



**Restaurant
Association**

— Restaurant Operations Guide

How to Calculate and **Reduce** Labor Cost in Restaurants

Learn how to calculate, track, and reduce restaurant labor costs with formulas, benchmarks, scheduling strategies, turnover analysis, and real-world examples.



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How to Calculate and Reduce Labor Cost in Restaurants (Complete Guide)



If you own or manage a restaurant right now, labor cost isn't just a line item on your P&L. It's the thing keeping you up at night. Wages are higher than ever, turnover is still rampant, and every miscalculated shift can shave points off your margin before you've even looked at your food costs.

Let's break down what goes into restaurant labor cost, and yes, it's more than just your paychecks. We'll look at how to calculate it correctly, what good looks like for your kind of restaurant, and, crucially, how you can lower it. That's all without sacrificing the strength of your team and your service.

Let's dive into it.

What Is Restaurant Labor Cost?

Here's the simple answer to the question: your restaurant labor cost is the total money that your business expends on its operations.

Here is where almost all owners get it wrong: they see labor cost as solely wages. They envision the hourly wage that they pay a line cook or server, and stop there. This is the biggest myth: this will always result in a suppressed labor figure.

The full picture contains not just every dollar that has come out, but every dollar paid out by employment. Wages, true, but also the payroll taxes you were legally obliged to pay, the health insurance you chose to co-pay, and the overtime hours you authorized on Friday.

The days of sick time that you were allowed, the uniforms you were required to buy, and how long it took your manager to get the new hire trained, who was gone two weeks later.

According to research from the National Restaurant Association, labor costs account for roughly 33 cents of every dollar in sales across the industry. That's a big number, and it makes labor the single largest controllable expense in most restaurants.

It's "controllable" that matters there. Rent is not controllable. Your electricity bill is not controllable in the short term, and neither is your insurance premium. But labor? Labor decisions that you are directly impacting all day, every day, every shift, every schedule, every employee.

That's why understanding it fully is the first step.



What's Actually Included in Labor Cost?

Think of labor cost as having two layers: the obvious and the hidden.

The Obvious Layer

- ✓ Hourly wages for front-of-house staff (servers, hosts, bartenders, bussers)
- ✓ Hourly wages for back-of-house staff (line cooks, prep cooks, dishwashers)
- ✓ Salaries for managers and salaried kitchen staff
- ✓ Overtime pay

The Hidden Layer (Often Missed)

- ✓ Employer-paid payroll taxes (FICA, FUTA, SUTA)
- ✓ Health insurance contributions
- ✓ Workers' compensation insurance
- ✓ Paid time off (vacation, sick days)
- ✓ Employee meals
- ✓ Uniforms and equipment
- ✓ Bonuses and performance incentives
- ✓ Training time and onboarding costs
- ✓ Recruiting and hiring expenses

When you add it all up, the real cost of an employee is often 20—30% higher than their base wage alone.

