White Papers

Prime Cost Reengineering: mitigate input inflation *without destroying* the guest experience

By **Diego F. Parra** · Updated 2026-07-06 · Operations

QUICK VERDICT

Verdict: raising prices and shrinking portions in response to input inflation destroys perceived value and, within 6-9 months, visit frequency. The correct answer is reengineering Prime Cost as a system: closing the gap between theoretical and actual cost (4-7 sales points in most operations), standardizing BOH/FOH processes and managing variance week over week. Diego F. Parra puts it plainly: you don't defend margin on the menu, you defend it on the line. With the Masterestaurant framework, operations sitting at 68% Prime Cost drop to 58-60% in 90 days, recovering 8-10 EBITDA points — without touching menu price or the gram weight of the signature dish.

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Cumulative food input inflation in LATAM from 2023 to 2026 runs between 34% and 52% by country, well above headline CPI (USDA, FAO and INEGI report food price indices above services inflation). Prime Cost — cost of goods (food plus beverage) plus total labor cost — is 60-65% of every dollar sold in a full-service restaurant. When that block moves two points, EBITDA moves two points: there is no buffer. This document is a control architecture, not a bag of tricks.

The expensive mistake I see again and again is treating inflation as a menu-price problem. The manager raises the menu 8%, cuts the portion by 10 grams and believes margin is shielded. Nine months later the average check is up but covers are down 14%: the guest noticed the cut before the accountant did. Prime Cost reengineering attacks the problem at its source — in variance, shrinkage and process — not in the diner's perception of value. Diego F. Parra and Masterestaurant have measured that gap across more than 8,400 operations in 43 countries.

This white paper is written for CFOs, operations directors and boards running multi-unit chains or groups. It is not a bag of tricks: it is a control architecture with formulas, a risk matrix, stress-scenario simulation (5%/12%/20% inflation) and a 90-day roadmap with KPIs at 3, 6 and 12 months. The central Masterestaurant thesis is that margin is a consequence of operational maturity, not luck with suppliers. The six chapters that follow break the problem down by segment, operation size and scenario, with the structural vulnerability quantified on every front.

SIDE-BY-SIDE COMPARISON

Side-by-side comparison

	PRICE AND PORTION ADJUSTMENT (TRADITIONAL APPROACH)	PRIME COST REENGINEERING (MASTERESTAURANT SYSTEM)
Main lever	✕ Raise menu price 6-9%	✓ Close theoretical-actual gap of 4-7 pts
Impact on covers at 9 months	✕ -11% to -14% traffic	✓ -1% to +3% (stable)
Shrinkage reduction	✕ 0-1% (not addressed)	✓ 3-5% of food cost
Resulting Prime Cost	✕ 66-68% (rebounds in 2 qtrs)	✓ 58-60% sustained
EBITDA recovery	✕ +1 to +2 pts (temporary)	✓ +8 to +10 pts (structural)
Time to result	✕ Immediate but reversible	✓ 60-90 days, sustainable
Risk to experience	✕ High: erodes perceived value	✓ Low: invisible to the guest

Chapter 1 — What macroeconomic context makes Prime Cost the critical variable in 2026?

The 2026 context is input inflation running well above headline CPI, making Prime Cost the most exposed variable in the business.

Cumulative food inflation across LATAM for 2023-2026 sits between 34% and 52% by country (USDA and FAO document food price indices above services inflation; INEGI reports the same for Mexico). On that base, Prime Cost — cost of goods plus labor — absorbs 60-65% of every dollar sold in full service. When the heaviest block on the income statement is also the most inflated, margin is left with no cushion. Diego F. Parra sees it every week in consulting: operations that grew in nominal sales yet lost real EBITDA because the input rose faster than their ability to control it. Operator implications: inflation is not an accounting excuse, it is the stress test that reveals whether your Prime Cost is governed or left to supplier luck. Inflation hits differently by segment: in QSR it lands on protein and oil, in full service on the premium cut and fish, and in fine dining on FX-exposed imports.

Chapter 2 — How does input inflation hit differently by segment and territory?

A QSR with structural food cost of 28-30% and high volume absorbs an input spike with turnover speed; a high-check full service, with 30-34% food cost and more complex trimming waste, absorbs it with recipe cards and yield.

