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Restaurant Health Index 2024

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Background: The Revenued SMB Health Index

Using real-time banking data to understand the financial pulseof restaurants and other SMBs

The data used in this report is taken from a larger study of over 20,000 American small businesses.

The Revenued SMB Health Index focused on five main sectors: restaurants, construction, home improvement, professional services, and transportation.

We used anonymized real-time data to serve as a unique pulse check, analyzing monthly averages across four main areas and assigning each a weight to create the Health Index:

Health Index across 5 Main Sectors

75%
Average Monthly Deposits

20%
Average Daily Bank Balances

15%
Average Amount of Outside Funding

-10%
Average Number of Insufficient Funds (NSF) Transactions

This report takes a closer look at data from restaurants to present a more in-depth look at:

- The state of the industry
- Changes over the last year
- What may be causing these changes
- How restaurants can respond

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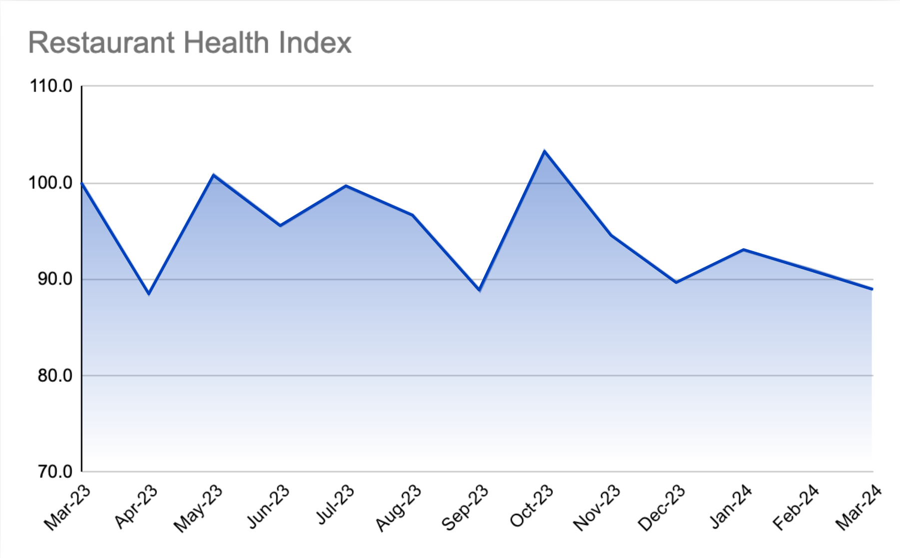
Revenued Restaurant Health Index 2024

Where does the restaurant industry stand?

Overall Restaurant Health

The restaurant industry saw fluctuations throughout 2023, with a decline in Q1 2024.

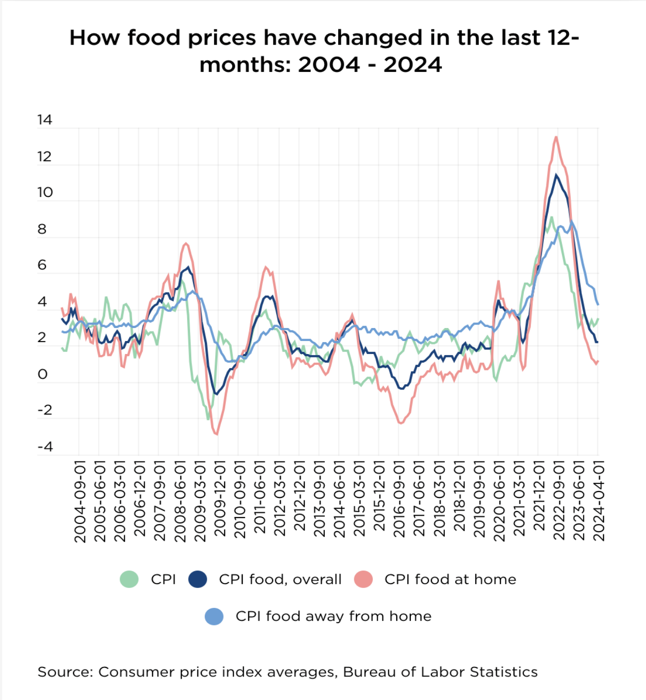


Food costs have been on the rise for restaurants and diners since 2020 due to inflation and supply-chain disruptions.

We saw a spike in 2023, with the Bureau of Labor Statistics reporting food inflation had risen 8.5%—a much faster rate than the broader Consumer Price Index.

