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Key Metrics for Evaluating Your Restaurant's Performance

By Dennis Monroe

If you read my article last month, you gained a sense of how market value is currently being viewed. To build on that discussion, we must address a key question: What metrics should owners focus on to evaluate performance and track improvement over time?

A look at the key metrics

Historically, we relied on clearly defined benchmarks: targeted cash flow, return on invested capital and reasonable thresholds for labor and food costs. While those measurements still matter, success today is increasingly driven by revenue growth and customer counts.

However, several factors can work against this approach. For example, loyalty programs can increase customer counts but don't always translate into higher revenue. Instead, they often attract bargain-seekers who only show up for discounts.

Similarly, the rise of off-premise channels adds complexity. Takeout and delivery may boost short-term revenue, but guests who order online have a limited connection to the restaurant, making it difficult to create a meaningful hospitality experience that builds lasting loyalty.

Restaurants with dedicated spaces for events and private dining are well positioned to drive both revenue and healthy growth. In addition, there is an opportunity to focus on smaller group experiences. Creating memorable, unique dining occasions for groups or even four-tops can be highly effective. When executed well, these experiences not only encourage repeat visits but also deepen relationships with multiple guests at once.

Bruce Nelson, the founder of Tempo Hospitality Group and author of Restaurant Management: The Myth, the Magic, the Math, emphasized the critical importance of accurate and timely financial statements with meaningful comparisons to prior periods and budget projections. He pointed out POS data is valuable for day-to-day operational management but the general ledger provides a complete view of food and labor costs, direct expenses and overall operating performance. He told me that an understanding of financial performance also makes it easier to design multi-dimensional compensation plans.

Nelson said it is important to understand customer counts and to break them down into meaningful categories, such as dine-in, takeout and delivery. This requires operators to think of managing three separate profit-and-loss statements, rather than focusing solely on total revenue.

Gregg Thomas, managing partner of Atelier, advises his clients to look past top-line revenue as an absolute measure, but look where the revenue comes from and cost associated with it. For example, while delivery produces strong top-line numbers, its incremental costs can be nearly double of those in-store dining or takeout.

Thomas also notes operators tend to overlook the balance sheet, focusing instead on metrics that may not fully align with GAAP principles. Expensing repairs that should be capitalized may offer tax advantages, but it distorts the true financial picture. Or, failing to accrue liabilities for deferred compensation. While these approaches may simplify short-term reporting, they ultimately limit visibility into the organization's overall financial health.

Thomas believes strongly in the importance of trends rather than point-in-time metrics, especially with regards to guest behavior and workforce stability. With advancements in AI, operators have powerful tools to understand customer patterns and preferences. He highlighted the value of loyalty programs, not necessarily as a primary driver of traffic, but as a way to better understand where guests are coming from and how they engage with the brand. When combined with insights from credit card data, these tools can provide a clearer and more comprehensive view of customer behavior.

Another key area Thomas emphasized is workforce stability. Operators should regularly evaluate how many employees they have, how long they stay, and whether the work environment supports retention. Understanding employee tenure and turnover trends is critical to maintaining a consistent, high-quality workforce. Additionally, AI can help analyze customer feedback to identify potential issues with service or hospitality, offering another layer of operational insight.

Several themes emerged in my talks with Nelson and Thomas: Comparisons are essential. Don't rely solely on point-of-sale data, which represents only a moment in time. Dive deeper into the financial accounting data and focus on the source and quality of revenue with a clear understanding of the associated costs. Leverage AI, particularly in tracking customer behavior, improving marketing strategies and gaining deeper insight into guest trends. Understand your employee base, including tenure, turnover trends, and the overall work environment, as these factors are critical to sustaining both workforce quality and long-term business success.

While some things always stay the same, in the restaurant business you're always learning some new way to improve those slim margins.

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