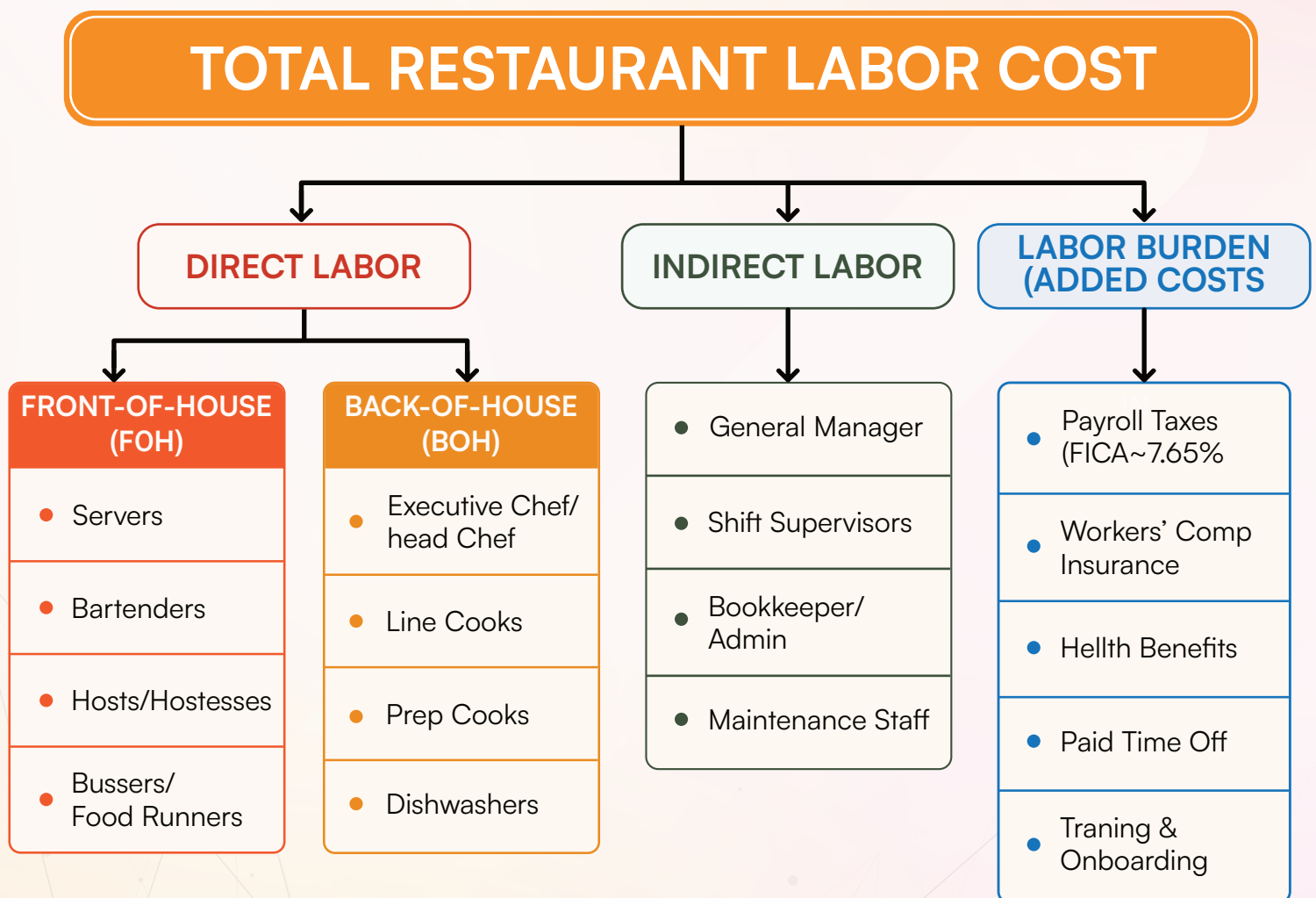
Direct vs. Indirect Labor

There's another distinction worth knowing:

Direct Labor is considered to be employees who are basically involved in making the product and serving guests. For Example, line cooks, servers, and bartenders. These are your revenue-generating positions.

Indirect Labor refers to employees who perform supporting roles to "keep the doors open," like bookkeepers, HR people, maintenance, and maybe some management positions.

Tracking both separately helps you pinpoint where costs are climbing and why.



Labor Cost Benchmarks by Restaurant Type

It's not a "one-size-fits-all" for every restaurant. A fine dining restaurant in Chicago has a fundamentally different model than a quick service taco joint in Dallas. Your benchmark needs to reflect your service model, your menu complexity, and what your guests are paying for.