Other factors that have contributed:

- The cost of living crisis is causing Americans to watch their spending more closely and cut back on eating out.
- At-home food costs rose 1.2% from March 2023 to March 2024, while food-away-from-home prices (restaurants) rose by 4.2%



In good news, restaurant prices are increasing slower than inflation as of March 2024 and both labor and food costs are expected to ease.

Mark Kalinowski
Kalinowski Equity Research

"The March 4.2% figure is actually the lowest of any month since late 2021. This at least partially reflects the good news that most commodity-cost pressures are meaningfully easing, compared to what was going on 12 to 18 months ago."

Additionally, despite higher expenses and lower revenues for restaurants in 2023, restaurant sales in the US increased by 11%, from $974.9 million in 2022 to $1,087 million. This trend is expected to continue, with sales estimated to exceed $1.1 trillion in 2024.

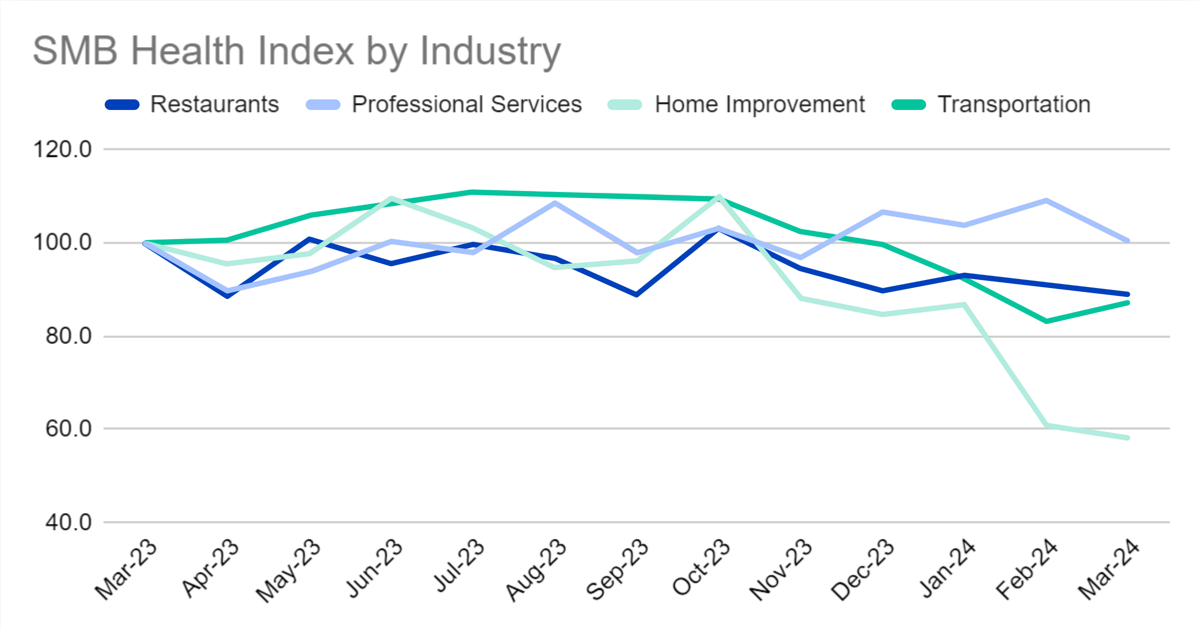
How Does The Restaurant Industry Compare To Other Small Businesses?

The restaurant industry isn't the only one feeling the impact of inflation. The overall Revenued SMB Health Index flattened at the end of last year and declined throughout Q1 2024.

Primary drivers include:

- Decreased deposit volumes
- Increase in insufficient fund transitions
- Decreased external funding in March 2024

Restaurants fared well in comparison to industries like home improvement, which saw steep drops in Q1.