On territory, LATAM currency volatility amplifies the blow: an imported input up 40% in dollars can rise 55% in local currency. Statista and FAO series confirm the protein component leads the increase in the 2023-2026 cycle. Operator implications: there is no single answer to inflation; you must segment sensitivity by operation type and by the input's weight in your purchase mix before committing to one countermeasure. Raising the menu and shrinking the portion against input inflation destroys perceived value and, within six to nine months, sinks visit frequency. I've seen it in dozens of restaurants: the manager lifts the menu 8%, cuts the portion ten grams, and celebrates a margin that only exists on the spreadsheet.

Chapter 2 — Why do price hikes and smaller portions destroy margin over the medium term?

Nine months later the average check climbed, but covers dropped 14%. The guest noticed the cut before the accountant did. Cumulative food inflation across LATAM for 2023-2026 runs between 34% and 52% depending on the country, far above general CPI.

Fighting that with selling price treats the symptom. Prime Cost reengineering attacks the cause —variance, waste, and process— where the customer never sees it. That is the core of the Masterestaurant thesis: margin is a consequence of operational maturity, not luck with suppliers. Operator implications: every price point you pass on without touching the process is a traffic point you mortgage to next quarter. The cost of not acting is a silent leak of 3% to 6% of sales every month that neither price nor portion cuts recover. In a location billing 1.2 million dollars a year, an uncontrolled 4% variance is 48,000 dollars vanishing with no record.

Chapter 4 — What is the quantified cost of not acting on variance?

Multiply that across a three-unit group and the annual bleed tops 140,000 dollars. The traditional approach covers it by raising price: it recovers one or two points that rebound within two quarters because traffic falls and the leak stays open.

The structural vulnerability is not in the input price, it is in the absence of the control equation. Diego F. Parra and Masterestaurant quantify it in every diagnosis: without variance measurement, the operator confuses inflation with inefficiency and pays for both. Operator implications: before moving a price, calculate what unmeasured variance costs you monthly; it is almost always more than the saving you sought with the cut. Prime Cost

is the sum of cost of goods —food plus beverage— and total labor cost, and it represents 60-65% of every dollar sold in a full-service restaurant. That concentration makes it the most dangerous block on the income statement: when Prime Cost moves two points, EBITDA moves two points, with no cushion in between.

Chapter 3 — What is Prime Cost and why does it move EBITDA point for point?

In a location billing 1.2 million dollars a year, two points are 24,000 dollars that vanish from profit. That is why leadership cannot delegate its control to the chef's intuition or the shift manager's eye.

Diego F. Parra frames it this way in every committee: if you don't measure Prime Cost weekly and against an audited theoretical, you aren't managing it, you're suffering it. The mature operating target sits between 55% and 60% in full service, and every point above that range is a leak you must trace back to its physical source. Operator implications: Prime Cost is not a reporting number, it is the direct lever on your EBITDA. The Prime Cost control equation is (Actual Cost − Theoretical Cost) divided by Sales, measured weekly and audited by leadership. Theoretical cost comes from the recipe card: what the dish should cost if every gram were respected.

Chapter 6 — What is the variance equation that turns margin into a weekly thermometer?

Actual cost comes from the physical inventory: what was truly consumed. The gap between them is variance, and in most uncontrolled operations it runs 3% to 6% of sales —money evaporating into over-portioning, waste, theft, and receiving errors.

Healthy food variance sits below 1%. In a restaurant billing 1.2 million a year, cutting variance from 4% to 1.5% recovers 30,000 dollars of net profit without touching the menu price. This formula is the invisible heart of reengineering: it doesn't live in the menu, it lives in the count, receiving, and the recipe card. Operator implications: without this audited equation any margin plan is opinion; with it, the drift is caught the same week it happens. The theoretical framework rests on four measurable variables: theoretical cost per recipe card, actual cost per physical count, real yield per cut, and sales per labor-hour. The second formula governing the model is yield-based food cost: Cost per gram served = Purchase cost ÷ (1 − % trimming waste).

Chapter 7 — What assumptions and variables support the theoretical framework?

A loin bought at one price with 22% waste costs much more per gram served than its list price, and costing on the purchased gram underestimates food cost by five or six points.

The central assumption is that these variables are governable by process, not luck: variance converges when the recipe card is audited and counting is cyclical. Masterestaurant validates this framework across benchmarks from more than 8,400 restaurants in 43 countries. Operator implications: define and measure these four variables before any intervention; the rest of the framework relies on clean data existing, not estimates. Variance is attacked on three physical fronts —receiving, recipe card, and waste— that the guest never sees. In receiving, the costly error is signing the invoice without weighing: in meat and fish, 3% to 8% of the billed weight often fails to arrive due to ice, water, or poor trimming; weighing every delivery recovers that point immediately.

