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Restaurant KPIs: 5 Key Performance Indicators for Restaurants

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If I had a dollar for every time I used the word "data-driven" in the past six months, I'd maybe have enough money to open a restaurant. Data is driving business these days, especially in the highly competitive restaurant industry. Toast's 2017 Restaurant Technology Report found that 48% of restaurant owners check key restaurant KPIs on a daily basis. Because she who has the most cash flow, lowest prime cost, best RevPASH, and highest retention rate - wins.

While it may not be possible to define the "silver bullet" of restaurant metrics that determines the success or failure of the business, we should talk about where to focus.

So, which restaurant KPI is the most important? Check out some expert opinions and vote in the poll below.

Restaurant Key Performance Indicators to Measure

1. Cash Flow

Cash flow is simply the amount of money going in and out of the restaurant. It's essentially how much cash you have on hand. Naturally, you'd look for a positive cash flow where the cash input exceeds the cash output over a period of time.

Cash Flow = Cash Input- Cash Output

"If you don't keep an eye on [cash flow], you realize later you're in a hole and you can't recover," says Chris Yeo, owner of Straits Restaurants in San Francisco.

2. COGS

representative of the largest expenses for the restaurants and thus an important metric for profitability.

COGS = Beginning Inventory + Purchased Inventory - Final Inventory

"You simply cannot manage your food costs if you do not know what they are," says John Nessel of Restaurant Resource Group. "You cannot know what they are if you do not count and record you inventory variances."

3. Prime Cost

Rather than looking at ways to make more money overall, some strategists will urge you to first look at cutting expenses to improve profitability. Prime Cost is the standard way of determining how much it costs to operate your restaurant and is a standard line item on your P&L statement.

Prime Cost = Total COGS + Total Labor

"The most profitable restaurants I've ever worked with all track their prime costs on a weekly basis. They don't wait around until their monthly or 4-week P&L is prepared to find out what happened," says Jim Laube, founder of RestaurantOwner.com. "And for their efforts in preparing a weekly report, they are rewarded handsomely on their bottom lines." I'd imagine that one of our blog contributors Ryan Gromfin would be inclined to agree with him.

4. RevPASH

RevPASH stands for Revenue Per Available Seat Hour during a given time period (and sounds really cool when you say it). Developed by Sheryl E. Kimes at Cornell

RevPash = Total revenue / (available seats x opening hours)

RevPASH is a good measurement because it uses time and capacity in addition to average check to paint a bigger picture than just margins or average checks do on their own," says Ryan Croson at Vanee, who, for the record, doesn't share my opinion that the acronym is cool.

5. Retention or Repeat Visitor Rate

A restaurant is only as strong as its loyal customers. Some experts argue that all other metrics are moot points if the customer experience isn't up to par. If acquiring a new customer is six to seven times more expensive than keeping an existing customer, this might be the best way to measure the success of the business.

Retention Rate = ((Number of customers at end of period - Number of new customers acquired during that period) ÷ number of customers at start of period)) x 100

Business consultant Adam Witmer tells the cautionary tale of the restaurant that focused heavily on upselling and "squeezing" customers and it went out of business within just a few years. "The problem with the failed restaurant was that they never really considered the final and most important stage - locking a customer into their brand," he says.

Note: The most difficult thing about calculating Retention Rate is finding the data to plug into that formula. Check out systems with built-in customer relationship management tools to track customer history.