NEVERTHELESS, HERE ARE THE STANDARD BENCHMARKS IN THE INDUSTRY TO BE AWARE OF:

Restaurant Type	Target Labor %	Notes
Quick Service (QSR)(McDonald's, Chipotle)	25% — 30%	High volume, simplified menu, lower average wage
Fast Casual(Shake Shack, Panera)	28% — 32%	More prep required, higher quality food, and some table service
Casual Dining(Applebee's, Chili's)	30% — 35%	Full table service, larger FOH team, longer meal periods
Fine Dining(White tablecloth)	33% — 38%	High service ratio, specialized staff, and higher wages
Bar / Nightclub	25% — 35%	Varies widely by entertainment model

Industry reality check:

According to the 7shifts 2025 Restaurant Labor Cost & Profitability Survey, about 40% of restaurants keep labor between 20—25% of revenue, and another 26% fall between 26—30%. Only 15% manage to stay under 20%, while 15% struggle with costs over 30%.

The goal most operators shoot for: keep total labor cost under 30% of gross revenue. Anything consistently north of 35% deserves immediate attention.

How to Calculate Your Labor Cost

(Step-by-Step)

Alright, here's where we get practical. There are a few ways to calculate labor cost depending on what you're looking for. Let's start with the most complete method.

METHOD 1

Full Loaded Labor Cost Per Employee

This gives you the true cost of a single employee, not just their paycheck.

STEP 1

Calculate Gross Pay

$$\text{Gross Pay} = \text{Pay Rate (per hour)} \times \text{Total Hours Worked}$$

Example:

A line cook earns \$18/hr and works 40 hours/week
 $\text{Gross Pay} = \$18 \times 40 = \$720/\text{week}$

STEP 2

Calculate Hours Not Worked (Paid Absence)

$$\text{Hours Not Worked} = \text{Days Missed} \times \text{Hours Per Shift}$$

Example:

1 sick day = $1 \times 8 \text{ hours} = 8 \text{ hours} \times \$18 = \$144/\text{month}$

STEP 3

Calculate Net Hours Worked

$$\text{Net Hours Worked} = \text{Total Gross Hours} - \text{Hours Not Worked}$$

Example:

1 sick day = $1 \times 8 \text{ hours} = 8 \text{ hours} \times \$18 = \$144/\text{month}$

STEP 4

Add Labor Burden (Additional Costs)

These are the employer-side costs on top of wages:

Additional Cost Item	Typical % of Wages
FICA (Social Security/Medicare)	7.65%
Federal Unemployment (FUTA)	~0.6% (on first \$7K)
State Unemployment (SUTA)	2%—5% (varies by state)
Workers' Compensation	2%—10% (by state/type)
Health Insurance Contribution	Varies (\$200—\$600/mo)
Paid Time Off	~2%—4% of wage
Workers' Compensation	~2%—4% above base

Calculate Annual Payroll Labor Cost

Annual Payroll Labor Cost = Gross Annual Pay + All Additional Expenses

Calculate Actual Hourly Labor Cost

Actual Hourly Labor Cost = Annual Payroll Labor Cost ÷ Net Hours Worked

STEP 5

STEP 6

PRACTICAL EXAMPLE:

ONE LINE COOK

Base hourly wage

\$18.00/hr

Hours worked per year

2,000 hrs

Gross annual pay

\$36,000

Payroll taxes (7.65%)

+\$2,754

Workers' comp (4%)

+\$1,440

Health insurance

+\$3,600/yr

PTO (1 week = 40 hrs)

+\$720

Annual Payroll Labor Cost

\$44,514

Actual Hourly Labor Cost

$\$44,514 \div 2,000 = \$22.26/\text{hr}$

So while that cook's paycheck says \$18/hr, they're actually costing you \$22.26 per hour. That's a 23.7% difference, and it matters a lot when you're running on 5% margins.

