White Papers

Zero-Based Budgeting for Restaurants: rebuilding the cost structure from *evidence*

By **Diego F. Parra** · Updated 2026-10-25 · Costing & Finance

QUICK VERDICT

Verdict: incremental budgeting —copy last year and add a fixed percentage— is what keeps a restaurant's margin buried. Zero-Based Budgeting (ZBB) forces every line item to be justified *from zero* against a theoretical cost and a real source, not against history. With full-service labor at 36.5% of sales (National Restaurant Association, 2025), there is no cushion for budgeting on autopilot. ZBB doesn't cut blindly: it rebuilds prime cost, OpEx and CapEx line by line until every dollar has an owner and a reason. For a 3-10 unit group, it is the difference between defending EBITDA and watching it evaporate.

White Paper Technical document · C-Suite & multilateral banking· 14 min read· 2026-10-25INTELLECTUAL PROPERTY OF MASTERESTAURANT® — EXCLUSIVE FOR SECTOR LEADERS

This white paper is written for CFOs, expansion directors and gastronomic group leaders who manage the cost structure of several units and need a budgeting method they can defend before a board, not an inherited spreadsheet.

Zero-Based Budgeting (ZBB) starts from the premise that no line item is guaranteed: every expense — from food cost to insurance— is justified from zero each cycle against a theoretical cost and a real external source, not against last year's spend.

The thesis of Diego F. Parra and the Masterestaurant framework: in a sector with tight margins, incremental budgeting is the silent vehicle of capital leakage. ZBB rebuilds the cost structure on evidence.

SIDE-BY-SIDE COMPARISON

Zero-based budgeting, side by side

	INCREMENTAL BUDGETING (HISTORY + %)	ZERO-BASED BUDGETING (ZBB)
Starting point	✕ Prior year spend with a percentage adjustment	✓ Zero: every item justified from its theoretical cost
Food cost reference	✕ The % 'always' used (often >32%)	✓ Theoretical cost per dish vs. actual, 32% cap
Labor treatment	✕ Staffing inherited; rises with inflation	✓ Sized by productivity vs. 36.5% of sales (NRA, 2025)
Variance visibility	✕ Diluted in history; leakage invisible	✓ Variance = (Actual − Theoretical)/Sales, per item
Board defensibility	✕ 'This is how we spent'	✓ Every line with source, assumption and owner
Input-inflation response	✕ Absorbs the hit, erodes margin	✓ Re-simulates several input inflation scenarios and reallocates

Put it to work in your restaurant: **21-day restaurant food cost challenge →**

Chapter 1 — What is Zero-Based Budgeting and why is incremental burying your margin?

Zero-Based Budgeting (ZBB) forces you to justify every line item from scratch against a theoretical cost and a real source, not against last year's history.

The incremental method —copy last year and add a fixed percentage— drags fat that nobody looks at again. The mistake I see over and over in multi-unit groups: the budget is defended with inertia, not evidence. In a sector where full-service labor reaches 36.5% of sales (National Restaurant Association, 2025), every point of budget fat weighs on an already thin profit. ZBB starts from an uncomfortable but honest premise: no line of spending is guaranteed.

From food cost to insurance, each one is reborn every cycle and must prove why it exists. That is the difference between a defensible budget and an inherited spreadsheet.

Chapter 2 — Incremental asks how much it rose; ZBB asks why this cost exists

The core difference is the question each method asks. Incremental asks «how much did it rise versus last year?» and accepts prior spending as a legitimate baseline. ZBB asks «why does this line exist and what is its theoretical cost?», and demands an answer before approving a single dollar. That distinction reorders the entire board conversation. A cash example: a group facing today's average U.S. commercial electricity rate, according to the EIA (2026).

The thin full-service margin does not forgive spending nobody can justify. Diego F. Parra puts it bluntly: incremental hides bad decisions inside a comfortable average, and ZBB drags them into the light one by one.

