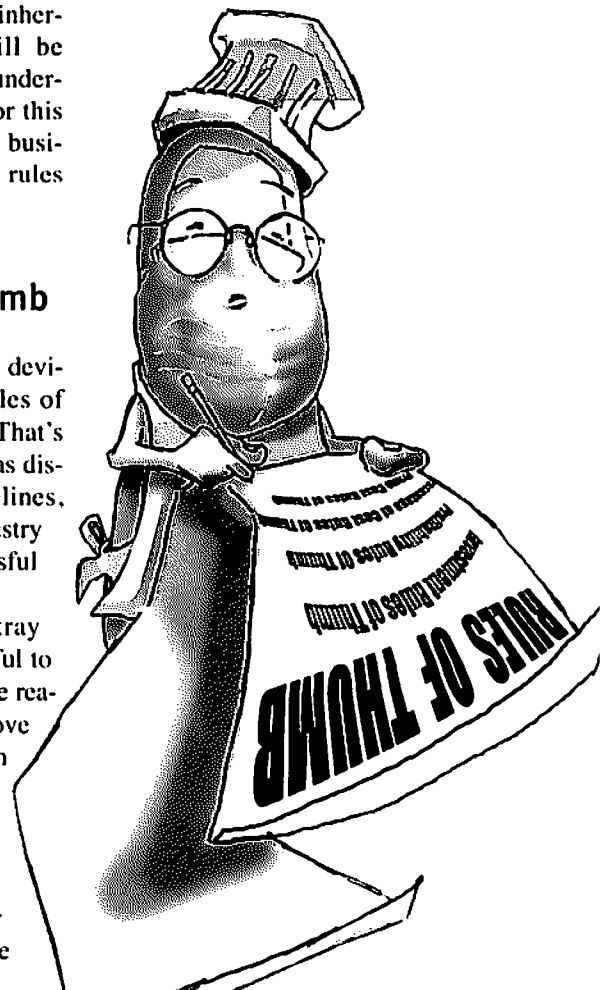
Final Rule of Thumb: Not Every Rule of Thumb Fits Every Restaurant

Most restaurants will probably deviate from one or more of the rules of thumb discussed in this article. That's to be expected. Rules of thumb, as discussed above, are merely guidelines, not an ironclad collection of industry mandates from which no successful restaurant can deviate.

Where your numbers do stray from these norms, it may be useful to determine "why." Determining the reasons for any differences may prove to be an insightful process in learning more about the financial and operating nuances of your restaurant.

Another rule of thumb says that the more you understand how your restaurant works, the better the

manager you will become. Using these rules of thumb could go a long way in helping to better understand your restaurant and provide insights for building a more successful business. **RS&G**



Business Value Estimation - Cash Flow Method

Net Income - Annual	\$50,000
Add back:	
Depreciation	15,000
Interest Expense	12,000
Owner's Salary & Other Compensation	75,000
Cash Flow - Annual	152,000
Multiple	3.5
Estimated Value of Business	\$532,000