METHOD 1

Total Monthly or Weekly Labor Cost

This is what most operators track on a rolling basis:

Total Labor Cost = Sum of all hourly wages paid



**All Salaried
Wages**
(for the period)



**Overtime
Pay**



**Employer
Payroll Taxes**



**Benefits
Contributions**



**Any bonuses
or incentives
paid**

WEEKLY EXAMPLE FOR A MID-SIZE CASUAL DINING RESTAURANT:

COST CATEGORY	AMOUNT
FOH hourly wages (12 staff)	\$4,200
BOH hourly wages (8 staff)	\$3,800
Manager salaries (prorated)	\$1,850
Overtime pay	\$420
Payroll taxes (employer)	\$785
Benefits contributions	\$340
TOTAL WEEKLY LABOR COST	\$11,395

How to Calculate Labor Cost Percentage

This is the most important number in restaurant labor management. It tells you what share of every dollar you earn goes toward paying your team.

The Formula

$$\text{Labor Cost Percentage} = \frac{\text{Total Labor Cost}}{\text{Total Revenue}} \times 100$$

Step-by-Step

1

Add up all labor costs for a given time period
(weekly is best for operational control)

2

Add up all revenue (pre-tax) for the same period

3

Divide labor cost by revenue

4

Multiply by 100

This restaurant is sitting right at the casual dining target, not bad, but there's room to tighten.

Why weekly tracking beats monthly

Most restaurant operators check their P&L monthly. The problem? By the time you see that your labor ran 38% in October, you've already lost three weeks of profitable time. Weekly tracking lets you spot the problem and fix it while it's still happening.

Understanding Prime Cost

Labor cost doesn't exist in a vacuum. The best operators look at it alongside food cost as part of what's called Prime Cost, the most important profitability metric in the restaurant business.

Prime Cost Formula

Prime Cost = Total Labor Cost + Cost of Goods Sold (COGS)

Prime Cost as a Percentage of Sales

Prime Cost % = $\frac{\text{Prime Cost}}{\text{Total Sales}} \times 100$

The target:

Most healthy, profitable restaurants keep prime cost at or below 60% of total sales. That leaves 40% to cover rent, utilities, insurance, marketing, and hopefully, profit.

This restaurant is a couple of points over the 60% target. To fix it, they need to bring either food cost or labor cost down, or ideally both.

RESTAURANT TYPE	TARGET LABOR %	NOTES
Quick Service	55% — 60%	Up to 62%
Fast Casual	57% — 62%	Up to 65%
Casual Dining	58% — 63%	Up to 66%
Fine Dining	60% — 65%	Up to 68%

The Real Cost of Employee Turnover

If you've been in the restaurant business for any length of time, you know turnover is part of life. But do you actually know what it's costing you?

The numbers are eye-opening.

According to the Center for Hospitality Research at Cornell University, the average cost of employee turnover in restaurants is \$5,864 per person. The restaurant industry's average turnover rate topped 75% annually in 2025. For quick-service restaurants, it can exceed 130%.

Let's put that in real money terms for a typical casual dining restaurant with 30 hourly employees:

TURNOVER COST EXAMPLE:

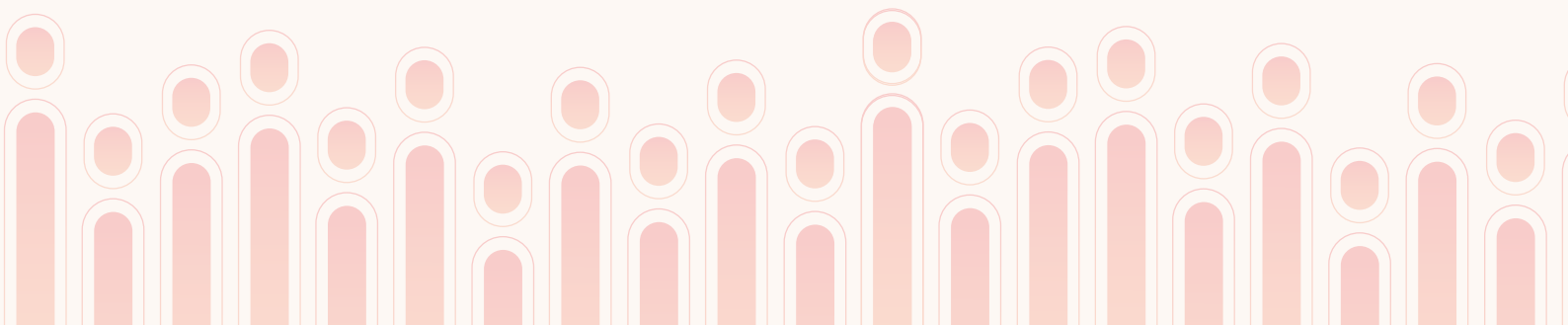
FACTOR	ANNUAL IMPACT
Number of hourly employees	30
Annual turnover rate	75%
Employees replaced per year	22–23 people
Average cost per replacement	\$5,864
Payroll taxes (employer)	~\$131,000+
TOTAL ANNUAL TURNOVER COST	~\$131,000+

