Restaurant Traffic versus Transactions: Which is Best to Count and Report?
by: John A. Gordon, Principal

As restaurants reach out to more sales channels out of necessity, counting restaurant activity levels becomes more complicated. Defining the "traffic" metric is especially important in this current time of low or negative traffic counts, and businesses models adding catering and delivery options.

Restaurant activity, which has been traditionally measured in volume by sales dollars, and then the number of customers, number of transactions or number of units sold per transaction. The average ticket is the sales divided by the transactions or guest count. As business mix changes, depending on what's reported and counted, there are perception implications for the investor side, which often uses traffic gains as a benchmark, as well as the operator side issues such as labor and expense reporting systems as well as the understanding on what is driving the business.

Restaurants have been reporting "customer count" for decades. It has been traditionally geared off a counter in the cash register that records a hit once the register key is hit to finalize the transaction and add tax. But the question always is then, what made up the transaction? How many people? Was there only one payer? What was sold? Some POS users, especially in the casual dining space, instruct the servers to count heads and insert that into the POS. For a drive thru transaction, that is impossible to do. A unit with a high drive thru sales mix will have a higher average ticket typically than those just with walk up business. As stores open and close and as new menu platforms, especially catering and delivery, the average ticket can thus be artificially affected.

Consider the Panera (PNRA) October 26 2016 earnings call, where considerable discussion of Panera's sales channel average ticket was revealed:

Meal Type	Per Transaction Amount
Walk up, to go	$9.00
Delivery	$20.00
Catering	$150.00
Weighted Total	Not disclosed

Scenario One: If four friends go to Panera for lunch one day, and all get salads and iced teas, the total of the food sales for the group is $40.20, and the tax is $3.05, for a grand total of $43.25. One party pays. **What is the most meaningful per person average check to report for this transaction?**

a. $43.25
b. $10.05
c. $40.20

The most meaningful answer is choice b, $10.05, or $40.20 divided by four. Panera used to report the ticket as a transaction and at $40.20, but now has begun to report the number of entrees, as well, as a proxy for traffic.

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Scenario Two: Panera has a busy catering day, and sells 20 catering jobs at $200 plus tax, as well as six hundred eat in or take out customers at a $12 per person average. Net sales for the day is $11,200 ($7,200 in house sales and $4,000 in catering), and sales tax collected is $900. **What is the most meaningful average ticket to be reported?**

a. $19.52
b. $18.67
c. Need more information
d. $12.00

The most meaningful answer is c. It's not best to not to count just the number of in house customers [choice d] and choices and a and b add in the catering but do not count the number of guests served. In no case should the sales tax be counted, as that is not earned revenue but merely remitted to the state. The company will have to convert catering bundles sold into transactions.

You can see the issue immediately, a tiny change in one variable can cause a big change to ticket.

Panera is complicated. In stores with high coffee only customers, it might be lower (perhaps $3 or $4), or if it's a unit with families, where one person pays for the group, the ticket logically would be higher.
Quick service restaurants have the drive thru problem, some single beverages sold but so too are big bags of food. Many QSRs, including McDonald's and Burger King, track the number of food units sold, e.g., a small burger is one unit, a soft drink is one unit, etc.

Full service restaurants can more easily track entrees, since that is the main unit of measure. Ruth Chris for example, has always reported entrees as their proxy for traffic. A bar only customer who doesn't order food isn't counted as a customer but the sales go into the all visible alcohol sales mix number.
My point of course is that each concept type needs to be considered uniquely since investor demand for simple, bumper sticker like takeaways is endless. Investors who think that brand x must have x percentage of positive traffic are shortsighted in this view by not seeing all of the business sales channels.

I do strongly recommend that restaurants redefine "transactions" or "traffic" to be entrée counts wherever possible. Call it per person average. Panera did so in October and it will lead to better analysis over time. This will be especially important for brands that are expanding into new sales channels.

About the author:

John A. Gordon is founder and Principal of Pacific Management Consulting Group, a restaurant analysis consultancy. He focuses on complex restaurant operations, financial, market and management analysis projects for clients, including expert research and litigation support. Typical clients are investors including hedge funds, attorneys, management consulting firms, a sell side firm, and restaurant operators, franchisees, franchisors and others. Gordon has four decades in restaurant operations and financial management roles. His website is www.pacificmanagementconsultinggroup.com, email, jgordon@pacificmanagementconsultinggroup.com.