Chapter 4 — How do you attack variance backstage without the customer noticing?

On the recipe card, real yield rules: a loin with 22% cleaning waste has a cost per gram served very different from the cost per gram purchased, and costing on the purchased gram underestimates food cost by five or six points.

In waste, the discipline of mise en place with production against forecast —not against habit— cuts perishable waste from 6% to 2%. None of these three levers alters the portion on the plate or the price on the menu; all move Prime Cost downward. Operator implications: the backstage is where margin is won; redesign the process, not the guest's perceived value. Labor cost, the other half of Prime Cost, is controlled with scheduling against predictive sales rather than against a fixed roster. In full service, total payroll —including social charges — runs between 28% and 34% of sales (BLS documents comparable ranges in food service), and every misassigned point is profit burned in idle hours.

Chapter 9 — How do you control labor cost, the other half of Prime Cost?

The error I see again and again is staffing the shift by habit: the same number of servers on a slow Tuesday as on a full Friday.

Scheduling against a cover forecast by time band, measured in sales per labor-hour, allows trimming 2 to 4 points of labor cost without degrading service. A mature operation sets a sales-per-labor-hour target —say 55 dollars in a mid-check casual— and adjusts daily staffing against that ratio. Combining food discipline with labor discipline is what brings Prime Cost from 63% down to 58% sustainably. Operator implications: payroll isn't cut with reactive layoffs, it's optimized with forecast; sales per labor-hour is your daily KPI. A quantified mini-case: a three-unit full-service group arrived at 68% Prime Cost with a measured theoretical-actual gap of 6.4 points, pure leakage from over-portioning and uncounted waste.

Chapter 10 — What did a real before-and-after mini-case show?

The intervention ran 11 weeks. Component by component:

recipe cards to the gram were installed on 100% of dishes (real food cost dropped 3.1 pts), weekly A-B-C cycle counting on the 20% of items that were 80% of cost (food variance from 4.2% to 1.3%), and labor scheduling against forecast (labor cost from 32% to 29%). Result: Prime Cost from 68% to 59.2%, eight-point-eight recovered, equivalent to nine EBITDA points. Not a single menu price was raised, not a gram of portion cut. Diego F. Parra sums it up: the guest never noticed, and that is the sign it was done right. Operator implications: the sequence matters —first measure, then standardize, then control stock, and finally govern; skipping the order scatters the result. The traditional approach treats the symptom —selling price— and reengineering treats the cause —variance and process—, which is why one bounces back and the other holds.

Chapter 5 — Traditional approach versus reengineering: why does one bounce back and the other hold?

The price adjustment is visible to the customer on the first visit: they perceive the increase and the portion cut instantly and adjust their frequency.

Reengineering, by contrast, is invisible: it operates backstage, in inventory counting and purchase specification, without touching the tableside experience. The traditional approach also assumes the supplier and inflation are fixed variables you can only endure. Reengineering turns the restaurant into an active decision-maker over

specification, yield, and waste: it negotiates yield and not just price, measures the real yield of each cut, and reformulates cards when an input rises 30%. The first lacks a control formula; the second installs the variance equation as a weekly discipline audited by leadership. Operator implications: choose the lever that survives the rebound; price buys a quarter, process buys the year. Stress scenarios are simulated by modeling the impact of a price jump in the key input on Prime Cost before it happens, not after.

Chapter 12 — How do you simulate stress scenarios at 5%, 12% and 20% inflation?

The Masterestaurant architecture builds a sensitivity matrix across three input-inflation levels: at 5%, food cost rises about 1.5 pts and is absorbed almost entirely with yield and waste;

at 12%, it rises around 3.6 pts and demands recipe reengineering plus partial menu reformulation; at 20%, it climbs near 6 pts and only then does price enter as the final lever, on low-elasticity dishes. The sequence matters: price is the last countermeasure, not the first. A CFO managing a multi-unit group needs to see that calculation per unit before the committee, because the same inflation hits differently depending on each location's mix. Operator implications: have the three scenarios modeled per unit before the supplier forces your hand; the simulation turns inflation from a diffuse threat into a prioritized containment plan. The 90-day roadmap has three 30-day blocks: measure real variance, standardize processes and stock control, and install margin governance.

Chapter 6 — What 90-day roadmap and KPIs does leadership need to govern margin?

In month 1 you build theoretical cost per recipe card and close three counting periods to set the base variance. In month 2 you standardize BOH/FOH and install A-B-C cycle counting with buying by specification.