Chapter 3 — Variance is not hidden in the average: it is measured line by line

Operating variance is measured with the formula (Actual − Theoretical) / Sales, line by line, not diluted into the annual average. Incremental hides the deviation because it compares the total against last year's total; if one dish spiked and another improved, the average masks both. The Masterestaurant framework demands the opposite: each line declares its theoretical cost and its measured deviation.

With a defensible maximum food cost per dish of 32% (Masterestaurant hard rule), a three-point variance over that theoretical is visible money, not noise. Consider payroll: wages and benefits in full service reached a median of 36.5% of sales in 2024 (National Restaurant Association, 2025), well above the ~33% historical norm. That jump is invisible in an incremental budget that just adds a percentage; it appears when every cost center reports its Actual against its Theoretical.

Chapter 4 — Payroll is not fixed: it is sized against the sector median, not inertia

Payroll is sized against an external benchmark, not inherited as a fixed line. Incremental treats wages as an untouchable block that only grows with minimum wage; ZBB measures them against the median of 36.5% of sales in full service and 31.7% in limited service (National Restaurant Association, 2025). That comparison changes the entire budget defense.

With a California minimum wage of 16.50 USD/hour in 2025 (State of California / Paychex) and a federal tipped minimum of 2.13 USD/hour (U.S. Department of Labor, 2025), geography rules: there is no universal payroll figure. I have seen it in dozens of restaurants: whoever budgets payroll as fixed ends up with two points of overspend that nobody audits. ZBB forces you to ask how many hours each sales dollar produces, not how much we paid last year.

Chapter 5 — Input inflation is not absorbed: it is re-simulated in scenarios before EBITDA

Input inflation is modeled in several scenarios and CapEx/OpEx is reallocated before it hits EBITDA. Incremental absorbs it passively: raise the number and hope for the best. ZBB re-simulates the cost structure under each scenario and decides where to cut or invest in advance. There are real reasons to prepare the hard scenario: the U.S. cattle herd is at its lowest level in 75 years (USDA ERS, Cattle & Beef Market Outlook 2026), which pushes protein cost upward.

Masterestaurant builds the budget on the scenario that hurts and releases slack when the market eases, never the other way around. The hedge is planned, not improvised.

Chapter 6 — Every line with source, assumption and owner: what a board demands

Every line of a ZBB budget is defended with three elements: source, assumption and owner. Incremental defends itself with inertia —«this is how we always did it»—, and that answer does not survive a serious board. ZBB attaches to each line its real external source, the assumption behind it and the name of whoever answers for it.

A concrete cash example: the effective in-person card processing fee runs close to the combined Visa/Mastercard interchange rate of 2.36% in 2025 (The Motley Fool, 2025), plus a small per-transaction charge; budgeting fees without that source is guessing. Diego F. Parra insists that a budget defensible before the board is not the most optimistic one, but the one whose assumptions are traceable. When every line has an owner and evidence, the discussion stops being political and becomes arithmetic.

Chapter 7 — The cost of risk also enters ZBB: insurance, geography and default

Insurance and financial risk enter the budget as justified line items, not as an inherited number. Incremental copies last year's premium; ZBB rebuilds it against geography and the real size of the business. The data demands it: a restaurant with sales above 2 million USD pays 40% more in liability than smaller operations, and an urban one costs 60% more than a rural one (MoneyGeek, Restaurant Business Insurance Cost 2025).

Budgeting insurance «the same as always» ignores that risk reality. And there is a second layer: the SBA loan default rate for restaurants runs 12% to 15% under normal conditions (Crestmont Capital, 2026), which raises debt service. The Masterestaurant framework forces you to cost risk per location, with its source, because a poorly budgeted premium erodes the same thin margin that is so hard to earn.

