



# Practical Guide to Fast Food Restaurant Labor Cost Control

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The restaurant industry is one of the most difficult industries in which to succeed because prime costs for food and labor can amount to as much as 60% of sales, necessitating tight controls to maximize day-to-day profits.

**Theoretical labor cost is an important aspect of opening and operating a restaurant, and understanding theoretical cost is essential in determining whether it will be a successful investment. For each job category in your operation, how many transactions can be handled with each hour of labor?** This theoretical labor dollar goal needs to be converted to a percentage of sales and then managed against the actual labor cost percentage. The following information details reasonable initiatives to shave percentage points off labor costs without expensive or elaborate cost-control systems.

## Labor Cost Factors to Consider

- 1) What should the total labor cost be for each meal period and each day of the week for all jobs? If your absolute minimum labor cost to staff the meal period, and still meet customer service standards, is too high you will not make an adequate profit.
- 2) How quickly will the labor cost percentage improve with sales volume?
- 3) The staffing for each job needs to be looked at individually depending upon your specific operation.
- 4) Balance between types of labor is vitally important. If you have more cooks than your counter and drive through can produce, you are wasting cook labor. If you have fewer cooks than your counter and drive through can produce, you are wasting counter labor.
- 5) For the most part an employee needs to work several hours on a shift, or they will not be willing to come in. An important key is to have them be as productive as possible. Are they cleaning or stocking in off peak times?

## Counter and Drive Through Theoretical Labor Cost

Manage counter labor by individual shift to prevent problems and successes in one shift from masking what's happening during another shift. For example, for dinner on Tuesday how much counter labor do you need to handle the forecast transactions?

You must study how many transactions a single counter or drive through person can handle per hour. After the number of transactions a single person can handle per hour is determined, it is fairly easy to decide staffing needs in each area by looking at hourly transaction flow (60/transactions per hour service standard). The Point of Sale system is an appropriate information source for transaction flow, but occasionally the actual situation needs to be assessed to ensure that there are no spot problems with longer than acceptable lines.

While there are big differences from one day to another in transaction flow, there can be surprising steadiness from week to week for a specific day of the week.

Rolling three-week average transaction information per shift is the most practical number to use, because you should not overreact to yesterday or last week. A slower-than-average week does not mean you should cut staff next week. Next week may be busier than average. Because transaction flow is naturally uneven, you should slightly overstaff each shift to accommodate customers and build sales over time.

### Simple Cost-Cutting Measures

Looking at your three week rolling average flow of transactions, add new help at fifteen minute or half-hour increments rather than at the hour.

### Cook Theoretical Labor Cost

Service and labor cost is usually made or broken in the kitchen. Without a great deal of cost for modifications, the kitchen layout is a given. The labor cost challenge is to staff each station, and the overall kitchen, to avoid any production bottlenecks.

Even if each kitchen employee could be trained to produce very menu item efficiently, with quality, the distances between pieces of equipment may mean that there is a minimum level of staff to produce the food efficiently. The challenge then is to make sure that you figure out how to prevent any one station from slowing the total food order for the customer.

Even within a chain operation, every restaurant has different kitchen staffing needs depending upon the product mix in the particular location. A menu item that is very popular in one location may not be a factor in another. The product flow through the various stations needs to be carefully studied. If a delay at one station keeps a car in the drive through, it is a costly bottleneck. While it may not be a major bottleneck to cause several people to be standing around the counter waiting for a specific menu item, it is a significant customer service issue to make customers wait longer than they expect to wait for their food. Or the rest of the order might be getting cold while they wait.

## You Cannot Operate Better Than Your Theoretical Labor Cost

Once the ideal staffing per shift is determined, if the theoretical labor cost is too high, there are several choices:

- 1) **Raise sales to improve productivity.** The best cure for poor labor cost is higher sales because so much of the labor cost is fixed within a ten to twenty percent sales range.
- 2) **Better match staffing to the flow of transactions.** This may actually require increasing employees on the schedule on some shifts in some work areas.
- 3) **Reevaluate your service standards.** Determine whether or not customers would accept waiting slightly longer in line at the absolute peak times. This is a serious decision because you may lose customers to competitors with better service. An option is to have a manager or other employee cover what might be a 15 to 30 minute peak, saving a whole employee shift.
- 4) **Redesign jobs.** Improve productivity by establishing fewer, or lower wage-rate, jobs.
- 5) **Make over the kitchen layout or menu complexity.** Utilize staff more efficiently with a more functional kitchen design.

### Turn Over Rates Are Consistent.

An industry study surprisingly found that the average customer at any style restaurant, from fast food to fine dining, will leave the table 20 minutes or sooner after the food is served. The number of tables is a major cost consideration. Make sure there are no staffing bottlenecks that keep tables from being utilized.

## You Can Operate Better than Your Actual Labor Cost

The difference between the actual labor cost percentage and the goal percentage for the shift is how well the restaurant performed. There will frequently be an unfavorable difference – the key is to keep that difference below two percentage points. If there is an unexpected surge of transactions, the goal can actually be exceeded on a shift.

- 1) **Make sure there is no overtime.**
- 2) **Personally spot-check every shift, over a couple of week period, to see if the number of staff is matching the peak transaction flow.**
- 3) **Evaluate transaction arrival data. Look at the data to see if you should adjust your opening and closing time.**
- 4) **Review unusual expenses. Check to see if there were training or other abnormal expenses for the day.**
- 5) **Determine if vacation or holiday pay is affecting the results.**
- 6) **Analyze wage rate increases that may affect the goal.**

If you develop theoretical costs and aggressively manage to them, you will be on the road to success by building sales with superior customer service while still lowering your costs.

*For more information, tips and tools, visit [www.therestaurantwizard.com](http://www.therestaurantwizard.com).*