That's \$131,000 a year in recruiting, hiring, training, and lost productivity on top of everything else. It's a cost that never shows up cleanly on a P&L, which is exactly why so many operators ignore it.

TURNOVER COST BREAKDOWN PER EMPLOYEE

COST CATEGORY	AMOUNT
Recruiting / Job postings	\$300
Manager time for interviewing	\$400
Paperwork / HR admin	\$200
Training wages (new hire)	\$821
Trainer's time (reduced output)	\$600
Lost productivity during ramp-up	\$1,500
Customer experience impact	\$800
Miscellaneous (uniforms, etc.)	\$243
TOTAL	~\$4,864

(Higher-end estimates, including customer losses, reach \$5,864—\$6,000+ per employee)



TURNOVER RATE BENCHMARKS BY ROLE (2025)

ROLE / CATEGORY	ANNUAL TURNOVER %
Quick Service (all staff)	100% — 130%+
Full Service (all staff)	75% — 100%
Front-of-House staff	~41%
Back-of-House staff	~43%
Managers	~28%
Fine Dining staff	Lower (better pay)

The bottom line: reducing turnover is one of the highest-ROI investments a restaurant operator can make. Every person you retain is thousands of dollars saved.



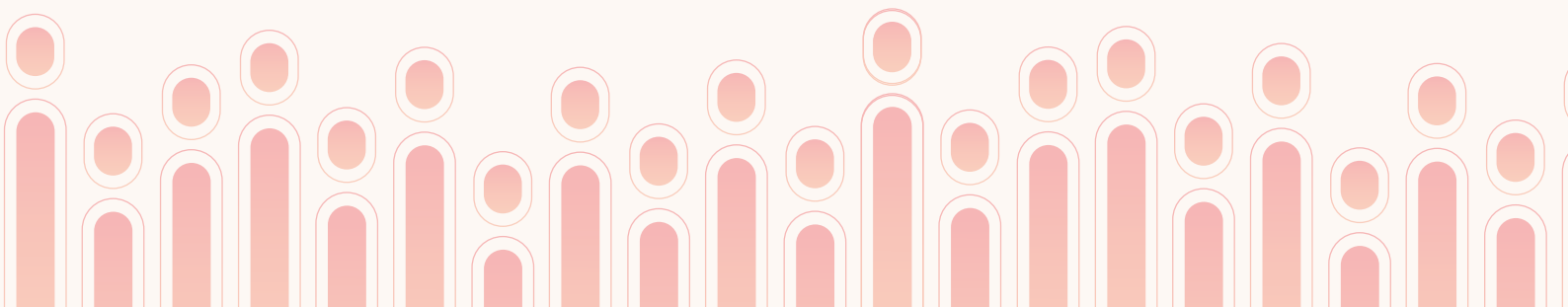
Why Most Restaurants Miss Their Labor Targets

Only 36% of restaurants hit their labor cost goals. Here's why the other 64% don't, and it's rarely as simple as "we paid too much."