Chapter 8 — The differences that decide the margin

Incremental asks 'how much did it rise?'; ZBB asks 'why does this expense exist and what is its theoretical cost?'. Incremental hides variance in the annual average; ZBB measures it line by line with the formula (Actual − Theoretical)/Sales. Incremental treats labor as fixed; ZBB sizes it against the full-service median of 36.5% of sales (NRA, 2025). Incremental absorbs input inflation; ZBB re-simulates several growth scenarios and reallocates CapEx/OpEx before it hits EBITDA. Incremental defends itself with inertia; ZBB defends itself with source, assumption and owner per line —what a board demands.

POINT BY POINT

Incremental vs. Zero-Based: criterion-by-criterion analysis

EXPENSE JUSTIFICATION

A · INCREMENTAL BUDGETING (HISTORY + %)

Incremental: inherited from history

B · MASTERESTAURANT ZBB: every item from zero against theoretical cost

Verdict: ZBB exposes the leak history hides

FOOD COST CONTROL

A · INCREMENTAL BUDGETING (HISTORY + %)

Incremental: accepts the 'usual' %, often >32%

B · MASTERESTAURANT ZBB: theoretical cost per dish with 32% cap

Verdict: ZBB measures real vs. theoretical variance per dish

LABOR SIZING

A · INCREMENTAL BUDGETING (HISTORY + %)

Incremental: inherited staffing +inflation

B · MASTERESTAURANT ZBB: by productivity vs. 36.5% of sales (NRA, 2025)

Verdict: ZBB aligns labor with real volume by daypart

INFLATION RESILIENCE

A · INCREMENTAL BUDGETING (HISTORY + %)

Incremental: absorbs and erodes margin

B · MASTERESTAURANT **ZBB: re-simulates several growth scenarios and reallocates.**

Verdict: ZBB protects EBITDA before the hit

BOARD DEFENSIBILITY

A · INCREMENTAL BUDGETING (HISTORY + %)

Incremental: 'this is how we spent'

B · MASTERESTAURANT **ZBB: source, assumption and owner per line**

Verdict: ZBB is auditable; incremental is not

SIDE-BY-SIDE COMPARISON

Incremental budgeting THE COSTLY DEFAULT

- ✕ Copies last year and adds a flat percentage
- ✕ Perpetuates inefficiencies buried in history
- ✕ Doesn't separate theoretical from actual cost per item
- ✕ Absorbs input inflation without reallocating
- ✕ Hard to defend with figures before the board

Zero-Based Budgeting (ZBB) MASTERESTAURANT

- ✓ **Justifies every item from zero against a theoretical cost**
- ✓ **Exposes food cost variance per dish and station**
- ✓ **Sizes labor by productivity, not inertia**
- ✓ **Separates prime cost, OpEx and CapEx with owner and assumption**
- ✓ **Re-simulates stress scenarios and protects EBITDA**

THE NUMBERS THAT MATTER

The numbers that rewrite your budget (2026)

4%
Pre-tax income, limited-service

36.5%
Salaries and benefits as % of sales, full-service (median, 2024)

31.7%
Salaries and benefits as % of sales, limited-service (median, 2024)

2.36%
Average combined Visa/Mastercard interchange rate, U.S. (2025)

14.53
Average commercial electricity rate, U.S. (Jul. 2026)

40%
Liability insurance surcharge for restaurants with sales >$2M vs. smaller operations

33%

Labor cost (salaries and benefits) as a share of sales at full-service restaurants, historical average from the 2010/2013/2016 editions of the NRA's Restaurant

16.5 USD

California minimum wage for tipped staff

2.13 USD

US federal tipped minimum wage

60%

Insurance premium surcharge for urban vs. rural restaurants (U.S.)

