Break-Even Point

Ontario's restaurant industry will soon be able to reopen for dining. The requirement to operate with 2 meters of distancing will be a requirement that will impact restaurant capacities and logistics and additionally have limitations in terms of overall numbers and number of people sitting together

Restaurant owners are anxious to open but face questions as to when and how to open. In other jurisdictions in North America we have seen that with the additional burdens of operating under these restrictions, a number of restaurants have opted to remain closed until capacity limits and other restrictions are eased.

Overall, and prevalent in terms of industry perspective, is the belief that the best approach for individual businesses and the restaurant industry as a whole, is to open gradually and thoughtfully to illustrate to the consumer that it's safe to come out and build comfort and trust and desire to dine out in restaurant establishments. While initially the numbers of those who will opt to take advantage of re-opened indoor and patio dining spaces will be somewhat limited, with good practices followed, trust and demand will grow.

Directed by health officials in most jurisdictions, the first stage of opening a restaurant has been governed by the 50% ratio rule to total capacity. This means that if the restaurant's licensed capacity is for 100 people then they can only re-open with only 50 seats being occupied.

In a slim margin industry, a cap on capacity is adding significant pressures to be able to flow-thru revenue to the profit line.

Areas of concern:

- High fixed costs to cover from reduced revenues
- Loss of high demand periods on peak days where many restaurants need revenues to make up slow low demand periods.
- Higher cost due to increase sanitation, PPE, and other distancing and touchless initiatives including for some technology enhancements
- Reduced food supply options with increased costs
- Staffing and Labour productivity (this will vary)

It is essential that restaurant owners incorporate Break-Even Analysis thinking to support their tough decision making of when to re-open their restaurant.

Break-Even Analysis determines how much revenue one needs to cover overall expenses. Revenue projections are required to balance the equation and this will be challenging to project initially. Not only is there uncertainty in how many customers will come out based on health concerns, but other factors such as personal economics, and individual situational changes versus the norm. There is a generalized belief that those concerns will be offset by pent-up demand that will help drive business and that with recreational options as we enter the warm weather months curtailed, demand for dining out may receive positive impact but projections on business volumes are exceedingly difficult to make with any certainty. .

Break-Even Analysis focuses on expenses; figuring out the minimum sales revenue required to cover these costs. Fixed and variables expenses factor into the ability of a restaurant to break even at a determined amount of revenue.

Calculating Your Break-Even Point:

Break-Even Point = Total Fixed Costs ÷ (Total Sales - Total Variable Costs ÷ Total Sales)

Contribution Margin is the difference between Sales Revenue and Variable Cost. When total Contribution Margin equals total Fixed Costs, we have Break Even.

FIXED COSTS

Fixed costs are made up of expenses that do not change irrelevant of revenue changes.

- Rent
- Management Salaries
- Utilities
- Insurance
- Interest
- Depreciation

Some fixed cost portions might be variable.

VARIABLE COSTS

Variable Costs are made up of expenses that change across the various parts of revenue sources.

- Food and Beverage purchases
- Staff Wages
- Operating Supplies
- Utensils/Small Ware
- Linens/Uniforms
- Repairs/Maintenance
- Reservation

Some variable cost portions might be fixed.