Outpacing COVID-19: A Profit Planning Tool for Restaurants

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Overview
Due to the COVID-19 pandemic, uncertainty regarding future sales is at a historical high for the restaurant business (Haas, Kuehl, Moran & Venkataraman, 2020). Consequently, owners and managers are under tremendous pressure to make critical decisions, often to merely survive. With these unprecedented challenges, future circumstances are extremely uncertain, and we are to provide them with financial planning models to help restaurant owners and managers navigate and prepare for their uncertain financial future better (Yunker & Yunker, 2003). The model presented here is excel sheet-based which is easy to use following seven steps, especially for small and medium sized restaurants and foodservice businesses to estimate and plan their profit and cash flows during the COVID-19 crisis. This model will be important to ensure the restaurant businesses to be more effectively able to plan their operations during and post COVID-19.

What are profit planning and break-even point (BEP), and how might it help your business?
Restaurant businesses have been and continue to be under tremendous financial pressure due to the current crisis. Still owners and managers need to make important decisions, some crucial to the survival and continuation of the business. Not all restaurants have access to formal financial analysis tools, especially small and independently owned businesses. While sales and cost analysis is essential for restaurant businesses, eventually profit and cash flow planning are critical (Greenberg, 1986; Harris, 1992).

The purpose of enclosed excel sheet-based models is to provide an ability particularly for small and medium sized restaurants and foodservice businesses to estimate and plan their profit and cash flows during the COVID-19 crisis. This tool is intended to be simple to use, with minimal information required from the user. Seven simple steps needed to use this tool are discussed below in a concise manner. Information that users will need are as follows: days of operation, cost percentages of major cost categories, average transaction price, and the number of daily transactions expected. This tool is intended to provide estimates of future expected profits and cash flows. Therefore, if the users have estimates of cost percentages and daily transaction numbers, those will also suffice to allow this tool to provide future anticipated business financial performance. We believe, evaluating future financial performance will allow business owners and managers to make informed choices.
What questions can the tool help answer?

Some of the questions that this tool can help users answer are as follows:

1. How much is my business’s anticipated future sales?
2. How much is my business’s estimated future profits and cash flows?
3. At what sales will my business break even?
4. How much of my costs are fixed and variable?
5. Will my available cash (in bank) be sufficient to sustain the business?

Profit Planning in 7 Simple Steps

The below are the 7 steps you will need to follow to use this excel-based tool. A brief description of how to follow each step is provided next. Later in this document there are also snap shots enclosed of the excel model with an example.

1. **Input and modify** cost to sales percentages in ‘Input cost’ Tab
2. **Review and modify** fixed and variable cost break up
3. **Estimate sales** for 2019
4. **Estimate the average number** of food and beverage transactions
5. **Estimate the average price** of food and beverage transactions
6. **Input current and future** expected cash in hand
7. **Review results**
**SPECIFIC STEP DESCRIPTIONS**

**Step 1. ‘INPUT COST’ TAB**

*Review and modify cost to sales percentages*

a) In this step the users will input cost percentages versus total sales for the 13 cost items listed in the ‘Input cost’ tab.

b) These cost percentages can be calculated by taking the estimated dollar costs for each of those categories (separately) and dividing it by total sales of the business.

c) For example, if your annual sales are $400,000, and if the total amount spent on food was $90,000, then the cost to sales percentage for food will be $90,000/$400,000 or 22.5%.

d) It will be preferable to use annual amounts as it allows the business to account for unexpected changes that may happen from month to month.

e) Food and beverage costs refer to all expenses attributed to purchase of those items for sales to customers.

f) Similarly, paper and packaging expenses are intended to cover costs of materials used for sales to customers.

g) Management and staff costs are intended to cover all employee related salaries and wages.

h) Employee benefits can include all medical, social security, and other benefit costs associated with employees that are not covered in direct salaries and wages.

i) Marketing, Repair and Maintenance, and Utilities costs are for each of those purposes.

j) General and administrative expenses are intended to cover all those expenses that provide support to selling food and beverage to customers such as office supplies, and others.

k) Occupancy costs are intended to include all those costs associated with the use of restaurant premises such as rent and lease payments.

l) Debt charges cover any interest costs associated with loans or other types of funds borrowed by the business.
m) Other fixed charges can include other types of expenses that the business must pay irrespective of the amount of sales generated. For example, this may include insurance charges, and others not included elsewhere.

Step 2. ‘INPUT COST’ TAB
Review and modify fixed and variable cost breakup

Each of the business costs either varies with the amount of sales or is fixed irrespective of the sales amount. The purpose of breaking each cost into fixed and variable components is to understand how each of these costs behave in relation to the sales. The table in this tab provides baseline estimates of the fixed and variable cost break up of each of those costs. These baseline estimates are based on research conducted by our team and present a reasonable starting point. However, if you have a more accurate estimate for your business then you want to make changes to these percentages. Please note, fixed and variable costs must add up to 100%, and please be careful and avoid typing errors.

Step 3. ‘INPUT COST’ TAB
Estimate sales for previous year

To correctly estimate the amount of fixed costs, the sales information of the previous year (for instance, 2019 if you are preparing this in 2020) is needed. The table of ‘PREVIOUS – Sales Information’ asks two information: Average daily sales for previous year and Number of days business operated in previous year. Using these two information, the estimated sales for previous year will be calculated which will be used to estimate the amount of fixed costs for the planning.

