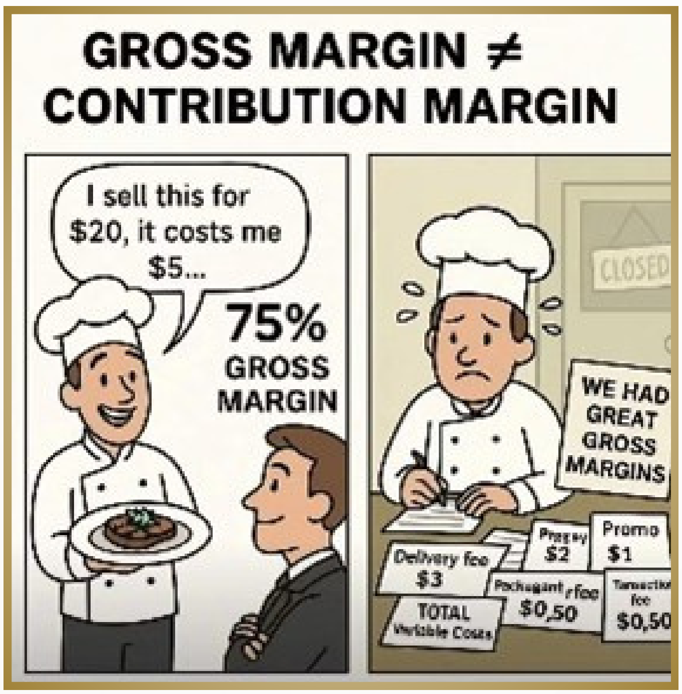
Understanding Restaurant Economics
A Strategic Guide for Minnesota Restaurants

Prepared in partnership with Performance Foodservice Minnesota and Hospitality Minnesota

Let’s Talk About Something Important: Finances

We need to have an honest conversation about restaurant finances. When customers see menu prices increase, frustration is understandable. When legislators consider new mandates, intentions are often good. But the reality of restaurant economics is frequently misunderstood, and that misunderstanding has real consequences.

Let's break down what's really happening.



Margin vs. Profit: They're Not the Same Thing

This might be the most critical misunderstanding in restaurant economics. When someone says, "restaurants have high margins," they're confusing gross margin with net profit. The difference is everything.

Let's break down what's really happening.

Here's a real example:

You sell a dish for $20. Ingredients cost $5.

Gross Margin = 75% ($15 gross profit on a $20 sale)

Sounds great, right? But that $15 still needs to cover:

- Labor (prep, cooking, serving)
- Rent or mortgage
- Utilities, insurance, equipment
- Credit card fees (2-3% of every sale)
- Delivery fees, packaging, cleaning supplies
- Technology systems, licenses, permits
- Marketing, maintenance, and dozens of other costs

After everything, the actual net profit? 3-5% on average. On that $20 dish, the restaurant keeps 60 cents to $1. That's not margin. That's profit. One of the narrowest in any industry.

The Current Reality for Minnesota Restaurants

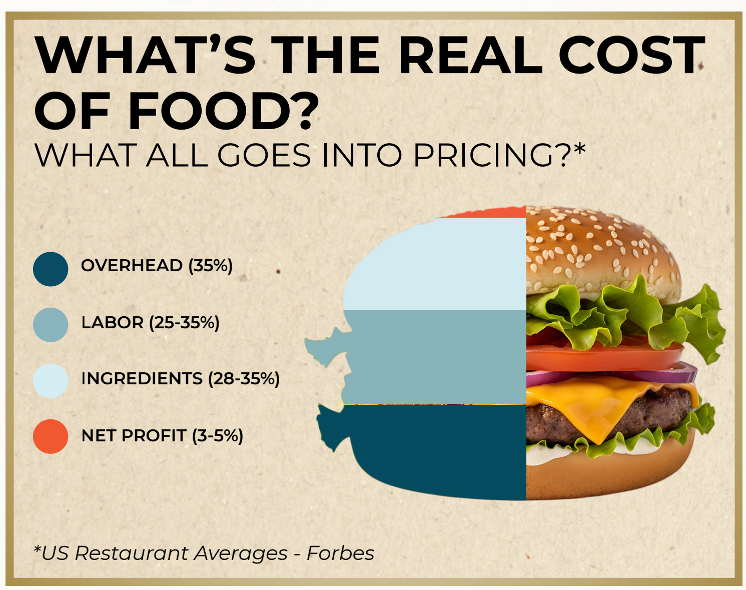
The average restaurant dollar breakdown:

- **Overhead:** 35% (rent, utilities, insurance, equipment)
- **Labor:** 25-35% (wages, taxes, benefits)
- **Ingredients:** 28-35% (food, beverages, packaging)
- **Net Profit:** 3-5% (what's left)

By the Numbers

According to summer 2025 Hospitality Minnesota data:

- 84% had wholesale prices increase by 3% or more
- 58% are negatively impacted by tariffs
- 56% report rising wages challenge operating capacity
- 61% have increased customer prices by 3% or more
- 43% are experiencing negative financial health



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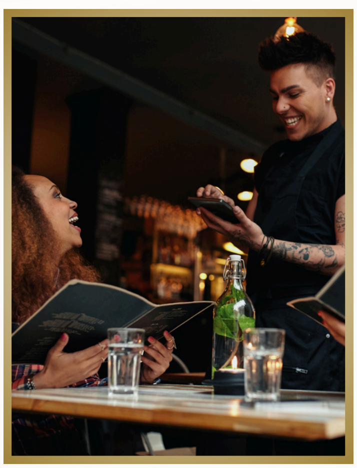
Strategies to Protect Your Bottom Line

While external costs continue rising, smart operators are finding ways to preserve profitability:

- **Menu Engineering That Works:** Identify your top 3-5 highest-contribution-margin items (not just food cost percentage—actual dollars contributed after food cost). Feature these prominently. Remove or reposition the bottom performers. Partner with your PFG representative to find ingredient substitutions that maintain quality while reducing cost.
- **Dynamic Pricing for Off-Peak Hours:** Early-bird specials, weekday lunch promotions, and Sunday dinner deals fill seats during slower periods. A 20% discount that fills 15 empty tables still generates more profit than empty seats.
- **Reduce Third-Party Dependency:** Build your own direct ordering system through your website. Even a simple online ordering setup saves 15-30% in commission fees. On $200,000 in annual delivery sales, that's $30,000-$60,000 saved.
- **Beverage Program Innovation:** Non-alcoholic cocktails command $8-12 pricing with significantly lower cost than alcoholic drinks. With 49% of Americans reducing alcohol consumption, sophisticated mocktails meet market demand while improving margins.
- **Private Events & Catering:** These typically deliver higher profit margins (7-12%) than regular service because of predictable volume, advance payment, and limited menu complexity. One $5,000 private event can generate more profit than a week of regular service.
- **Loyalty Programs That Actually Work:** Bringing back a first-time visitor within 48 hours increases lifetime value 3-4x. A simple punch card or digital program costs little but drives measurable frequency increases of 15-20%.



How Consumers Can Support Minnesota Restaurants

- **Order Direct When Possible:** Third-party delivery apps charge restaurants 15-30% commission. A $40 order loses $6-12 before covering any costs. Phone or website orders help restaurants keep significantly more.
- **Dine Off-Peak:** Tuesday lunch. Wednesday dinner. Sunday afternoon. This helps restaurants smooth labor costs, reduce waste, and keep staff employed consistently. Many offer specials during these times.
- **Buy Gift Cards Directly:** Purchase from the restaurant, not third-party sites. This provides immediate cash flow during slower months.
- **Be Patient and Kind:** Staffing remains challenging. When service is slower, the team is probably understaffed and doing their best.
- **Write Reviews and Share:** 88% of diners trust online reviews as much as personal recommendations. Five minutes writing a review can drive new customers who keep restaurants viable.
- **Understand Menu Changes:** When favorite dishes disappear, it's usually because ingredient costs spiked or sales didn't justify keeping ingredients stocked. It's not personal; it's math.

The Bottom Line

- Restaurants aren't asking for sympathy—they're asking for understanding.
- **Understanding that:**
  - 75% gross margin and 4% net profit are vastly different
  - Operating costs have increased dramatically while margins remain razor-thin
  - Every cost increase or new mandate directly threatens viability
  - When restaurants close, those jobs and community gathering spaces don't come back easily

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