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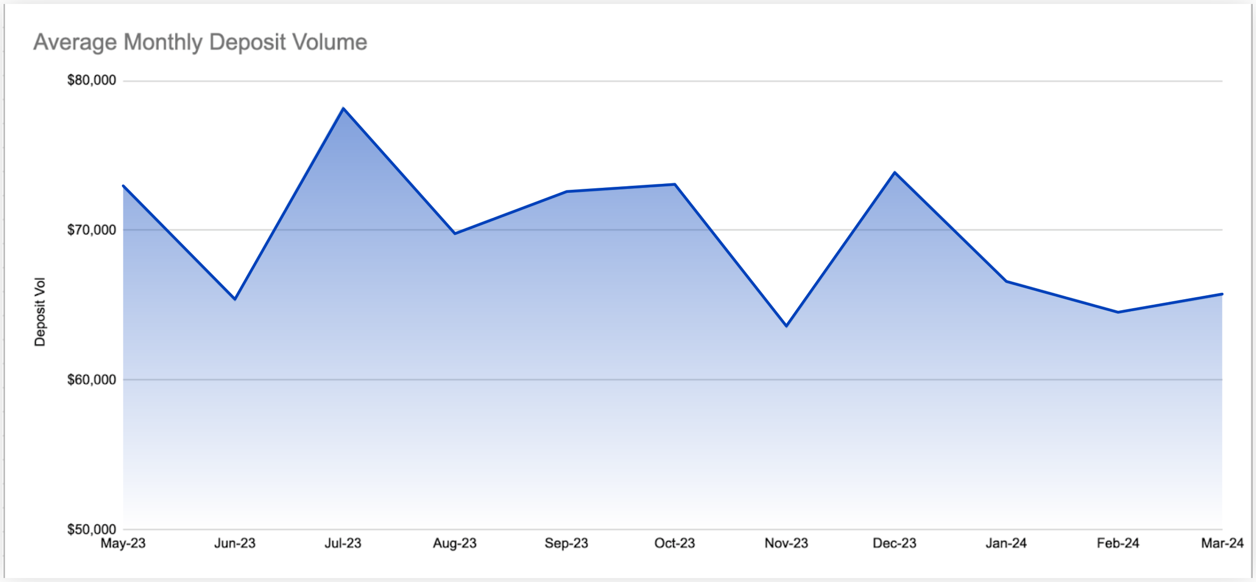
Restaurant Revenue and Seasonality

We use average monthly deposits and subtract inflows that we can tie to funding sources to create a proxy for revenue.

We consider this a primary indicator of a restaurant's health, which is why it has the highest weighting (75%) on the Health Index.

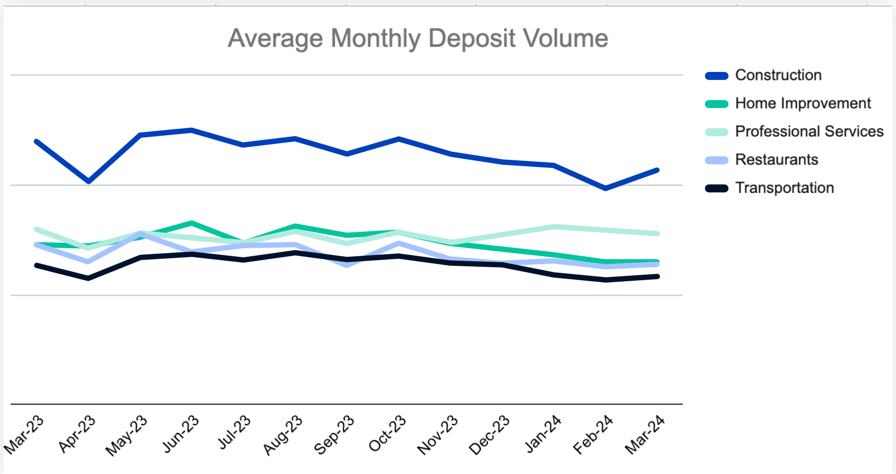
Overall, restaurant revenue fluctuated throughout 2023 and declined in Q1 2024, with a slight uptick in March.



As expected, peak seasons like summer and Christmas saw spikes in revenue, although traditionally busy months such as June and November didn't see the same increase.

This decline can be attributed to both rising food costs cutting into revenue and fewer Americans being able to dine out.

Other industries in our SMB Index are seeing similar trends.