1. SCHEDULES BUILT ON HABIT, NOT DATA

The classic "copy-paste" schedule is one of the biggest labor cost killers in the industry. Managers schedule based on what they did last week, not what they should do this week based on sales forecasts, reservations, or local events. This almost always leads to overstaffing slow shifts and understaffing busy ones.



2. GHOST OVERTIME

If overtime is showing up predictably every week, that's not exceptional performance, it's a broken core schedule. Ten extra minutes of overlap across six employees, five days a week, adds up to over 50 hours a month in unplanned labor.

3. UNDERCOUNTING LABOR

Many operators calculate labor as just wages. They forget payroll taxes, benefits, and labor burden. What looks like a 28% labor cost might actually be 33% once everything is counted.

4. HIGH TURNOVER HIDDEN IN PLAIN SIGHT

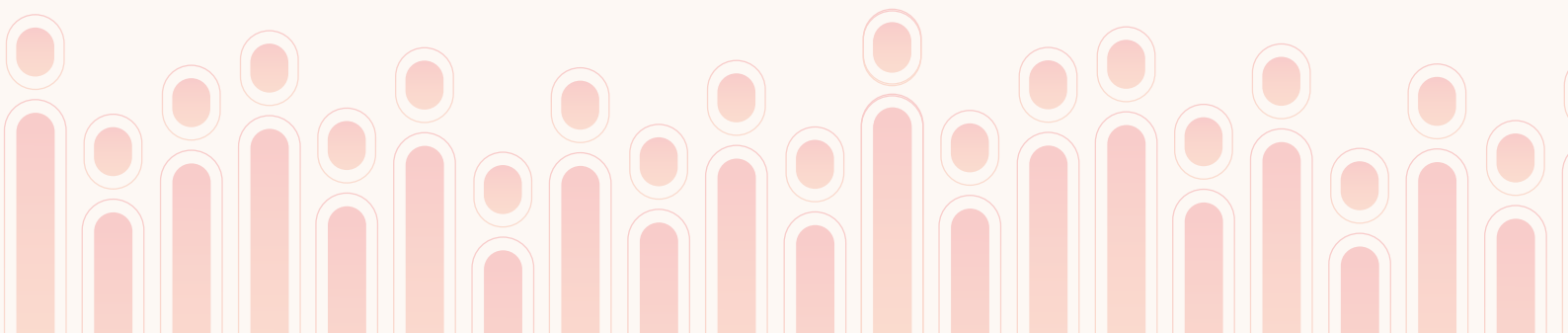
Turnover costs don't have a dedicated line on most P&Ls, so they go unrecognized as a labor cost driver. Operators know they're always hiring; they just don't connect the dots to what it's actually costing them.

5. NO MID-SHIFT ADJUSTMENTS

A slow Tuesday becomes a \$500 labor waste if no one has the authority to cut a server or send a prep cook home early. Building that flexibility into your culture and management protocols is a real cost control lever.

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9 Proven Strategies to Reduce Restaurant Labor Cost

These aren't theoretical. Every one of these strategies is used by profitable restaurants across the U.S. right now.

STRATEGY 1

Schedule to Sales, Not Instinct

Your POS system knows when you're busy. Your reservation book knows what Friday looks like. Your historical sales data shows you exactly which Tuesday afternoons are dead slow and which Saturday nights hit \$12,000 in revenue. Use all of it.

Build your schedule around projected sales volume for the week, not around what you did last week or what "feels right." When a shift is trending slowly, have a plan to cut staff early. When a holiday or local event is coming, staff up accordingly.

Tip

Most modern POS and scheduling platforms can pull historical sales by day and daypart. Use this data before you write a single shift.

STRATEGY 2

IMPLEMENT CROSS-TRAINING

The server that's willing to bus also. The cook who's okay with prepping. The bartender who will run food if the front gets slow. Cross-training increases your operation's flexibility and means you can have fewer people working the floor.

Cross-trained employees are less likely to quit; since employees are learning new skills, boredom becomes a less significant problem in a single-function role.