12
–15 %

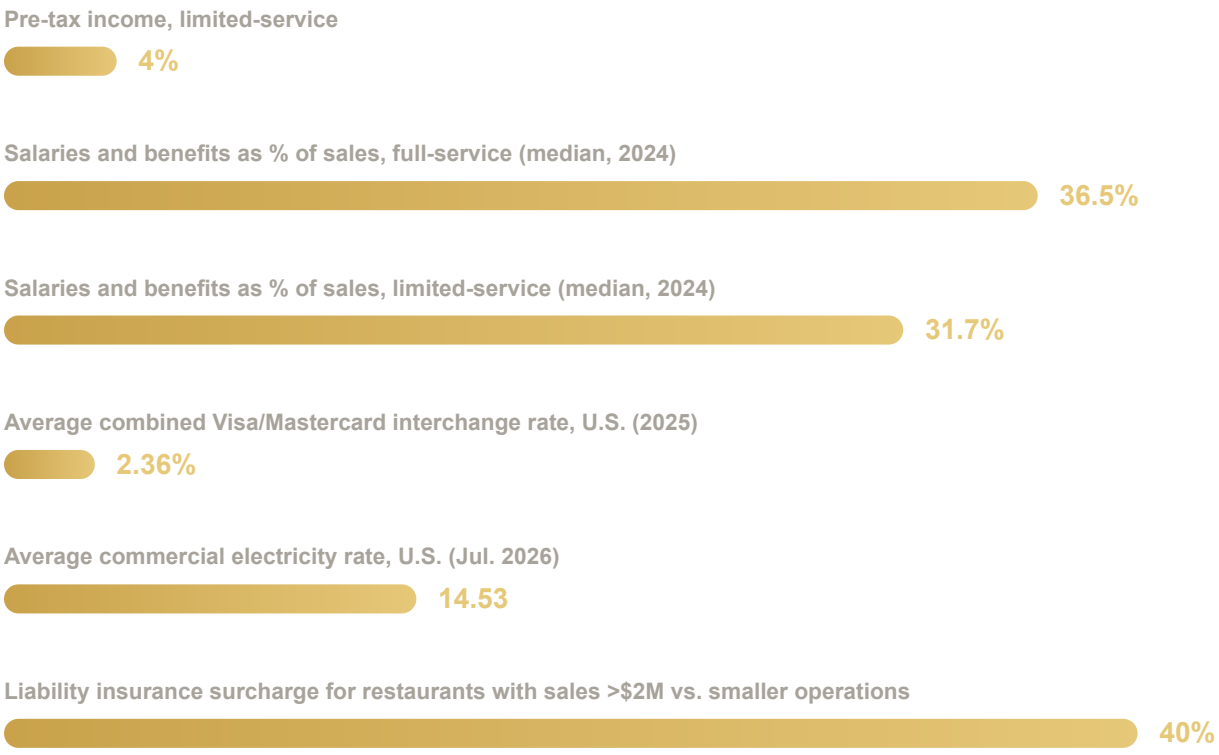
SBA loan default rate for restaurants and food service: 12% to 15% in normal conditions

2.13 USD

US federal tipped minimum wage

VISUALIZATION

The numbers, visualized



Sources: National Restaurant Association — Restaurant Operations Data Abstract 2025 (datos 2024) · National Restaurant Association 2025 · The Motley Fool 2025 · U.S. Energy Information Administration (EIA) — Electricity Monthly Update — End-use sector prices 2026 · accessed Sep 24, 2026 · MoneyGeek 2025

Chart by masterestaurant.com

ILLUSTRATIVE CASE (COMPOSITE)

"A 4-unit full-service group arrived with labor at 39% of sales and an 'official' food cost of 30% that at the register was really 34%. We applied ZBB line by line: rebuilt staffing against real volume by daypart, renegotiated the supplier mix and exposed a 4-point food cost variance hidden in the average.

In 90 days we cut prime cost from 73% to 65% of sales and pre-tax income went from 1.9% to 4.6%. We didn't cut quality: we eliminated spend nobody could justify."

— Diego F. Parra, Masterestaurant

Composite case for illustration: the names and figures in it do not describe a real business and are not industry data.