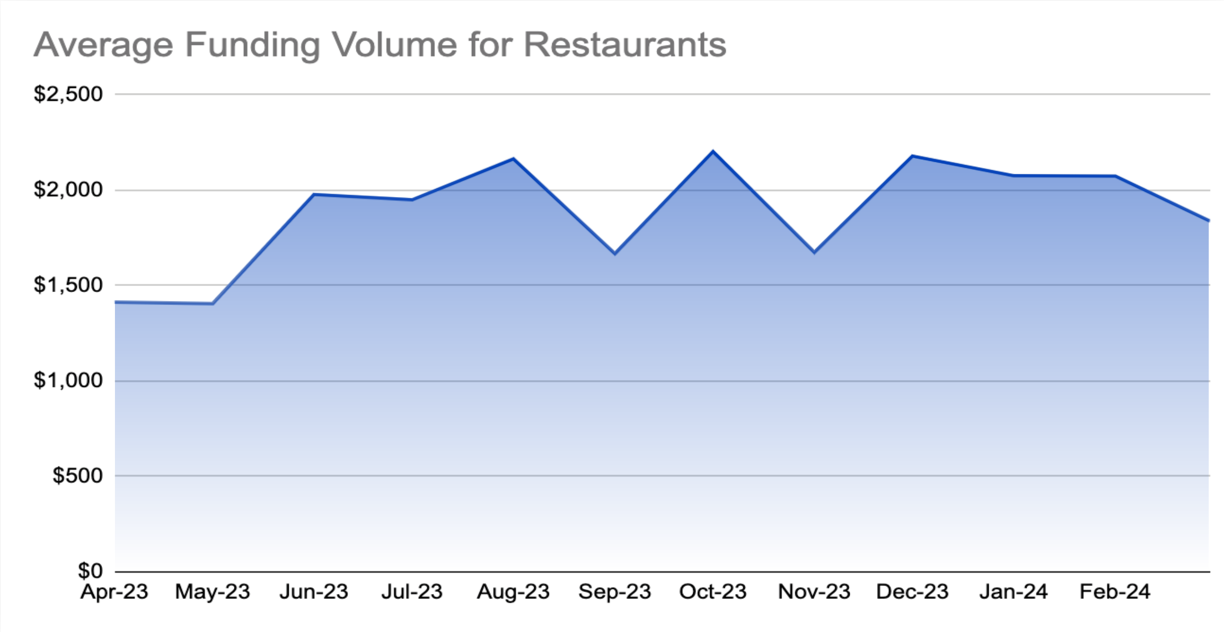
This overall revenue decline could also be indicative of a wave of new restaurants in the US, with over 53,000 restaurants opening in 2023. This is up 10% from 2022—and up 2% from 2019, signifying a potential return to pre-pandemic form.

Access to Funding and Capital

The average amount of outside funding measures how much money small businesses borrowed, excluding funds from Revenue. We see access to capital as a positive and give it a 15% weighting in our Health Index.

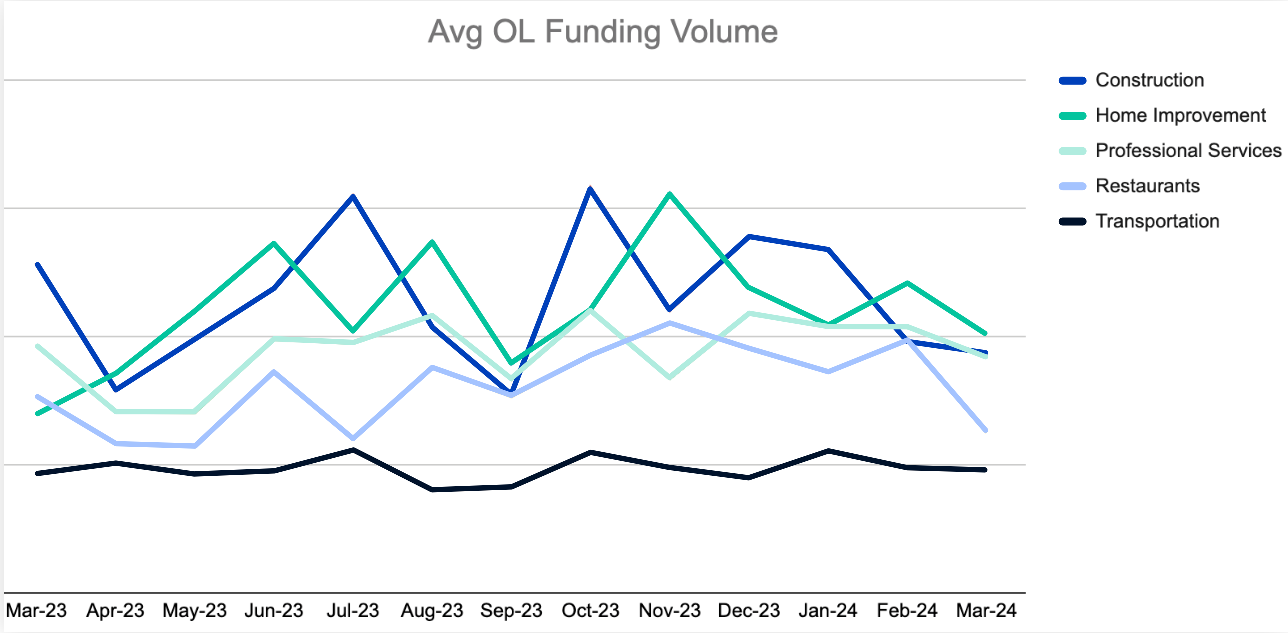
Outside funding rose sharply in June 2023, likely to prepare for the busy summer season and due to lower revenue.

This overall increase in funding volume declined in Q1 2024, either indicating a slowly recovering economy or an inability to access the necessary funds from outside sources.