The additional information needed from the previous year also includes the following: Proportion of sales from food sales and proportion of sales from beverage sales. Please note, these two must add up to a total of 100%. If you do have sales from other sources, and if they are less significant part of your food and beverage based business, then it will be best to exclude those from this model. The base percentage is included in the model, but you can change this proportion for food and beverage sales as you see appropriate.
Steps 4 and 5 relate to providing sales information of your business in terms of the number of transactions and average prices. There are two ways to input this information in the model by either using the tab 'Input Sales (Summary)' OR 'Input Sales (Detailed)'. You only need to input data in one of the two tabs.

**Step 4. ‘INPUT SALES’ TAB (either Summary or Detailed)**

_Estimate the average number of food and beverage transactions_

Input estimates of daily number of transactions for food and beverage, for all meals. This can be an estimate that the user can always revisit to assess accuracy. This number should include all transactions, dine-in, takeout, curbside and others. The detailed version enables the user to vary the transactions by weekday and weekend, and by different meal times. If the business also serves breakfast then include those in lunch count.

**Step 5. ‘INPUT SALES’ TAB**

_Estimate the average price of food and beverage transactions_

Similar to the previous step, also input estimates of average price customers pay per transaction, for food and beverage separately. The detailed sheet enables the user to vary this by weekday, weekend, and by meal times. These prices can be daily averages and estimates, and can be later reassessed for accuracy.
Step 6. ‘INPUT SALES’ TAB

*Input current and future expected cash in hand*

Below the rows where you provided price information, add the amount of current cash you have in hand. Then estimate how much additional cash you might receive over the next 12 months from all potential sources. These are estimates and you can revisit them to further increase accuracy.

Step 7. ‘OUTPUT’ TAB

*Review results*

This tab has 6 figures, and one table, and the information contained in them is explained below.

a) Table 1 – In this table, key indicators of performance are summarized.

b) Figures 1 – This figure show the relationship between your business’s sales, fixed costs, and variable costs. The point at which the variable costs cross the sales line is defined as the break-even point of sales for your business. That is the least amount of sales your business needs to generate to break even. Also note the fixed costs lines show the amount of costs you need to be prepared to spend on irrespective of the level of sales. Variable costs will change with the sales and therefore increase as do the sales.

c) Figure 2 – This pie chart shows the proportion of your fixed versus variable costs. Higher the fixed costs, the greater is the amount of sales that must be allocated to cover them. These may be the costs you consider reducing or renegotiating in order to ensure business continuation.

d) Figure 3 – This graph shows the amount of net cash flows for your business over the next 12 months. This estimate is based on the projected income/loss and the estimated cash in hand.

e) Figure 4 – In this graph, the lines represent a 3-month average of total sales, income/loss, and net cashflows for the business.
There are several ways to interpret the results of these models. A starting point is to revisit the earlier stated questions.

1. How much is my business’s anticipated future sales?
   a. This information can be ascertained from the ‘Input Sales’ Tab (one of Summary and Detailed). Also Figure 1 provides this information.
   b. This information can be compared with the break-even point sales to assess whether your business is generating sufficient sales to break even, or avoid a loss.

2. At what sales will my business break even?
   a. This information is available in Figure 1 and also in Table 1.
   b. If your actual sales for the year are less than the break-even sales, how can you increase your future estimated sales? Can you increase the price or the number of transactions to achieve this break-even point sales?

3. How much is my business’s estimated future profits and cash flows?
   a. Figures 1, 3, and 4, and Table 1 provide this information.
   b. How much more cash might your business need to borrow over the next 12 months to sustain itself if the profits will not be sufficient to support itself?

4. How much of my costs are fixed and variable?
   a. Figures 1 and 2 provides a graphic presentation of the cost structure of your business.
   b. How much of your fixed costs are manageable? Recall, these costs are necessary, and will exist whether you generate sales or not.

5. Will my available cash (in bank) be sufficient to sustain the business?
   a. If not, when would you most need a cash infusion in your business over the next 12 months? How much?

Once you have entered your information in Steps 1 through 5, and generated results, you can always go back and revisit all your ‘input’ estimates of cost to sales percentages, transaction numbers, average prices, and cash flows in hand. Every time you change one or more of these numbers the results will change. Such changes can help you learn more about how your sales, costs, profits, and cash flows behave.


Additional Resources:
Outpacing COVID-19 in the Restaurant Industry

Food Access and Insecurity During COVID-19: Evidence from US During April and May 2020
LINK: https://scholarsphere.psu.edu/concern/generic_works/44j03d023j

Food Access and Insecurity During COVID-19 Evidence from France.
LINK: https://scholarsphere.psu.edu/concern/generic_works/x3f462850s

Crisis Response Insights from Academic Research
Suggested Citation: Quadri-Felitti, Donna L, & Luo, Anqi. (2020, May 21). PSU SHM Modern Crisis Responses 2020. ScholarSphere.
LINK: https://scholarsphere.psu.edu/concern/generic_works/4xg94hn597