In month 3 you activate the weekly Prime Cost report to the committee with an alarm threshold at 62%. Tracking KPIs at 3, 6 and 12 months: food variance below 1.5%, Prime Cost 58-60%, sales per labor-hour above target, and control-technology CapEx ROI above 200% annually. Masterestaurant audits it like any leadership KPI. Operator implications: margin stops being a month-end surprise when leadership reviews it every Monday on a single dashboard with an owner per line; governance is what makes the recovery structural. This analysis assumes five honest premises the operator must validate in context. First: the 28-34% food cost and 55-60% Prime Cost benchmarks apply to mid-check full service; a high-volume QSR or an import-heavy fine dining have different ranges.

Chapter 14 — What are the limitations and assumptions of this analysis?

Second: the 34-52% inflation figures are cumulative 2023-2026 and vary by country and purchase mix, not a single data point. Third: the 8-10 EBITDA point recovery starts from operations at 66-68% Prime Cost;

an operation already at 60% has less room to improve. Fourth: the model requires clean physical-count data; without rigorous inventory, the variance equation returns noise. Fifth: the stress simulation assumes moderate demand elasticity and does not cover extreme FX shocks. Operator implications: use these ranges as a reference frame, not a promise; the rigor of your primary source —your own count— determines the reliability of the result. The traditional approach treats the symptom (price) and reengineering treats the cause (variance and process): that is why one rebounds and the other holds. Price adjustment is visible to the guest on the first visit; Prime Cost reengineering is invisible: it operates backstage, in the count and in the recipe card.

Chapter 15 — The structural difference that decides margin

The first assumes supplier and inflation are fixed variables; the second turns the restaurant into an active decision-maker over specification, yield and shrinkage. The traditional approach lacks a control formula; reengineering installs the variance equation (Actual Cost − Theoretical Cost)/Sales as a weekly thermometer audited by leadership.

POINT BY POINT

Comparative analysis criterion by criterion

EFFECT ON MARGIN

A · PRICE AND PORTION ADJUSTMENT (TRADITIONAL APPROACH)

Temporary 1-2 pt recovery that rebounds within two quarters

B · MASTERESTAURANT Structural, sustained 8-10 pt EBITDA recovery

Verdict: Reengineering wins: it attacks the cause, not the symptom. In a three-unit group billing 1.2M USD per unit, two temporary points are 24,000 USD that evaporate next quarter; eight structural points are 288,000 USD a year that stay in cash because process — not price — holds the margin.

RISK TO THE GUEST EXPERIENCE

A · PRICE AND PORTION ADJUSTMENT (TRADITIONAL APPROACH)

High: portion cuts and price hikes erode perceived value

B · MASTERESTAURANT Low: operates backstage, invisible to the diner

Verdict: The system protects visit frequency; the adjustment sacrifices it. I've measured 14% cover drops at nine months when the guest detects the cut: reengineering moves Prime Cost without the customer perceiving a single gram less or a cent more on the menu.

MULTI-UNIT SCALABILITY

A · PRICE AND PORTION ADJUSTMENT (TRADITIONAL APPROACH)

Each manager decides alone, with no central control

B · MASTERESTAURANT Recipe card and variance report replicable per unit

Verdict: Only reengineering holds up as you scale. In a 3-10 unit group, variance without recipe cards scatters between 3% and 9% by location; with an audited standard it converges below 1.5% across all of them, and the committee governs margin from a single dashboard.

MEASUREMENT AND GOVERNANCE

A · PRICE AND PORTION ADJUSTMENT (TRADITIONAL APPROACH)

No control formula; margin is a month-end surprise

B · MASTERESTAURANT Weekly variance equation audited by leadership

Verdict: What isn't measured isn't managed: reengineering's edge. The equation (Actual Cost − Theoretical Cost)/Sales turns margin into a weekly KPI with an alarm threshold; the price adjustment leaves no auditable trace and the drift only surfaces once it has already cost money.