Anecdotally, underwriters at Revenued are seeing a historically high number of restaurants seeking financing.

However, restaurants aren't alone. All industries—particularly home improvement, construction, and professional service businesses—are experiencing a decline in outside funding.

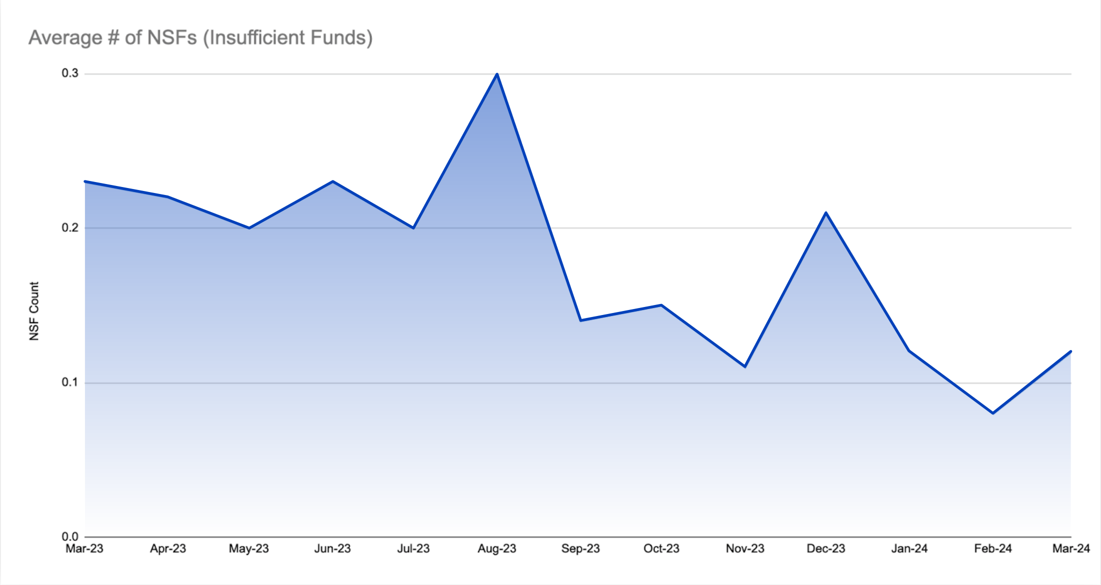


Financial Health

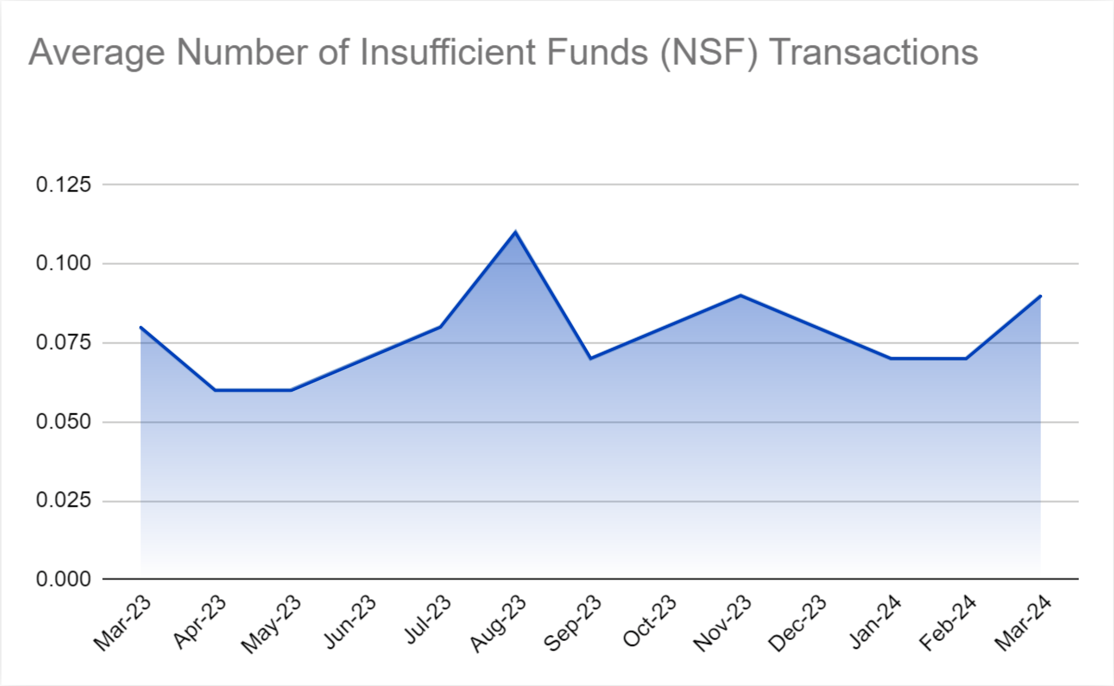
An insufficient fund (NSF) transaction signals that a company overdrew its account. We use the average number of NSFs per month as a sign of financial distress and assign it a negative weight of -10%.