Real-world example:

Cross-training has been designed into Shake Shack's operating model from day one. Employees are cross-trained throughout stations, thus requiring fewer employees per shift and reducing labor costs, without sacrificing service.

STRATEGY 3

Control Overtime Aggressively

Overtime isn't a show of commitment; it is a scheduling issue. The employee you are paying \$15/hr will cost you \$22.50 in overtime. Seeing frequent overtime is either a sign that you are understaffed at base or your schedule is written with no understanding of hours already worked.

The fix

Track hours in real time (not just at the end of the week), set alerts when employees approach 35 hours, and build a bench of part-time staff who can fill gaps without creating overtime for your full-timers.

STRATEGY 4

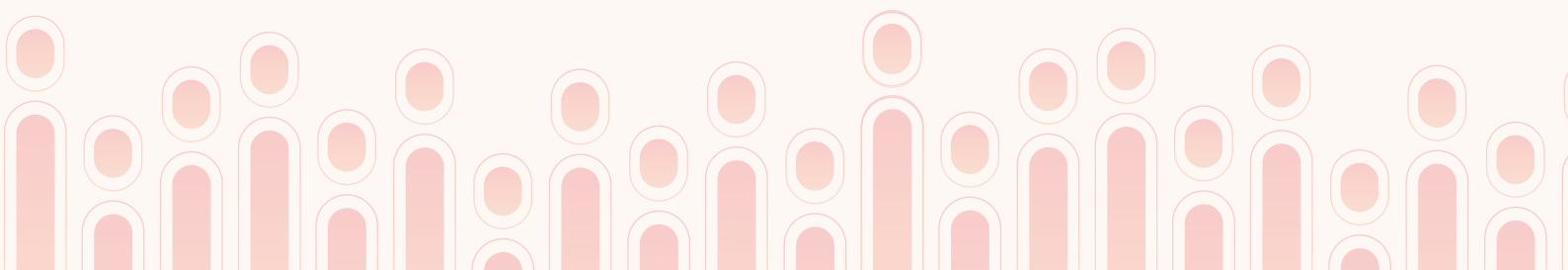
Reduce Employee Turnover

Every person who walks out the door costs you money in recruiting, training, and lost productivity. The best way to control that cost isn't to find cheaper replacements faster. It's to make people want to stay.

What actually moves the needle on retention:

- ✓ Competitive wages (this is the number one driver of quits, consistently)
- ✓ Predictable schedules posted well in advance
- ✓ Recognition and genuine appreciation
- ✓ Clear paths for advancement
- ✓ Respectful management and a positive culture

The data backs this up: restaurants with strong retention programs don't just save on hiring costs, they serve better food, deliver better service, and keep more loyal customers.



STRATEGY 5

TRACK LABOR BY DAYPART, NOT JUST DAILY

Knowing your daily labor cost is fine. Knowing your breakfast, lunch, and dinner labor cost separately is much more powerful.

Most restaurants have one or two dayparts that consistently run high labor relative to their sales contribution. Isolating these lets you make surgical adjustments rather than blanket cuts.

EXAMPLE DAYPART LABOR ANALYSIS:

DAYPART	REVENUE	LABOR \$	LABOR %
Breakfast	\$2,800	\$1,050	37.5% (HIGH)
Lunch	\$5,400	\$1,620	30.0% (OK)
Dinner	\$9,800	\$2,744	28.0% (GOOD)
Daily Total	\$18,000	\$5,414	30.1%

In this example, breakfast is the problem. Maybe you open too early for the traffic you're getting, or you have too many people on that shift. Fixing just breakfast labor could drop your daily percentage meaningfully.

STRATEGY 6

USE TECHNOLOGY AND AUTOMATION STRATEGICALLY

Technology doesn't replace service, but the tasks that do not require the human aspect, therefore leaving the staff able to work on what the customer really wants.