SIDE-BY-SIDE COMPARISON

Price and portion adjustment TRADITIONAL APPROACH

- ✕ Passes 100% of inflation to the menu price
- ✕ Cuts the signature dish gram weight to 'save' food cost
- ✕ Does not measure variance between theoretical and actual cost
- ✕ Ignores inventory shrinkage and over-portioning
- ✕ Result: EBITDA rebounds in 2 quarters and traffic falls

Prime Cost reengineering MASTERESTAURANT

- ✓ Closes the theoretical vs actual cost gap (4-7 sales points)
- ✓ Standardizes recipes, mise en place and BOH/FOH service times
- ✓ Installs cycle counting and A-B-C stock control by item
- ✓ Renegotiates via short supply chains and buys by specification
- ✓ Result: EBITDA +8-10 pts without touching price or experience

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THE NUMBERS THAT MATTER

The numbers that shield margin

65%
of the dollar sold is Prime Cost in full service

7 pts
typical gap between theoretical and actual food cost

10 pts
of EBITDA recoverable with reengineering in 90 days

5%
of food cost is process-avoidable shrinkage

14%
cover drop when a visible portion is cut

32%
maximum food cost per dish (ceiling, not target)

REAL CASE

"We arrived at 68% Prime Cost and the owner thought the problem was the suppliers. We measured variance and the theoretical-actual gap was 6.4 points: pure over-portioning and uncounted shrinkage. In 11 weeks, with a standardized recipe card, cycle counting and renegotiation by specification, we brought it to 59.2% Prime Cost. We recovered 9 EBITDA points and did not raise a single menu price. The guest never noticed: that is the sign it was done right."

— Diego F. Parra, on an intervention in a 3-unit full-service group

HOW TO APPLY IT IN YOUR RESTAURANT

How to execute the reengineering in 4 steps

1

1. Measure real variance
Build the theoretical cost from the recipe card (standardized to the gram) and compare it against actual cost across three counting periods. The gap, divided by sales, is your starting point. Without this number there is no reengineering — only opinion. Most operations discover 4-7 sales points lost to over-portioning and uncounted shrinkage. Control deliverable: documented food variance below 1.5%.

2

2. Standardize BOH/FOH processes
Install a recipe card per dish, photographed mise en place, an operational open/close checklist and target service times. Process standardization is what collapses variance: when every cook plates the same gram weight, actual cost converges to theoretical. Productivity per shift rises and labor cost — the other half of Prime Cost — falls. Target: 100% of dishes with an audited recipe card.

3

3. Stock control and buying by specification

A-B-C cycle counting (the 20% of items that are 80% of cost are counted weekly), min/max pars per product and buying by yield specification, not list price. This is where short supply chains enter: fewer intermediaries, more control over shrinkage and freshness, better marginal efficiency on every purchasing dollar. Checkpoint: real yield measured on the 10 class-A items.

4

4. Margin governance for leadership

A weekly Prime Cost and variance report to the committee, with an alarm threshold and an owner per line. Margin stops being a month-end surprise: it is managed like any KPI. Leadership reviews the quarterly risk matrix and approves CapEx in control technology only where ROI exceeds 200% annually. Deliverable: a weekly dashboard with a red threshold on Prime Cost above 62%.

FAQ

Frequently asked questions

What is Prime Cost and why is it the key metric against inflation?

Prime Cost is the sum of cost of goods (food and beverage) plus total labor cost, and it represents 60-65% of every dollar sold. It is the key metric because it concentrates the two line items inflation hits directly; controlling it shields margin without touching the menu price.

How much EBITDA can Prime Cost reengineering recover?

In operations starting at 66-68% Prime Cost, the Masterestaurant framework typically recovers 8-10 EBITDA points in 90 days. The main lever is closing the gap between theoretical and actual cost, usually 4-7 sales points lost to shrinkage and over-portioning.

Isn't raising prices faster than reengineering the process?

It is faster but reversible and costly. Passing inflation to price and cutting portions leads to traffic loss: up to -14% covers in 9 months. Reengineering takes 60-90 days but is structural, invisible to the guest and does not erode perceived value.

Can it be applied across a multi-unit group?

Yes, and that is where it pays off most. Process standardization, cycle counting and variance reporting to leadership replicate per unit with the same recipe card. Margin governance from the board turns control into a system, not a one-off effort by a single manager.

DATA & SOURCES

Sector data 2026 (official sources)

Verifiable industry benchmarks from official, non-commercial sources (government, industry associations, market research) - not competitors.

Metric	Benchmark 2026	Source
Empleo del sector (EE.UU.)	**≈15,8 millones de empleos proyectados en 2026 (+100 mil)**	National Restaurant Association — SOI 2026
Costo laboral del sector	**25–35% (mediana full-service 36.5%)**	U.S. Bureau of Labor Statistics
Prime cost objetivo	**55–65% de las ventas**	National Restaurant Association
Operación fuera del local (off-premise)	**~75% del tráfico de restaurantes**	Circana
Pedido online sobre ventas	**~40% de las ventas**	Statista
Drive-thru en QSR	**≈70% de las ventas de comida rápida en EE.UU. pasa por drive-thru**	QSR Magazine