Overall, NSF transactions were much higher in the restaurant industry than in other industries examined in the Revenued SMB Health Index.

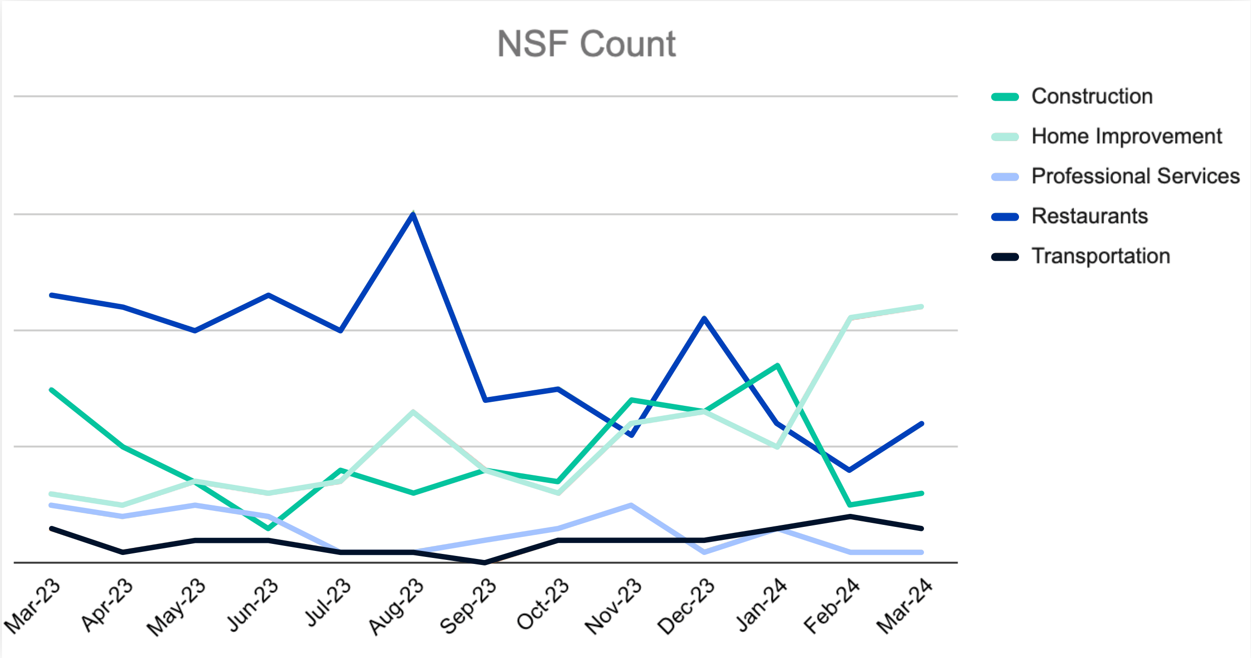
Average # of NSFs (Insufficient Funds) for Restaurants



Average # of NSFs (Insufficient Funds) for SMBs



Restaurants seem to have fared better in Q1 2024, although still had the second-highest number of NSFs in March.



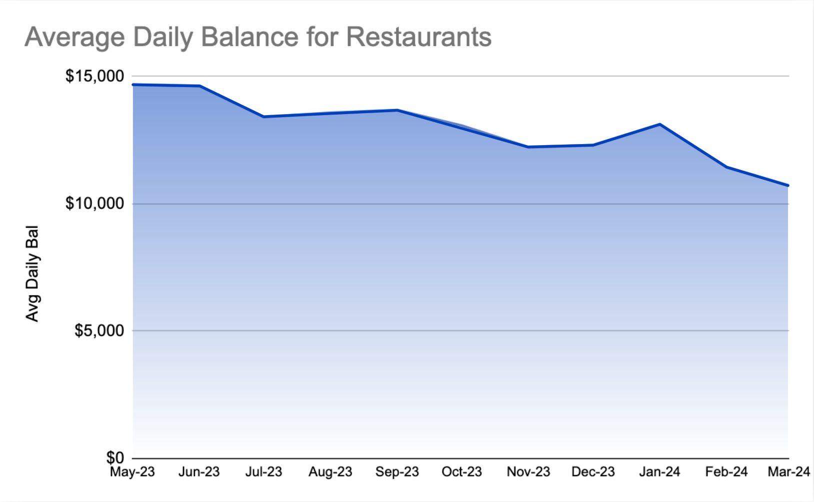
Overall, frequent NSFs for restaurants are indicative of lower revenue, rising food costs, and increased overheads. These can be especially challenging for newly established restaurants.