» Practical tools that reduce labor costs and increase efficiency:

- **Online ordering systems**

One employee takes the online orders that two staff used to take.

- **Self-service Kiosks**

Implement these at QSRs or fast-casual concepts to offset the need for front-counter people.

- **Tablets Ordering**

Allow servers to take more tables. Reduce the need for them to run back and forth.

- **Inventory management systems**

Reduce the manual time spent on ordering, receiving, and counting.

- **Inventory management systems**

Create schedules based on sales forecasts. Track hours in real-time and signal danger of overtime.

Note on balance:

Your team is the one who should benefit from your technology, not those your guests came to see. Nearly half of restaurant operators, that is 49%, feel good about technology's potential to control labor costs, and the operators who execute correctly leverage it selectively.

STRATEGY 7

TIGHTEN YOUR CLOCK-IN AND CLOCK-OUT PRACTICES

It doesn't sound like a lot of time. But 15 employees per shift logging in five minutes early and clocking out five minutes late equates to 2.5 hours to be paid for per day; roughly \$37 at average wages per day, or more than \$13,500 annually.

The fix is simple

Establish a clear policy, use a time clock that requires manager approval to back-date punches, and review time records weekly.

STRATEGY 8

MENU ENGINEERING FOR LABOR EFFICIENCY

The labor cost is directly influenced by your menu. An elaborately structured menu with time-consuming, high-skill labor dishes results in increased prep time, greater cook time, and slower ticket times, therefore higher BOH labor cost.

Menu engineering for labor efficiency means:

- ✓ Identifying which dishes require the most prep and production time relative to their margin
- ✓ Simplifying or removing dishes that eat labor without proportionate revenue
- ✓ Designing menus so that many items share the same base prep (proteins, sauces, grains) and can be executed by fewer hands

A real pattern

These casual dining chains (like Texas Roadhouse), over the last decade, have implemented standard menus and processes, enabling labor to remain relatively constant with hundreds of restaurants.

STRATEGY 9

STAGGER START TIMES AND USE PEAK-SHIFT STAFFING

Not all employees have to arrive at the same time. By spacing out start times, you can steadily build up to full coverage instead of paying a full staff for the first hour, which they will likely be dealing with few customer service demands until the real volume builds.

Example: Dinner shift staggered schedule



8:30 PM

First server cut
(as traffic slows)

9:30 PM

Two more cuts based on covers

This approach ensures you're paying for labor when it earns revenue, not when guests aren't there yet.

THE FULL LABOR COST CALCULATION CHECKLIST

COST CATEGORY	INCLUDED?
Hourly wages (all FOH)	<input type="checkbox"/>
Hourly wages (all BOH)	<input type="checkbox"/>
Salaried manager compensation	<input type="checkbox"/>
Overtime pay	<input type="checkbox"/>
Employer FICA taxes (7.65%)	<input type="checkbox"/>
FUTA / SUTA (unemployment taxes)	<input type="checkbox"/>
Workers' compensation insurance	<input type="checkbox"/>
Health insurance contributions	<input type="checkbox"/>
Paid time off (vacation, sick)	<input type="checkbox"/>
Employee meals / discounts	<input type="checkbox"/>
Bonuses and incentives paid	<input type="checkbox"/>
Training and onboarding costs	<input type="checkbox"/>

Final Thoughts

Labor cost is genuinely hard to manage in the restaurant business. Wages are rising. Turnover is expensive. Scheduling is a puzzle that changes every week. And the margin for error is thin.

But the operators who do this well aren't doing anything magical. They're tracking the right numbers consistently, scheduling to data instead of habit, investing in the people who show up and work hard, and using the tools available to them. They treat labor as what it is a controllable, data-driven, day-to-day discipline.

The restaurants struggling most with labor costs are usually the ones looking at the problem once a month, after the damage is done.

Start tracking weekly. Know your numbers. And treat every scheduling decision as the financial decision it actually is.

[Explore Restaurant Resource](#)

