



Practical Guide to 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 65% of sales for full-service restaurants, 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 customers 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.

Server Theoretical Labor Cost

Manage server 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 server labor do you need to handle the forecast customers?

You need adequate staff to provide the level of service that will keep customers coming back, but you cannot afford to have servers just standing around. The good ones will leave to make more money elsewhere, and the restaurant will incur unnecessary costs for the ones who are left.

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

Rolling three-week average customer 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 customer flow is naturally uneven, you should slightly overstaff each shift to accommodate customers and build sales over time.

Simple Cost-Cutting Measures

Do not start and cut all servers at the same time. If you staff every station when you open, each server will get the first tables as they come in and not be fully busy or productive until well into the shift. Similarly, do not keep all your servers until their last table is done. You might consider not having servers do side work if it prevents you from ending servers' shifts at the optimum times.

Cook Theoretical Labor Cost

Cooks must be managed by cost per shift rather than as a labor percentage. Cooks' shifts are largely fixed, and the daily cook labor percentage may be well above or below target as a result of customer flow for the day.

Cook labor cost control starts on the line. Line cooks are the most important positions in terms of hourly cost and productivity. It often requires offering an eight-hour shift to keep a good cook. Because the customer flow has peaks and valleys, cooks need to do prep work during off-peak hours. Also, if menu design or equipment changes can cut meal preparation time from four minutes to three, a cook can produce 20 meals per hour (60/3) instead of 15 (60/4).

Customer flow determines how many line cooks you need. If you need an additional cook for only 30 minutes of a lunch shift to have the food coming out of the kitchen at your service standard, you can save a whole shift by having the chef jump on the line for half an hour or by moving a prep cook to the line for that half hour. At a minimum, you save the wage rate difference between a line and prep cook. Another alternative is to create an eight-hour shift for a single cook that both covers the 30-minute lunch peak and lasts through the early dinner rush.

Busboy Theoretical Labor Cost

Busboys are usually scheduled relative to the number of servers or tables. Depending upon your service style, there may be two to five servers per busboy. Busboys may be given additional side work duties, which would increase the hours in this category.

Hostess/Counter Theoretical Cost

After the number of customers or parties a single person can handle per hour is determined, it is fairly easy to decide staffing needs in each area by looking at hourly customer flow (60/customers per hour service standard). The Point of Sale system is an appropriate information source for customer flow, but occasionally the actual situation needs to be assessed to ensure that there are no spot problems with longer than acceptable lines or phone 'time on-hold' problems.

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 customers.** This may actually require increasing servers on the schedule on some shifts.
- 3) **Reevaluate your service standards.** Determine whether or not customers would accept stretching each server one more table, or waiting slightly longer in line. This is a serious decision because you may lose customers to competitors with better service.
- 4) **Redesign jobs.** Improve productivity by establishing fewer, or lower wage-rate, jobs. Can the tasks be done by less expensive people?
- 5) **Make over the kitchen layout or menu complexity.** Utilize staff more efficiently with a more functional kitchen design.
- 6) **Reduce the time each customer requires service.** For instance, if the customer is waiting to place their order or waiting for the check, labor cost is wasted in all categories because the table is not available for the next customer. There is a busy twenty-table full-service cafe in my neighborhood that operates with only two servers. Their sales could be substantially higher with a third server, to get to the table quicker at the beginning and end of the service cycle to turn the tables faster. I keep going back, despite the poor service, because of great price/value and food quality.

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 – unless they are delayed by the staff. While there are exceptions to the rule, even in fine dining restaurants with long table turn times typically the table's social time is before the meal, rather than lingering over a cup of coffee.

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 customers, the goal can actually be exceeded on a shift.

- 1) **Make sure there is no overtime.**
- 2) **Adjust staffing for reservations.** If reservations are taken, develop the relationship between prior night reservations and the final total customers for the next day and adjust the goal staffing accordingly.
- 3) **Personally spot-check every shift over a couple of week period to see if the number of staff is matching the peak customer flow.**
- 4) **Check server hours.** See if hours were reduced in response to any poor customer flow.
- 5) **Evaluate customer arrival data.** Look at the data to see if you should be closing earlier.
- 6) **Review unusual expenses.** Check if there were training or other abnormal expenses for the day.
- 7) **Determine if vacation or holiday pay is affecting the results.**
- 8) **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.