Financial Stability

To gauge financial stability, we examined the average daily bank account balances of restaurants over the last year.

Decreasing balances isn't always a bad sign. Lower balances may be due to restaurant owners re-investing in their businesses without worrying about having cash on hand, or expected seasonal fluctuations.

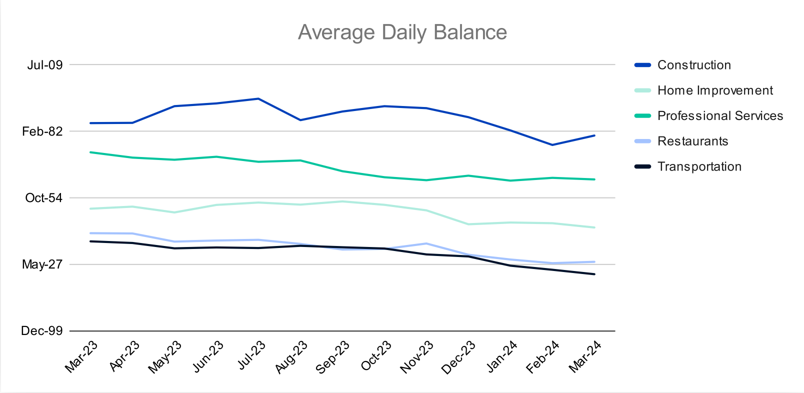
However, when considered alongside our other revenue data, it's clear the industry as a whole has been experiencing a downturn.



Average daily bank account balances have declined since May 2023 and continue to fall in Q1 2024.

This is unsurprising, considering our previous data on revenue and NSFs.

This trend was also observed in other industries, although restaurants as a whole had the 4th lowest average daily balance throughout 2023.



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Key Takeaways for Restaurant Owners

- Food cost pressures are easing, with the 4.2% increase in March 2024 being the lowest since 2021. This suggests that while costs remain high, they are stabilizing.
- Restaurant revenue showed significant seasonal variations. While we saw the peaks expected during the summer and Christmas, traditional peak months like June and November did not perform as well as expected, with diners choosing to eat out less frequently.
- Outside funding rose noticeably in mid-2023, in preparation for the busy season, but has slightly declined in Q1 2024 despite anecdotal evidence suggesting an increase in funding applications. This shows the importance of securing financing early and being prepared for potential funding challenges.
- The restaurant industry saw a higher frequency of insufficient fund (NSF) transactions compared to other small businesses in 2023, signaling financial distress. Lower revenues, higher operating costs, and limited funding were the main contributors.
- Average daily bank balances for restaurants have been decreasing since May 2023, reflecting lower revenues and higher expenses. While some of this may be due to potential reinvestment, it indicates a need for careful financial management to maintain stability.

When taken as a whole and combined with insights from other experts, the 2024 Revenued Restaurant Health Index paints a picture of an industry experiencing a challenging period, but on the path to recovery.

Restaurant sales are estimated to exceed $1.1 trillion in 2024—and although most restaurant owners are skeptical that they'll make much profit, nearly 8 in 10 have predicted their sales will increase or hold steady from 2023.

In the meantime, we've prepared the **Revenued Restaurant Health Check**, a quick checklist you can use to assess your restaurant's financial health.

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Revenued Restaurant Health Check

5 questions to see where your restaurant stands in 2024

How much revenue does your restaurant bring in?

Revenue per available seat hour

RevPASH = overall revenue / seats available * open hours

Table turnover rate

A healthy table turnover rate for a family restaurant is 3 (every 1.5 hours). For fine dining, allow at least 2 hours for each party, and 1-1.25 hours for coffee shops or casual venues.

Table turnover rate = period of time / number of tables served during time period

Average table occupancy

For better insights, calculate your average occupancy in the short term (e.g., dinner service for the day) and long term (over a month, season, or year).

Average table occupancy = number of occupied tables / total number of available tables

Average check / ticket size

Use this metric to determine how many tables you'll need to fill per day, week, and month in order to hit your target revenue.

Average ticket size = total sales / number of transactions

No-show rate

The industry's generally accepted no-show rate is around 20%. If your rates are higher—or no-shows are significantly harming your revenue—consider adding no-show fees.

