

Margin Optimisation: Beyond Cost Cutting

Why sustainable margin improvement requires revenue focus, not just expense management.

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3.8%	1.1%	23%	12–18%
Avg EBITDA improvement revenue + cost strategy	Avg EBITDA improvement cost-only strategy	Food cost variance reduction with integrated inventory	F&B; revenue uplift from upselling programs

The Cost-Cutting Trap

Cost reduction has long been the default lever for hospitality operators under margin pressure. Labour rosters tightened, supplier contracts renegotiated, portion sizes quietly reduced. These moves deliver short-term relief but rarely build lasting margin resilience. The operators who consistently outperform their peers do not rely on cutting alone. They build margin from both sides of the ledger simultaneously.

According to Deloitte's 2024 Hospitality Industry Outlook, operators who combined revenue management initiatives with targeted cost controls improved EBITDA margins by an average of 3.8 percentage points over a two-year period. Those who focused exclusively on cost reduction averaged just 1.1 percentage points improvement over the same period. The gap is significant and consistent across market segments from QSR to full-service dining.

Revenue as a Margin Lever

McDonald's Corporation demonstrated this principle at scale during its 2022-2023 turnaround program. Rather than cutting further into an already lean cost base, the company invested in digital ordering infrastructure, loyalty program expansion, and menu mix optimisation. Same-store sales increased 8.7 percent globally in 2023, with operating margins reaching 46.3 percent, the highest in the company's modern operating history.

At a single-venue level, the mechanics are similar. Menu engineering, upselling training, and channel mix management all shift revenue per cover upward without requiring additional customers. The Hilton Hotels 2023 Annual Report showed that properties implementing structured upselling programs at check-in increased ancillary F&B; revenue by 12 to 18 percent without meaningful change to staffing levels.

“Operators who built margin from the revenue side outperformed cost-only strategies by more than three to one.”

The Four Margin Levers

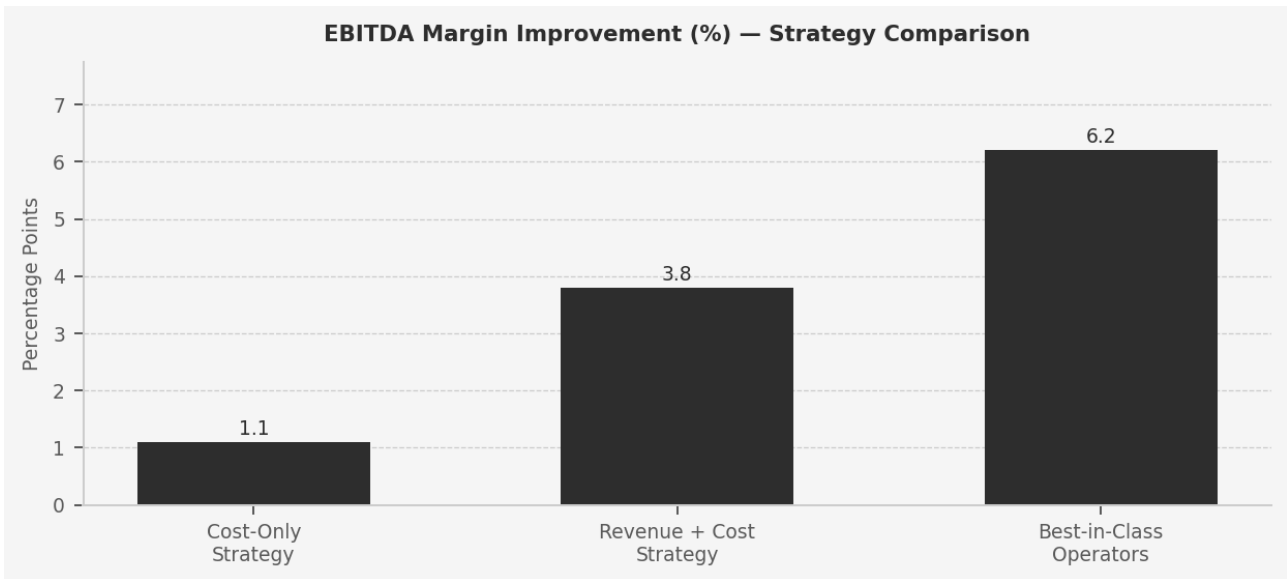
Sustainable margin improvement rests on four interconnected levers. First, revenue per available seat or cover, driven by menu engineering and pricing strategy. Second, product cost percentage, managed through supplier terms, waste reduction, and recipe discipline. Third, labour productivity, measured as revenue per labour hour rather than simply headcount. Fourth, overhead recovery, which improves automatically as revenue grows against a fixed cost base.

Compass Group, the world's largest contract catering company, publishes margin performance data by segment. Their 2023 results showed healthcare and education contracts running at 6 to 8 percent net margins, while sports and leisure venues achieved 9 to 12 percent. The difference was not cost structure but revenue density, driven by premium pricing and higher spend per head at events versus institutional meal programs.

Where Operators Leave Margin

The most common margin leakage points identified in operational audits are predictable. Portion inconsistency costs a typical 200-seat restaurant between \$40,000 and \$80,000 per year in uncontrolled food cost. Unmanaged staff overtime adds 2 to 4 percent to labour cost in venues without real-time scheduling tools. Beverage wastage and unrecorded complimentary typically represent 1 to 1.5 percent of beverage revenue.

None of these are new problems. What has changed is the availability of data to identify and quantify them in real time. Operators using integrated POS and inventory platforms now receive daily margin reports by category, enabling rapid course correction rather than end-of-month surprises. Toast Inc. reported in its 2024 Restaurant Technology Report that venues using integrated inventory management reduced food cost variance by 23 percent within six months of adoption.



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