HOW TO APPLY IT IN YOUR RESTAURANT

How to implement Zero-Based Budgeting in 90 days

1

1. Reset every line to zero

Wipe the inherited budget. List every expense line —food cost, labor, rent, utilities, card processing, insurance, maintenance— without carrying over any prior-year number. Each item starts at zero and must earn its place.

2

2. Set the theoretical cost per item

For each line define its defensible theoretical cost: food cost per dish from the recipe card (32% cap), labor by productivity against 36.5% of sales (NRA, 2025), processing against the 2.36% interchange (Motley Fool, 2025). That theoretical is your benchmark, not history.

3

3. Measure variance and reallocate

Compute Variance = (Actual Cost − Theoretical Cost)/Sales per item. Where variance is large and positive, that's the leak. Reallocate: cut the unjustifiable, protect a controlled prime cost, and free capital for CapEx that actually moves EBITDA.

4

4. Harden with scenarios and governance

Simulate the budget under different input inflation scenarios and define action triggers per scenario. Assign owner and assumption to every line, and review quarterly with prime cost, variance and EBITDA KPIs before the board.

FAQ

Frequently asked questions about Zero-Based Budgeting

What is a zero-based restaurant budget?

A zero-based restaurant budget starts every line item at zero and approves it only when it is justified against its theoretical cost and a real source, not against last year's spend plus a percentage.

What are the main costs of a restaurant to justify in the budget?

A restaurant's costs fall into prime cost (food plus labor), operating expenses such as energy, insurance and card fees, and capital expenditure (CapEx). Labor weighs the most: according to the National Restaurant Association (2025), salaries and benefits reached 36.5% of sales at full-service restaurants. With zero-based budgeting, each line is justified on its own and its variance is measured against the theoretical cost.

How should the cost structure of a restaurant be organized in the budget?

The cost structure of a restaurant has three layers in the budget: prime cost, operating expenses (OpEx) and CapEx, and every line carries a theoretical cost, an assumption and an owner. Organized this way, variance, (Actual − Theoretical) / Sales, shows up line by line instead of hiding in the annual average.

What is Zero-Based Budgeting for a restaurant?

It's a method where every expense line is justified from zero each cycle against a theoretical cost and a real source, instead of inheriting last year's spend with an adjustment. It rebuilds prime cost, OpEx and CapEx on evidence, not on historical inertia.

Does ZBB mean cutting costs blindly?

No. ZBB doesn't cut for the sake of cutting: it rebuilds the cost structure line by line and exposes variance —the gap between actual and theoretical cost— to reallocate capital toward what generates margin. You cut the unjustifiable, not product quality.

How long does ZBB take in a multi-unit group?

The Masterestaurant roadmap is 90 days: reset every line to zero, set the theoretical cost, measure variance, and harden with scenarios and governance. With labor at 36.5% of sales (NRA, 2025), the return usually shows in the first quarter on prime cost.

Why does incremental budgeting erode margin?

Because it copies prior-year spend and adds a flat percentage, perpetuating inefficiencies buried in history. With tight margins in full service, there is no cushion for autopilot budgeting; every point of hidden variance comes out of EBITDA.

DATA & SOURCES

2026 data on zero-based budgeting

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

Metric	Value	Source
Payroll cost, full-service	36.5% of sales (median, 2024)	National Restaurant Association — Restaurant labor costs analysis 2024
Labor cost of profitable vs. average operators	34.2% vs. 36.5% of sales (full service, 2024)	National Restaurant Association — Restaurant Operations Data Abstract 2025 (datos 2024)

Metric	Value	Source
Food cost, full-service	32.0% of sales (median, 2024)	National Restaurant Association — Food cost ratios 2024
Food cost, limited-service	32.4% of sales (median, 2024)	National Restaurant Association — Food cost ratios 2024
Food-away-from-home price inflation, 2024	+4,1% en 2024	USDA Economic Research Service — Food Price Outlook
Food-away-from-home price inflation, 2025	+3,8% en 2025	USDA Economic Research Service — Food Price Outlook

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