No-show rate = number of no-shows / total number of reservations * 100

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How much revenue goes towards expenses?

Total expenses

Expenses = cost of goods sold + labor + marketing costs + real estate expenses + utilities

Food

Cost of goods sold

Ideally, ingredients and supplies for the restaurant should be no more than 30-35% of revenue.

COGS = beginning inventory + purchases during the period – ending inventory

Food cost percentage

For most restaurants, the target food cost percentage for each menu item is 28-35%. However, it is normal for some items to exceed this range. These numbers are just a starting point for understanding your profit margins.

Food cost percentage = food cost / selling price * 100

Food waste

The average restaurant will not use 4-10% of food purchased, and 30-40% of food served to customers is not eaten. Monitoring waste can help minimize food costs.

Total food waste = kitchen waste + plastic waste + spoilage

Labor

Labor cost percentage

Most restaurants aim to keep labor costs within 25-35% of revenue. This should include wages, taxes, discounts and any additional employee benefits.

Labor cost percentage = amount spent / total sales * 100

Employee turnover

According to the United States Bureau of Labor Statistics, the average turnover for the US restaurant industry in 2023 was 73.9% – the lowest since 2017.

Employee turnover = number of employees who left during the period / average number of employees * 100

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Other questions to ask

How much of your restaurant's revenue is profit

The National Restaurant Association estimates that the average restaurant sees a pre-tax profit margin of ~5%, although this can differ depending on the restaurant type.

This may explain why the industry is seeing an overall increase in NSFs and requests for out-side funding, as slim margins like these mean cost increases like those we've witnessed in the past few years are not sustainable for many restaurants.

Calculate your profit margin using the following formula, aiming for 5% or higher, and monitor how it changes month to month.

Profit margin = (revenue - total expenses) / revenue * 100

How many sales do you need to cover your costs?

Consider fixed costs (e.g. rent, phone and internet, utilities) and variable costs that change with sales volume (e.g. food, labor).

Break-even point = total fixed costs /
(total sales - total variable costs / total sales)

How much working capital do you need?

Based on our data, restaurants accessed an average of **$1,889 in outside funding each month** between March 2023 and 2024.

Having access to working capital can help restaurants cover food and labor costs, especially when seasonal fluctuations may mean fewer diners. It's a good idea to ensure you have access to a flexible line of credit that will let you use $1,500- $2,500 a month and that will allow quick access to funds.

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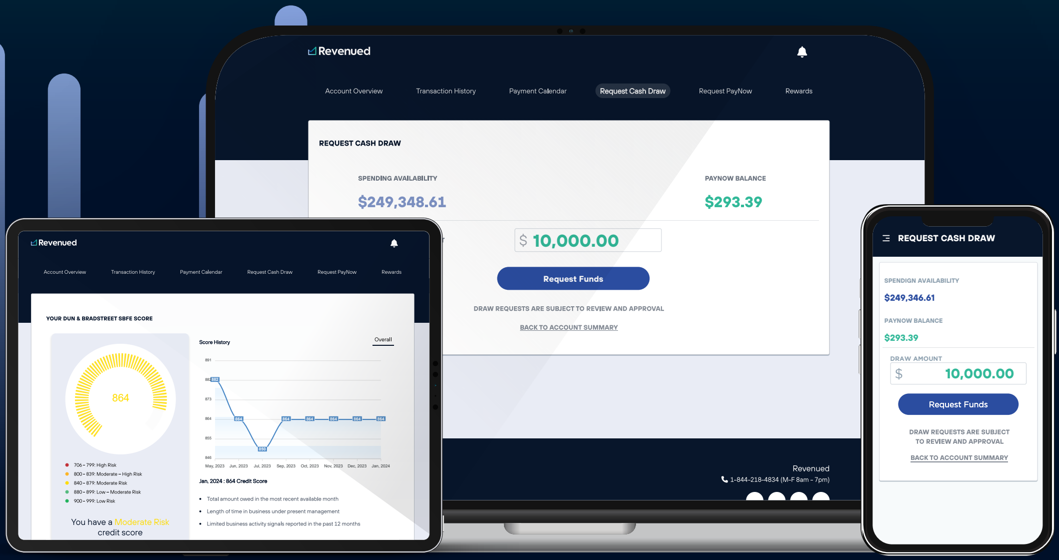

Revenued is a revenue-based financing solution that helps restaurant businesses easily access the capital they need.

Rather than looking at credit history or score, Revenued offers a flex line and business card and based on revenue. This means that more restaurants can access funding when they need it to help cover operating expenses and fuel growth.

Once approved, businesses receive their funds within 24 hours.

Apply online today

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